



*The Residence Kemigawahama Gardens*

# ANNUAL REPORT 2017

For the Year Ended March 31, 2017

## Profile

Haseko Corporation and its group of companies have leveraged their capabilities in all condominium business fields – from gathering land information to planning, design, construction, sale, property management, renovation, brokering and renting. Building on this “total produce” capability, the Haseko Group has conducted marketing activities in which it proposes product planning, selling strategies and other issues that cannot be matched by competitors. Since constructing its first condominium in 1968, Haseko has built a cumulative total of around 600,000 condominium units and established itself as a leading condominium contractor in Japan.

In 2017, Haseko Corporation and its group of companies celebrated the 80th anniversary since inception. In response to changes in social conditions, the Haseko Group aims to make a leap forward toward a “corporate group for housing to create great living,” both in terms of physical products and services and know-how by combining its initiatives in rental housing, housing for the elderly, commerce, nursing care, childcare, healthcare, medical care and education, etc., with a focus on for-sale condominiums.

### Cover photos

The Residence Kemigawahama Gardens (Mihama Ward, Chiba; 545 units)

The property is a seven-minute walk from Kemigawahama Station on the JR Line and 1.2 kilometers from Kemigawa Beach. Making the best use of its vast site covering approximately 21,000m<sup>2</sup>, the condominium emphasizes a sense of openness and all of its units face either southeast (184 units) or southwest (361 units). It also offers a great living environment, as it not only features a variety of common-use facilities, support of community activities for various generations and exclusive areas pursuing quality suitable for permanent living, but also is directly connected to a supermarket through a passage for residents only.

### Contents

Financial Highlights .....	1
Message from the Management .....	2
Business Plan .....	4
Haseko's Business .....	10
Responsibility .....	20
Financial Section .....	25
Consolidated Financial Statements .....	30
History .....	56
Share Information .....	58
Corporate Information .....	59

#### ■ Disclaimer concerning Forward-looking Statements

Please note that all present and future plans and objectives of Haseko entered in this Annual Report may differ from actual results due to various unforeseen factors.

# Financial Highlights

## Haseko Corporation and its Consolidated Subsidiaries

(Years ended March 31, 2013, 2014, 2015, 2016 and 2017)

	Millions of Yen					Thousands of U.S. Dollars
	2013	2014	2015	2016	2017	2017
<b>For the Year:</b>						
Net sales	¥558,919	¥587,571	¥642,167	¥787,354	<b>¥772,328</b>	<b>\$6,884,107</b>
Operating income	24,329	28,838	42,698	68,762	<b>89,032</b>	<b>793,582</b>
Ordinary income	19,976	25,405	41,889	67,327	<b>88,827</b>	<b>791,755</b>
Net income attributable to owners of parent	13,064	24,830	28,542	51,226	<b>58,762</b>	<b>523,772</b>
<b>At Year-end:</b>						
Total assets	¥460,864	¥457,408	¥476,914	¥589,993	<b>¥630,937</b>	<b>\$5,623,826</b>
Net assets	113,805	119,472	144,089	185,375	<b>238,467</b>	<b>2,125,564</b>
			Yen			U.S. Dollars
<b>Per Share Data:</b>						
Net income attributable to owners of parent	¥ 41.72	¥ 81.36	¥ 94.64	¥170.41	<b>¥195.48</b>	<b>\$1.74</b>
Net assets	259.89	346.17	478.45	615.21	<b>791.24</b>	<b>7.05</b>

Notes: 1) The U.S. Dollars amounts represent translation of yen amount at the rate of ¥112.19 = U.S. \$1.00, the exchange rate at March 31, 2017.

2) The Company completed a reverse stock split of its common stock and Class B I preferred stocks, at ratio of 1 share for 5 shares on October 1, 2013. Net assets per share and net income per share as of and for the year ended March 31, 2013 are calculated under the assumption that the reverse stock split took place at the beginning of the previous fiscal year.



## Message from the Management



### **I would like to express my heartfelt gratitude for your continued loyal patronage to the Haseko Group.**

For the fiscal year ended March 2017, the Japanese economy generally remained on a modest recovery trend. The construction and real estate industries achieved strong performances, however, repeating their good results of the previous year. In the condominium market, new supply remained at the 30,000-unit level in the Tokyo metropolitan area for the second consecutive year, standing at 36,450 units, or down 4.4% year-on-year. In the Kinki area, new supply stayed flat at 18,358 units, down 0.1% from the previous year, despite the large supply of condominiums with studio units (3,631 units). In terms of sales, the initial month sales rate was 68.5% (down 4.2 points) in the Tokyo metropolitan area, dropping to the 60% level for the first time since fiscal 2008 (when the figure was 64.1%). In the Kinki area, the figure remained at the 70% level, standing at 71.9% (up 0.1 points), but the conditions became increasingly difficult. Accordingly, the number of for-sale units being marketed as of the end of March 2017, which indicates the inventory situation, increased to 6,749 units (up 11.8%) in the Tokyo metropolitan area and to 2,493 units (up 9.6%) in the Kinki area. Increasingly higher prices of for-sale condominiums are said to have slowed the pace of sales.

In spite of these circumstances, our Construction-Related Business successfully kept the construction volume from falling, and achieved a strong performance in condominium construction works, as we secured our construction share of over 50% for condominiums with 100 or more units in the Tokyo metropolitan area, among other achievements. As a result, for the fiscal year under review, which represents the final year of the “newborn HASEKO Step Up Plan” (Plan NBS), our medium-term business plan, the Haseko Group achieved record high consolidated ordinary income, and orders received on a non-consolidated basis renewed a record high for the third consecutive year. In the Service-Related Business, the Company has conducted M&As and other investments from the perspective of

# Message from the Management

enhancing our profitability, and our existing subsidiaries have steadily accumulated profits. These have enabled the Company to generate results that significantly surpassed the numerical targets of the Plan NBs (Fiscal year ending March 2017: 35 billion yen of consolidated ordinary income, 23 billion yen of non-consolidated ordinary income).

As a result of the above, while net sales decreased 1.9% year-on-year to 772.3 billion yen in the fiscal year ended March 2017, the Company achieved a year-on-year increase in profits, posting operating income of 89.0 billion yen (up 29.5%), ordinary income of 88.8 billion yen (up 31.9%) and net income attributable to owners of parent of 58.8 billion yen (up 14.7%), due to improved gross profit margin of completed construction contracts for condominium construction works. The operating income ratio was 11.5% (up 2.8 points) and ordinary income ratio came to 11.5% (up 2.9%).

In February 2017, the Company celebrated its 80th anniversary since founding. Although we have occasionally had severe hardships, we have managed to overcome them thanks to the support provided by our shareholders and because all our officers and employees have understood and played their roles at each point of such difficulties. We must remember both our successes and failures in the past and learn from history. With this in mind, I upheld the phrase of “Learn from the past and develop new ideas” as the key phrase at the beginning of 2017. Entering the milestone year of the 80th anniversary ceremony since inception, I want the Company to spend the year creating new ways of doing things while learning from history. On April 1, 2017, we started the “newborn HASEKO Jump Up Plan” (Plan NBj), our medium-term business plan for the latter three years. While following the basic policy of the Plan NBs, we will make proactive investments in growth strategies to maintain and enhance the value of the Haseko Group. At the same time, we will work to address a variety of social issues, such as the aging society with fewer children, decreasing population, trends for “compact cities,” disaster countermeasures, countermeasures against aging buildings and the promotion of environmental awareness and energy saving, from the aspects of physical products and services and ability. As we do so, we will endeavor to firmly establish our financial foundation and a revenue base for the future.

Given the continued improvements in employment and income environments, the business environment surrounding the Haseko Group is expected to recover moderately, although attention should be paid to uncertainty and interest rate trends in overseas economies, among other factors. In the construction industry, while the market conditions remain good for the moment, there are many factors of concern, such as rising labor costs, a decrease in skilled construction workers, receding demand after the Tokyo Olympic Games and the impact of natural disasters continuously hitting Japan. In the condominium market, consumers' willingness to purchase has not shown any full-on improvement partly because of rising condominium price. This has caused people both on the demand and supply sides to continuously maintain a cautious attitude.

Despite such circumstances, the Haseko Group will take advantage of the know-how and ability to propose and promote projects that the Company has fostered to date, and further reinforce coordination among Group companies, centering on the mainstay condominium-related businesses, to exert its comprehensive strengths. By doing so, the Company aims to become a corporate group for housing to create great living, as we serve to totally support the life of people living in condominiums.

Fortunately, the Haseko Group was able to celebrate its 80th anniversary since inception, but this was only possible due to the support given to us by the financial institutions and other parties who have helped us as well as by our business partners and customers. Looking ahead, while always being grateful to these people, all the officers and employees of the Company are resolved to make progress towards the 100th anniversary and for creating the future beyond that time. Your continued and further support and encouragement would be greatly appreciated.

June 2017



Noriaki Tsuji  
President and Representative Director  
Haseko Corporation

# “newborn HASEKO”

## — Rebirth of the Company as “new born Haseko” (Plan NB) —

Period Covered by the Plan: Six fiscal years (from April 1, 2014 to March 31, 2020)

### Positioning of the Plan

The Plan 4N is positioned as the period to “Hop,” while the first three years of the Plan NB as the period to “Step Up” and the latter three years to “Jump Up,” so that the Company aims to recreate itself as the “newborn Haseko” that has completed its rehabilitation and make a leap forward

## newborn HASEKO “Jump Up” Plan (Plan NBj)

Period to jump up to the newborn HASEKO (from April 1, 2017 to March 31, 2020)

– Aiming to become a corporate group for housing to create great living –

**Numerical Targets: 240 billion yen in consolidated ordinary income in aggregate for the three fiscal years (FY 2017 through FY 2019)**

**At least 20 billion yen in ordinary income of consolidated subsidiaries for FY 2019 ending March 2020**

### Basic Policies

1. Establish corporate management that builds on both the construction-related business, which primarily targets the market for new housing supply, and the service-related business, which is centered on the market related to existing residences, etc.
2. Deepen coordination among the Group companies to realize a corporate entity that proves to be worthy of the trust received from urban dwellers
3. Provide safe, reliable and comfortable condominiums
4. Establish a stable financial foundation for a leap forward
5. Challenge new endeavors from a medium- to long-term perspective
6. Establish highly effective governance and internal control

### What the Company aims to be



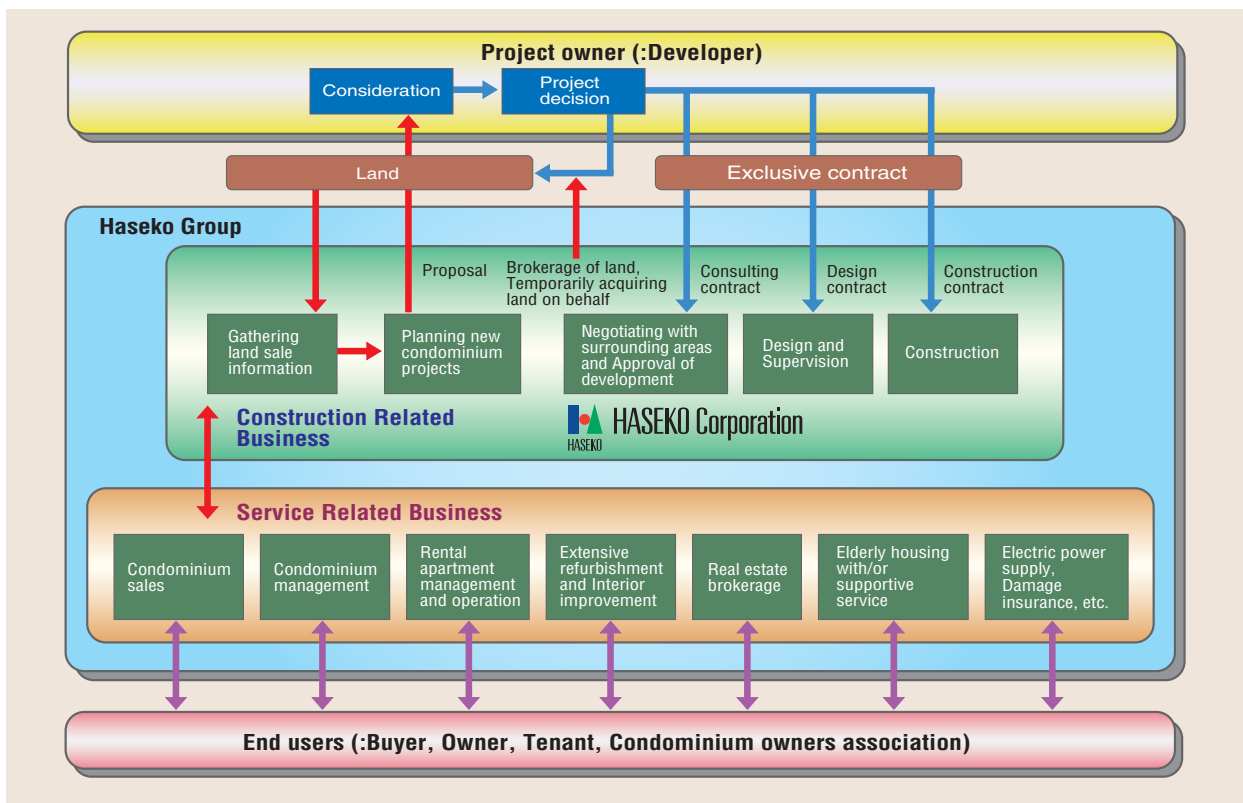
**Aiming to become a corporate group for housing to create great living**

## Perception of Business Environment and Measures

### Businesses Conducted by the Haseko Group

The Haseko Group engages in “Construction-Related Business,” which primarily targets the market for new housing supply, etc., and “Service-Related Business,” which primarily deals with existing residences, etc. These two business groups share information and know-how utilized in order reception, design, technological development, product planning and provision of new services, among other activities.

### Business Model Diagram



### Perception and Measures

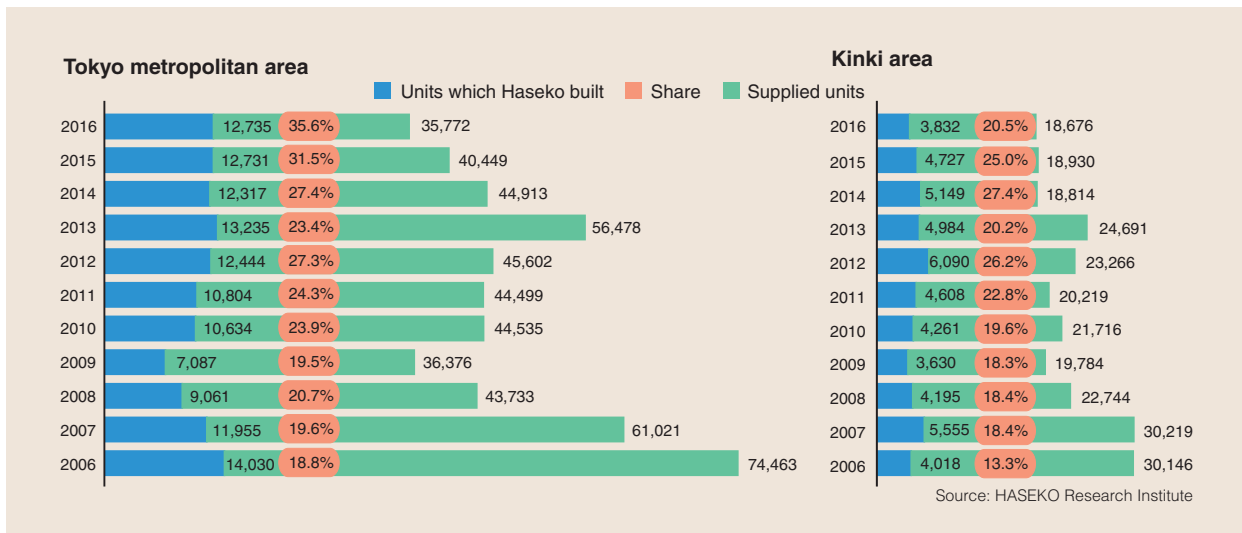
	Present status and period covered by the plan	Medium- to long-term perspective
<b>Perception of business environment</b>	<ul style="list-style-type: none"> <li>• Average price of condominium units rising</li> <li>• The number of newly supplied units falling to a low level</li> <li>• The number of for-sale units being marketed increasing</li> <li>• Concerns about slowdown of housing starts arising</li> <li>• Concerns about reduction of project size arising</li> </ul> <p>→ <b>Uncertainties in the outlook of business management environment growing</b></p>	<ul style="list-style-type: none"> <li>• Society will become more aged with increasingly fewer children</li> <li>• The number of greatly-aged condominiums will increase</li> <li>• Skilled construction workers will decrease</li> <li>• Environmental and energy issues, etc.</li> </ul> <p>→ <b>Must securely respond to changes in social conditions</b></p>
<b>Measures</b>	<p><b>Maintain the current profit level achieved mainly by the Construction-Related Business</b></p> <p>Conduct investments in growth strategies designed to make Haseko a “corporate group for housing to create great living”</p>	<p><b>Maintain and enhance the profit level on a consolidated basis by expanding the Service-Related Business</b></p>

**Construction-Related Business**

“Establish superiority to be free from fluctuations in market conditions”

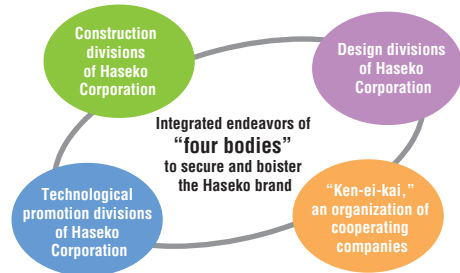
- Secure appropriate construction work volume and reasonable profits, while maintaining high quality, by continuously enhancing the building production system
- Create and realize the concept of how new condominiums should be, with deep insight on the lifestyle of urban dwellers in the future
- Enhance the business planning ability for replacement and redevelopment projects, and thoroughly implement risk management
- Proactively work to construct buildings other than residential properties or for-sale condominiums to accumulate a track record of construction, and reinforce competitiveness by enhancing the ability to control costs

**History of condominium units supplied**



**Conduct “Haseko Value Enhancement Activities” to provide customers with product quality and satisfaction**

Integrate endeavors of the “four bodies” (the construction divisions, design divisions and technological promotion divisions of Haseko Corporation and “Ken-ei-kai,” an organization of cooperating companies) to ensure smooth communications among them, in order to secure high quality and eventually improve customer satisfaction



**Service-Related Business**

“Reinforce the revenue base for the Service-Related Business and enhance services for urban dwellers”

- Ensure that the mindset of “hospitality” is shared by everyone in the Company, and provide diverse services to customers through coordination among the Group companies
- Implement measures for developing and strengthening a relationship of mutual trust with customers
- Attempt to materialize the concept of multi-purpose stores aimed at promoting expansion of operating areas and stores as well as providing services from the viewpoint of customers
- Develop repair and renovation technologies for maintaining asset value and extending the life of housing, and reinforce the ability to make proposals
- Secure stable revenues by enhancing the for-sale condominium business and making investments in blue-chip real estate properties



## New Initiatives

“Accelerate promotion of endeavors to expand the geographical business areas and business fields”

- Work to expand the Group’s businesses to major cities in Japan and the markets in the U.S. (Hawaii) and South-east Asia, with an aim to establish a revenue source of the future
- Accelerate promotion of endeavors on such measures as business and capital tie-ups and M&As in the businesses the Company requires to become a “corporate group for housing to create great living”

“Build a corporate culture that encourages people to challenge new things”

- Develop new products and new services speedily
- Seek new business opportunities through coordination among companies
- Foster human resources with future-oriented thinking who can bear the future of the Group

## Financial Strategy and Returning of Profits to Shareholders

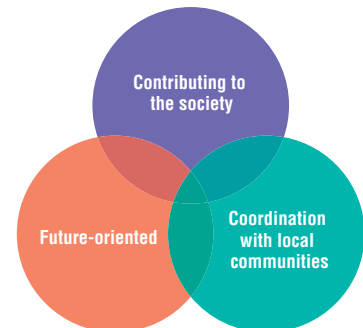
“Establish a stable financial foundation while returning profits to shareholders in a stable manner”

- In distributing profits, take a balanced approach to investments in growth strategies for the future and returning of profits to shareholders, while securing internal reserve for reinforcing the financial standing
- Aim to achieve a consolidated dividend payout ratio of 20%, while working to stably distribute dividends of ¥20 per share to shareholders

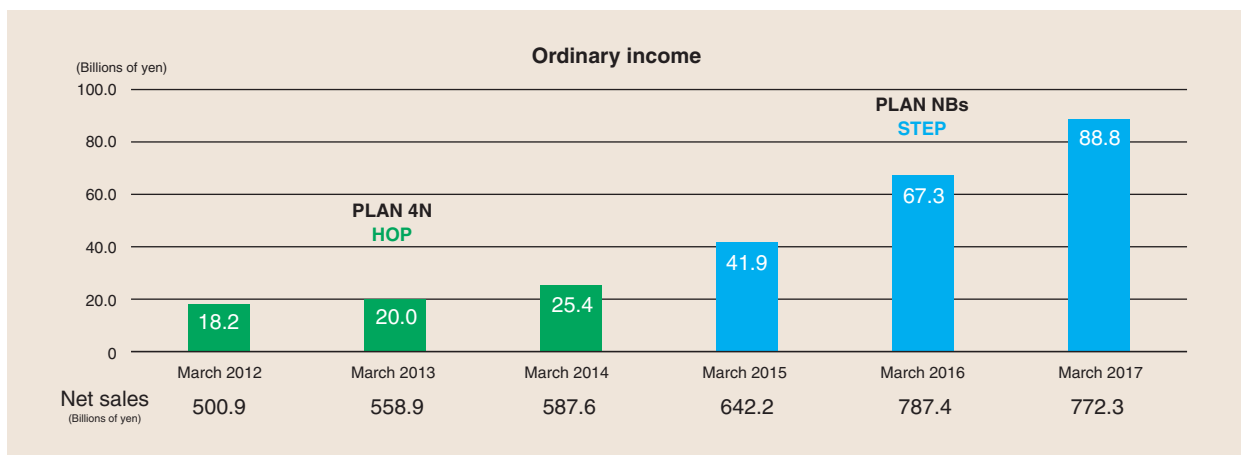
## Initiatives to perform corporate social responsibilities

“Establish highly effective governance and internal control, and lay foundation of Haseko-style social contributions”

- Maintain and enhance a management system that secures transparency and objectivity
- Make further improvements for realizing a workplace environment that facilitates working, and establish a support system for individual employees to play an active role and grow themselves
- Establish a business management and risk management system that features effectiveness as well as efficiency
- Promote activities for law abidance, quality control, environmental burden reduction and environmental preservation throughout the Company’s business activities
- Continuously implement social contribution activities that take advantage of business characteristics



## Trends in consolidated net sales and ordinary income



# Major Initiatives for Achieving the Business Plan

## Create the concept of how condominiums should be and work to realize it

Given demand for enhanced convenience of living, such as constructing retail facilities, childcare nurseries or nursing care facilities along with condominiums, create the concept of how future condominiums should be, strengthen business planning ability and proactively work to construct buildings other than residential properties or for-sale condominiums.



### The Gardens Tokyo Oji (Kita-ku, Tokyo)

With 864 units, The Gardens Tokyo Oji is a town creation project for multi-use development featuring housing, retail and child-raising that is among the largest in Kita-ku. A retail complex, a licensed child nursery and housing for the elderly are set to open.

### ZUTTOCITY (Amagasaki-shi, Hyogo)

With a total site area of approximately 8.4 ha for the entire development, ZUTTOCITY is a large-scale station-front redevelopment project integrating housing and retail facilities. A “minna-no-mori” (forest for everyone) covering approximately 8,000 m<sup>2</sup> has been created as a part of Japan’s first environmental city with efforts on energy management.



## Progress in Research and Technological Development and Focus on Communications

Haseko Group will establish Haseko Technical Center, a new development base in technological research, by integrating Haseko Technical Research Institute, Haseko Community Technical Training Center and Haseko Community Owl 24 Center, with an aim to secure future evolution in research and technological development in the apartment field. The new center will conduct research and technological development to secure safe and reliable living from a lifestyle perspective. At the same time, Haseko Group will enhance the center as a base to provide information on new technologies, new products and technical verifications, etc. to a wide scope of such end users as condominium project owners, administrative agencies and management associations.

Moreover, Haseko Museum (tentative name) will be newly established in the center’s administration building. At the museum, Haseko Group plans to display exhibits explaining the Group’s history, track records and concepts of future housing, and to establish a section in which visitors can experience construction using virtual reality systems, etc.



### Facility Overview of Haseko Technical Center

Location: Tsurumaki 311, Tama-shi, Tokyo

Site area: 17,663 m<sup>2</sup>

Total floor area: Approximately 8,800 m<sup>2</sup>

Comprising an administration building (technical center, Haseko community-related facilities, Haseko Museum (tentative name) and exhibition rooms), a housing performance test building (seismic isolation structure) and a multi-purpose test building

Structure and size: Administration building (Steel structure, 3 floors)

Housing performance test building (Reinforced concrete structure, 4 floors)

Multi-purpose test building (Steel structure, 1 floor)

Construction start: February 1, 2017

Scheduled completion: End of March 2018

Scheduled opening: June 2018

# Major Initiatives for Achieving the Business Plan

## Initiatives to Expand Business Areas

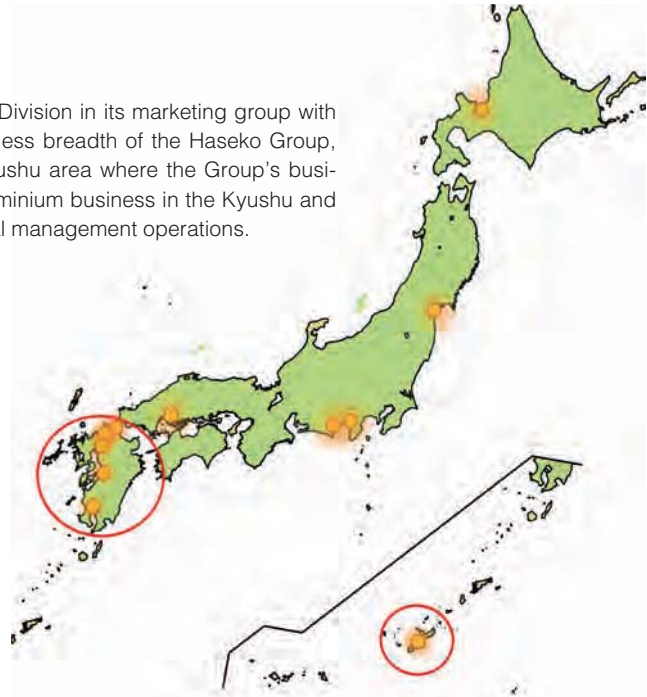
### Domestic Market

Haseko Corporation newly established the Kyushu Operations Division in its marketing group with an aim to create new regional strategies. To expand the business breadth of the Haseko Group, the new division is engaged in market development in the Kyushu area where the Group's businesses are concentrated. The division works on for-sale condominium business in the Kyushu and Okinawa region, on top of condominium management and rental management operations.

### Overseas Market

Starting with a project in Hanoi, Vietnam, Haseko Group plans to build a track record going forward in Southeast Asia, such as in places as Ho Chi Minh City, Vietnam and Indonesia, to establish a future revenue source in Southeast Asian countries.

In Hawaii of the United States, the Company will work to re-establish a revenue base by taking advantage of its over 40 years of experience in Hawaii.



## First Project in Southeast Asia Complete

THE AUTHENTIC, a serviced apartment for Japanese residents, was completed in Hanoi, Vietnam on March 1, 2017. The property had been developed by Haseko HimlamBC Company, Limited, in which Haseko Corporation made equity investment. The property is Haseko Group's first project in its endeavors to achieve the safe, reliable and comfortable housing realized in Japan ("Japan Quality" condominiums) in growing Asian markets. Haseko's technical institute and other institutions have conducted technical verification on building specifications that are based on Vietnam structural standards and use local construction materials, in terms of various performance including structure, heat insulation, sound proofing, ventilation and water proofing. Haseko Group dispatched many technical staff to the site who conducted routine inspections and discussions with local staff. Moreover, employees of the local cooperating companies were invited to Japan to visit construction sites. Through these efforts, Haseko Group worked to secure construction precision.

### THE AUTHENTIC

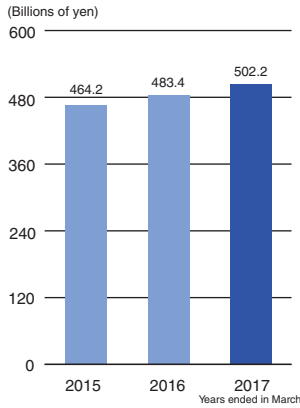
Name: THE AUTHENTIC --HASEKO LONG BIEN RESIDENCE--  
Location: Long Bien, Hanoi  
Total number of units: 110 units  
Structure and size: Reinforced concrete structure, 18 floors above ground and one basement floor  
Design and supervision: Haseko Corporation  
Construction: Haseko Corporation

Lessor: Haseko HimlamBC Company, Limited  
Administration and operation: Haseko HimlamBC Company, Limited  
Completion: March 2017

### Haseko HimlamBC Company, Limited

A local joint venture has been established with equity ratios of 95% by Haseko and 5% by the Him Lam Group, a major real estate company in Vietnam.

## Orders received (Non-consolidated basis)



Haseko has a variety of accompanying businesses to the condominium business within its Group, and has the strength that allows it to propose business plans integrating not only orders for construction but also for post-completion services including the sale and building management of condominiums. Such proposals are utilized to secure orders in the form of Haseko Exclusive Contracts, the largest feature of the Company. Moreover, Haseko constructs condominiums with its construction and design sections working as one. The Company has established the system that exerts cost reduction effects through receiving orders for design and construction in packages, with the two sections conducting close organizational coordination and by reflecting such aspects as enhanced workability and economic designing in designs.

## Construction

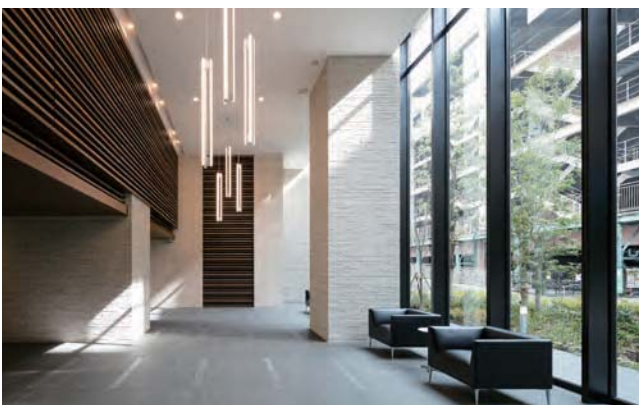
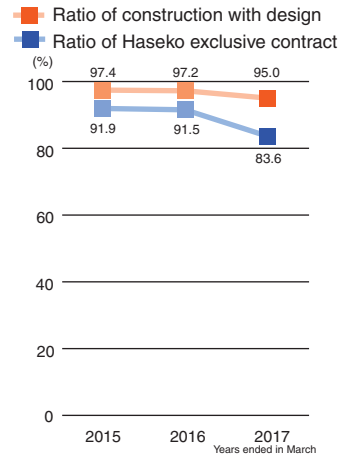
Haseko has specialized in condominium construction, as shown by its track record of over 600,000 units built. The Company constructs condominiums by employing state-of-the-art, efficient (no reconstruction) and highly precise (minimal complaints) construction methods, and has established a construction management system that keeps to budgets with no major gaps and promotes smooth implementation of project schedules. This allows Haseko to maintain high productivity. This system is bolstered by the good long-term relationships with cooperating companies. On top of their proficiency in construction with full knowledge of Haseko's construction methods, such companies can adopt Haseko's new products and new technologies, etc. as quickly as possible through training courses and other measures. These measures are what have maintained Haseko's high productivity, which secures sufficient competitiveness and serves as a source of its high profitability.



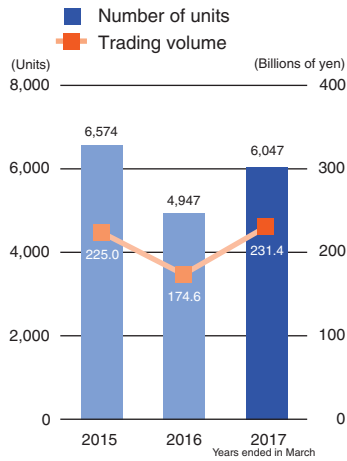
### Design

The design section is always pursuing “what is best for residents,” and conducts design work from the viewpoint of the end users, receiving feedback from customers. In addition, it proactively works to enhance performance aspects, such as enriching the fundamental performance of condominiums, improving versatility and securing environmental and disaster prevention performances, by utilizing its accumulated know-how from the cumulative construction track record of over 600,000 units as well as new products and new technologies developed by Haseko Technical Research Institute. Moreover, at “LIPS,” which is the presentation space for our condominiums, decisions regarding the products to be used are made at the designing stage while looking at a variety of offerings with the project owners. This approach makes it possible to realize prompt, reliable designs since it facilitates the smooth selection of parts, materials and products.

**Orders received**  
(Non-consolidated basis)



**Consignment sales of newly-built for-sale condominiums (Haseko Urbest)**



Haseko, which boasts having the top performance in Japan in constructing for-sale condominiums, also conducts the for-sale condominiums business on its own, utilizing its know-how of Haseko Exclusive Contracts in which the Company provides land for project owners. Moreover, the Haseko Group was joined by Sohgho Real Estate in May 2015 and by Joint Corporation in December of the same year.

On April 1, 2017, the Company established Haseko Real Estate Development Holdings Inc. by concentrating the functions commonly shared by the for-sale real estate businesses in the Haseko Group. The new company will work to establish a system for implementing business operations, reinforce governance and enhance financial efficiency, among other endeavors, in order to improve profitability. It will also integrate the know-how and experience that have been fostered at each operating company, in an effort to enhance product and service offerings for customers.

**Strengths of Implementing the Total Condominium Business**

The Haseko Group, which implements the condominium business in its totality, can complete all tasks required for implementing the condominium business, including planning, development and design of condominiums using information that is fed back from the construction sites, salesforce of for-sale condominiums and condominium managers, etc. as well as construction, within the group. Enjoying the benefits of this completeness, the Group's for-sale condominiums have been highly evaluated in terms of customer satisfaction and confidence for such factors as product offerings that reflect customer needs, secured construction quality and high cost performance.



RENAI Oppama



ADENIUM Itabashiukimako

**Haseko Real Estate Development Holdings**

The company supervises the for-sale real estate businesses of the Haseko Group, integrating their common functions, working to enhance the business implementation system and reinforcing governance, among other endeavors, in order to achieve higher profitability.

**Sohgho Real Estate**

The company is engaged in the for-sale housing business, as represented by the Renai brand, with an accumulated sales record of approximately 65,000 units primarily in the Tokyo metropolitan area and the Kinki area. It offers comfortable living through an integrated business system that covers acquisition of project sites, product planning, sales, delivery and administration.

**Joint Corporation**

The company not only conducts the for-sale real estate business, in which it plans, develops and sells the "Adenium Series" properties, but also develops profit-generating properties, with a track record of developing such assets as rental condominiums, apartments, retail facilities, office buildings and warehouses.

**Joint Property**

Joint Property Co., Ltd. is an expert in operations and administration for condominium and apartment management. It supports owners of such properties by offering its proprietary know-how fostered over many years of experience.



**Haseko Urbest**

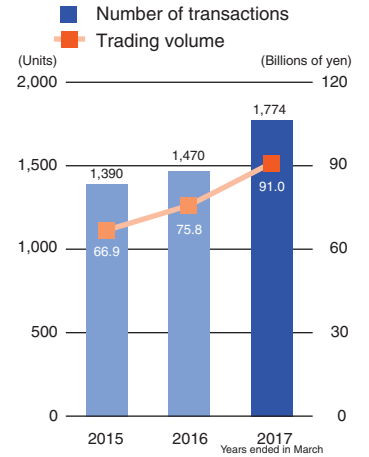
Having a leading position in consigned sales of condominiums, Haseko Urbest works as an integrated real estate service company and conducts all operations from product planning and proposals to sales, contracting and delivery of new condominiums that reflect the opinions of customers.

Haseko Real Estate, Inc. was born through the integration of the Haseko Group's real estate brokerage business, with an aim to proactively work on "vitalizing the transaction of existing housing" as an important area of the Group's growth strategy. As an integrated real estate brokerage company, Haseko Real Estate handles all types of real properties, from residential real estate to commercial and investment real estate.

Moreover, to realize the Haseko Group's basic philosophy of "creating good housing, taking proper care of housing and living in housing over a long period of time," the firm is proactively engaged in the renovation business, where it refurbishes used condominiums for future inhabitants to live.



## Brokerage of real estate (Haseko Real Estate)



### Real Estate Brokerage

Selling and buying, exchanging, leasing, agency and brokerage of real estate

**Building:** Condominiums, stand-alone houses, profit-generating buildings, facilities for the elderly, hospitals and medical facilities, company housing, etc.

**Land:** Sites for condominiums and stand-alone houses, commercial sites, sites for facilities for the elderly, sites for hospitals and medical facilities, sites for warehouses and plants, sites for large-scale, multi-use developments, land for consideration of equivalent exchange or effective use, etc.

### Purchase and Resale

Purchase and resale of condominiums and profit-generating properties

**Property acquisition:** Condominiums and stand-alone houses (from entire buildings to single units), profit-generating properties

**Temporary holding:** For renovation and conversion

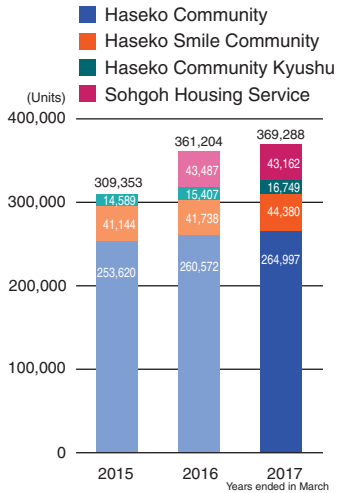
**Sale:** For the real estate market and business corporations

### Real Estate Solution

Consultation for effective use of land, asset management, consultation for real estate investment Management and administration of real estate and project proposals

The company fully utilizes the networks of the Haseko Group to provide total support for business planning to operations and management of condominium projects, offices, retail stores, facilities for the elderly and other properties, helping customers to conduct asset management by realizing the property value to the maximum.

### Four companies Condominium building management



The Haseko Group companies that conduct for-sale condominium management operations are commissioned by management associations, which are comprised of residents of condominiums, to provide services that should maintain and improve the asset values of the buildings and enrich life in condominiums. As managing companies belonging to a general contractor group, the companies accept not only the problems related to construction or management but also whatever issues and troubles customers may have, investigate the causes and solve them.

### Haseko Property Management Holdings

On April 1, 2017, Haseko Property Management Holdings Inc. was established as the intermediate holding company that supervises the for-sale condominium management operations of the Haseko Group. The new company aims to integrate the knowledge, experience and know-how obtained by Haseko Community, Haseko Smile Community, Sohghoh Housing Service and Haseko Community Kyushu through their management operations, and provides even wider services.



### Haseko Property Management Holdings

Working as an intermediary holding company that supervises the for-sale condominium management operations of the Haseko Group, the company integrates the knowledge, experience and know-how obtained by the respective companies engaged in this business through their management operations, and provides even a wider-range of services.

**Haseko Community**

**Haseko Smile Community**

**Sohghoh Housing Service**

**Haseko Community Kyushu**

#### Comprehensive Monitoring

Comprehensive monitoring operations conducted around the clock; security personnel dispatched in emergencies, and specialized technical staff available day-and-night.

#### Management and Cleaning

Reception, surveillance, attendance services and cleaning services of common areas by staff who have mastered professional knowledge and skills.

#### Maintenance and Management

Periodical inspection of elevators, water supply and drainage, fire prevention facilities and other accessorial facilities; proposals for repairs of defects; proposals for repair work plans and financing plans for forecasted future deterioration of buildings over time.

#### Clerical Services

In place of management associations, the company collects and keeps management fees and repair deposits, gives reminders for payment of unpaid proceeds, reports financial statements and providing accounting services including financial settlements.

#### Life Support Services

The company provides services that support the daily lives of residents, including acceptance of clothes for cleaning, arranging for taxis and catering services, and conducting a variety of community events. Moreover, it offers services that enrich the living at condominiums, such as cafes and culture schools operated in condominiums as well as car sharing.



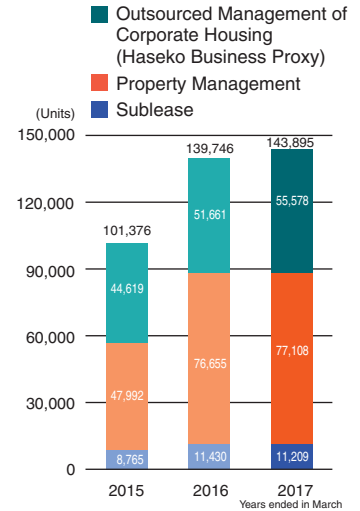
# Management and Operation of Rental Condominiums

In the domains where rental condominiums, corporate real estate and for-investment condominiums are mutually interrelated, Haseko Livenet implements lease management and operations of condominiums, consulting on rental operations, and rental brokerage of condominiums. The company conducts business in major rental condominium markets in Japan – Tokyo metropolitan area, Kinki area, Sapporo, Sendai, Nagoya, Hiroshima and Fukuoka. In addition, Haseko Business Proxy, an offshoot of Haseko Livenet, is engaged in introducing properties for use as rental corporate housing or dormitories, and managing corporate housing as an agency.



BRANSIESTA Komagome

### Haseko Livenet Rental condominium management and operation



### Haseko Livenet

#### Property Management

Sublease system in which the company rents the entire properties for lease, and handling of various procedures and work for rental operations as an agency; the "total package management" service in which the company performs building management on its own, and the full support for all aspects down to exit strategies.

#### Development of For-Investment Rental Condominiums

The company coordinates development of rental condominiums and prepares plans based on marketing results. It can achieve high occupancy rates by being simultaneously consigned for property management.

### Haseko Business Proxy

As a pioneer of the business model, the company is characterized by the high-quality service chosen by global companies.

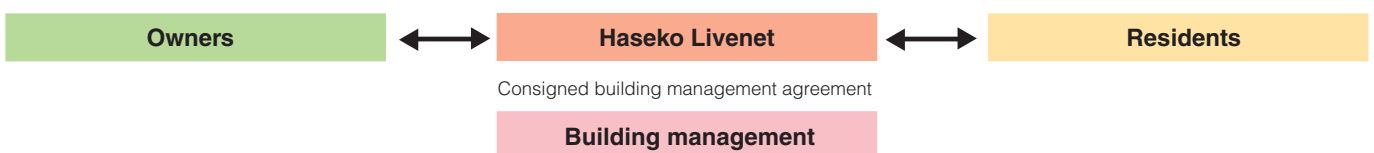
#### Management Agency for Corporate Housing

Conducts review of the corporate housing systems and provides support to the corporate real estate strategy of clients; implements a solution business for corporate real estate, including rehabilitation of client owned corporate housing and proposals for efficient use of corporate land, and provides total support to clients' employees who are the "lessees" living in the company housing.

#### Property Management

Agency service agreement for rental operations

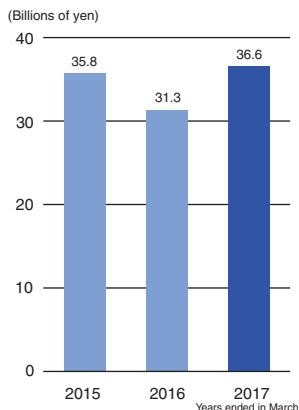
Lease agreement



Total package management: Building management, handling of procedures and work as an agency, and sublease system

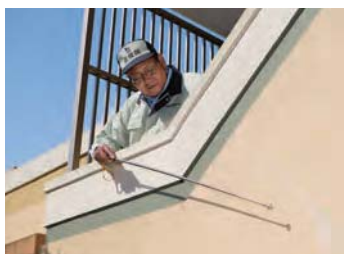
## Large-Scale Repair and Interior Remodeling

### Orders received (Haseko Reform)



The number of for-sale condominiums in stock in Japan is estimated to surpass 6 million units. Of these, more than 1.5 million units are reckoned to be in buildings built 30 or more years ago. Aside from these, many condominiums have become old and now require large-scale repair work to be conducted. The Haseko Group serves the management associations and owners of aged condominiums as a total advisor for rehabilitating the buildings, responding to a variety of needs for repairs, renovations and building replacement.

In the Haseko Group, Haseko Reform is engaged in renewal construction and maintenance work primarily for condominiums. Based on its abundant experience as the leading company in condominium construction, it makes optimum renewal proposals – including renovations of earthquake-resistant structures, ordinary repairs, large-scale repairs and remodeling – in accordance with the various building characteristics (size, design and specifications) of each asset with the aim of extending the building life. By doing so, the company provides construction quality that achieves maintenance and enhancement of the asset value.



### Kemigawa Park Mansion



Before



After

Reflecting the experience and achievements of condominiums totaling approximately 600,000 units, the company has a track record of renewal construction and maintenance work for condominiums counting about 3,700 buildings (about 500,000 units) in the last 20 years.

#### Offerings for Extending Building Life

##### Large-scale repairs

- Consideration given to repair work conducted with residents remaining in their units.
- Proposes construction methods that negate the need for scaffolds or curing sheets.

##### Renovations of earthquake-resistant structures

- Renovations of earthquake-resistant structures with residents continuing to live in their units.
- Conducts procedures to apply for subsidies to local governments and provides support for resident briefings.

##### Facility renovations

- The SAPS R method for replacing water supply pipes realizes durability of 60 years; the HAM-J method for drainage pipes completes work in a day for a single system.

##### Renovations for environmental friendliness and energy saving

- Renovations for energy saving, including heat insulation of buildings and adoption of multi-layer glass; advice on obtaining subsidies, etc.

#### Offerings for enhancing assets and lifestyle

##### Renovations for value enhancement.

- Employs barrier-free design, which is indispensable for the aged society.
- Renovations of entrances for improving the image.
- Prevents deterioration of building frame through external insulation.
- Replaces window sashes as a countermeasure against condensation.

#### Remodeling work

- Proposes optimum remodeling for not only unit floor plans and designs but also for replacement of water supply, drainage pipes and electricity facilities.
- Female interior coordinators make arrangements based on the condominium construction record data.
- Addresses a variety of themes such as lifestyles and adoption of natural materials.
- Conducts remodeling of stand-alone houses as well.

# Condominium Rehabilitation and Building Replacement Business

In conducting the condominium building replacement business, a variety of requests must be met from the management associations, including investigations for choosing repairs or building replacement, building diagnosis, evaluation of seismic capacity, comparison of rough estimates for repairs and building replacement costs, establishment of a building replacement investigation committee, consensus building, mediation of temporary housing, resettlement of the residents and management after the resettlement. This is why the number of condominium building replacement cases remains very small, standing at 268 properties as of April 1, 2017.

In conducting condominium replacement, Haseko has proposed more specific options for building consensus and solving problems to the owners and management associations through coordination among the Group companies. As such, the Company has conducted condominium replacement in 35 cases (31 properties completed and 4 properties underway), the most in Japan, as of April 2017.



Before

## BRANCHERA Senbayashi Omiyai

Utilizing the Group's strengths to successfully implement a building replacement project for which rebuilding of the same size is not permitted due to revisions to the Building Standards, etc.



After



Before

## BRANCHERA Yamamotochominami

Building replacement project for a housing complex to dissolve the mixture of sold and leased units and incorporating an adjoining land owned by Urban Renaissance Agency

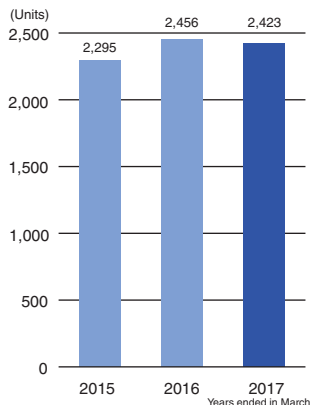


After

## Comprehensive Strengths of the Haseko Group Utilized in Condominium Rehabilitation

Purchase of redundant floors and sale to general consumers:	<b>Housing Development Division of Haseko Corporation</b>
Planning and design of condominium building replacement:	<b>Engineering Division of Haseko Corporation</b>
Mediation of temporary housing and advisory for negotiations on displacement of tenants:	<b>Haseko Livenet, Residential Service, Haseko INET</b>
Condominium building replacement construction:	<b>Construction divisions of Haseko Corporation</b>
Proposal on condominium management and operation:	<b>Haseko Community, Haseko Smile Community, Haseko Community Kyushu, Sohgho Housing Service</b>
Sale of for-sale condominiums and mediation of housing for mover:	<b>Haseko Urbest , Haseko Real Estate</b>
Mediation of paid facilities for the elderly and housing for the elderly:	<b>Century Life , Seikatsu Kagaku Un-Ei</b>

Changes in the number of paid facilities for the elderly



In the Haseko Group, which takes the aging society into account, Century Life Co., Ltd. has been planning and operating paid care houses for elderly people. In 2013, the Haseko Group incorporated Seikatsu Kagaku Un-Ei Co., Ltd., which operates paid facilities for the elderly and other facilities, to reinforce the business. Moreover, the Company established Haseko Senior Holdings, Inc., a holding company that controls the entire senior living business and conducts project management, etc., on April 1, 2016. With this arrangement, the Haseko Group started its endeavors in the senior living business under a stronger and more solid management system, working to enhance efficiency and integrate operations of the business. In June of that year, the Haseko Group reinforced home nursing care service by incorporating Furusato Co., Ltd., which operates Furusato, dementia specialized day service and short stay facilities, in Kawasaki and Yokohama. Consequently, the Haseko Group expanded its senior business into wider areas.

**Project with Kobe YMCA**

Seikatsu Kagaku Un-Ei has worked with Kobe YMCA to create housing for the elderly that should serve as the base of local communities. This endeavor has led to the completion of Life & Senior House Kobe Kitano, a paid care house for elderly people built at the time of the building replacement of former Kobe YMCA Sannomiya Hall.

In the facility that opened on April 1, 2017, the 1st through 3rd floors are used by Kobe YMCA and the 4th through 11th floors as Life & Senior House Kobe Kitano. The directly operated restaurant on the 1st floor is open to the public as a means to create local communities.

**Haseko Senior Holdings**

Haseko Senior Holdings supervises the entire operations while giving support to the operating companies that are subsidiaries under its umbrella.

**Century Life**

The company provides senior living with security and comfort by offering well-equipped facilities and a variety of services, centering on facilities with nursing care.

**Seikatsu Kagaku Un-Ei**

The company operates housing for elderly people, including paid facilities for the elderly, in Kanto, Chubu and Kansai areas, attaching importance to communities.

**Furusato**

Dementia specialized facilities for day and stay-type care services.

**Management of paid facilities for the elderly**

Conducts management of paid facilities for the elderly, totaling approximately 2,200 units for the entire Group. Implements living support services to the residents, including eating, bathing and living rehabilitation, medical treatment and nursing in coordination with medical institutions, and periodical health checks and other daily health management.

**Home nursing care service**

Conducts preparation of nursing care plans by care managers, periodical review of the plans and consultation on nursing care, etc., and communicates and makes arrangements with service providers. Also visiting nursing care services by the helpers including physical nursing care, providing services to suit the physical conditions of the users.

**Planning and consulting business**

Conducts planning for paid facilities for the elderly, housing for the elderly and multi-generation housing, offering services for planning and consultation of nursing care and welfare.

**Others**

Develops and provides life support systems, holds lectures, symposiums and seminars on lifestyle and living, and coordinates community creation and town creation.

**Day service and short stay**

The company operates Furusato, dementia specialized day service and short stay facilities, in Kawasaki and Yokohama.

### Haseko Technical Research Institute

Haseko Technical Research Institute features a Housing Performance Test Building, which is a full-scale condominium and the only such facility in Japan, a Thermal Environment Test Building, a Structural Material Test Building, an Outdoor Test Yard and other facilities. Aiming to create “housing in which residents can live with a sense of assurance and comfort over a long term,” the Institute is attempting a variety of performance tests and research and development on apartments in order to always respond to the new needs of customers and the society, such as extending the life of buildings, reinforcing seismic performance and environmental issues including reduction of CO<sub>2</sub> emission.



### Joint Development and Commercialization of New Joints for Resin Pipes

Haseko Corporation has developed a joint for polyethylene pipes, which eliminates electrofusion for connecting pipes in water supply piping works, together with Kubota ChemiX Co., Ltd., a piping material manufacturer.

#### Features

- Shortens the time required for connecting pipes by over 70% compared to using electrofusion
- Prefabricated and unitized at the plant
- Stabilizes construction quality without being affected by the skills gap for electrofusion



### Development of Proprietary ALC Hardware Non-Welding Method

Haseko Corporation has developed “ALC hardware non-welding method,” which allows it to attach autoclaved light weight concrete (ALC) panels to common corridors and balconies of condominiums without conducting welding.



#### Features

- Saves on ALC work labor by eliminating welding and lightening the hardware weight
- Equalizes quality by eliminating welding
- Reduces power usage by eliminating welding

### Major Initiatives

- **Building considerations** based on technological development related to concrete and reinforced bars
- **Maintenance and renovation** applying technological development related to interior fittings and piping
- **Health considerations** through ventilation systems and sick-building syndrome countermeasures, etc.
- **Barrier-free universal design** including bases for attaching handrails, lowering of floor-level differences, low-rise bathtubs and large switches/control boards
- **Anti-earthquake measures** including technologies for earthquake-resistant and seismic isolation structures and construction methods for seismic strengthening
- **Anti-disaster and anti-crime measures** including anti-crime technologies such as front door keys, escape balconies and development of emergency supply kits
- **Energy-saving measures** including energy-efficient heat insulation systems and multi-layer glass
- **Environmental friendliness** through solar power generation systems and rooftop and wall greening technologies

Haseko Corporation has made it a social mission to create an environment that is optimal for cities and people. Specifically, Haseko has established its environmental policy as a company and acquired ISO 14001 certification. Each business unit implements environmental preservation activities by setting specific objectives. Moreover, our internal audit and external review are being executed on a regular basis to realize continual improvements.

● Environmental Policy

1. The Company shall establish and operate an environment management system in order to promote environmental preservation activities, and shall work to make continuous improvement of the environment and prevent contamination, in efforts to prevent global warming and preserve biological diversity.
2. The Company shall abide by laws, agreements and other arrangements concerning the environment, as well as prepare and implement voluntary standards as necessary.
3. The Company shall assess the impact of its business activities on the environment and establish environment-specific purposes and goals that can be achieved both technically and economically. Such environment-specific purposes and goals shall be reviewed periodically.
4. The Company shall focus on the following items in order to implement environmental preservation activities:
  - (1) Reduce construction wastes, and conduct construction giving consideration to recycling and the neighboring environment.
  - (2) Propose environment-conscious designs.
  - (3) Conduct office work promoting energy saving, effective use of resources and green purchasing.
5. The Company shall widely notify all its officers and staff as well as all people working with Haseko of its environmental policy, and request its partner companies to notifying those within their companies and for their cooperation.
6. The Company shall make its environmental policy public.

**Participation in Environmental Preservation Activities**

The Haseko Group established the Haseko Group Code of Conduct on Biodiversity in March 2012 as part of its social contribution activities for environmental preservation. In accordance with the Code, the Group has been participating in the Tokyo Greenship Action sponsored by the Tokyo Metropolitan Government since 2012, and conducted environmental preservation activities in the rural natural areas of Takiyama, Hachioji and the green areas in Matsuyama, Kiyose. In addition, the Group has participated in the Umi-no-Mori (Sea Forest) Project sponsored by the Tokyo Metropolitan Government and the planting activities for the Symbiosis Forests sponsored by the Osaka Prefectural Government.



**River Cleaning Activities near Construction Site**

At the Itami Kitagawara New Construction Site (Mates Blanc Itami) (tentative name), the Company conducted river cleaning of the Daroku River, which flows to the west of the construction site, as a biodiversity preservation activity. With the participation of 22 people (the site manager and workers) in the first round and 29 people in the second round, they cleared the riverbank over a length of approximately 4 kilometers for about 30 minutes. They collected about 50 garbage bags full of trash and garbage during the two rounds of cleaning.

**Conducting Construction Works while Preserving Trees**

At some construction sites, the Company conducts construction with consideration given to harmony with the surrounding environment and biodiversity, as it works to keep or transplant trees on the site before the construction starts, while implementing construction works. When transplanting the trees, special construction machines are used to transplant them from the roots. When they do not need to be transplanted, construction plans are prepared and implemented so that the trees do not wither during the construction work.



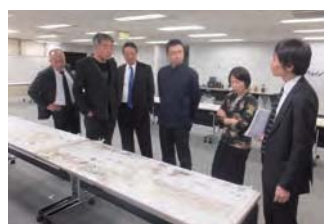
GRANDEMAISON Sengawa

Haseko is proactively engaged in conducting social contribution activities based on the thinking that corporate value is enhanced by respecting harmony with society and growing in mutual prosperity with society. The Company is working on social contribution activities as a “trusted corporate citizen.”

## “Haseko Living Design Competition” Held

Since 2007, Haseko has been holding the annual “Haseko Living Design Competition” for students, with the aim of fostering young people who wish to work in the world of architecture.

The tenth competition in 2016 set the theme of “apartments in Japan” in expectation of receiving proposals on the form of new apartments in Japan for the future. A total of 166 proposals were submitted from 627 registrants, one proposal was awarded first prize, three proposals with awards of excellence, five proposals with special awards, and ten proposals with honorable mention.



## “Mission Uchimizu (Water Sprinkling) at Condominiums” Implemented

The Mission Uchimizu (Water Sprinkling) started in 2003 as an initiative of countermeasures against the heat island phenomenon and global warming that everyone can easily implement with pleasure by utilizing secondary water from available sources, and is backed by the Ministry of Land, Infrastructure, Transport and Tourism and the Ministry of Environment.

Since 2008, Haseko’s management company group (Haseko Community, Haseko Smile Community, Haseko Community Kyushu and Sohgho Housing Service\*) has conducted water sprinkling at condominiums, the first such attempt in Japan, under the name of “Mission Uchimizu at Condominiums.” By also conducting photo and illustration contests, the event helps to heighten residents’ awareness for preventing global warming and for ecological consideration, while promoting exchanges among people residing in the properties managed by Haseko as well as activating the local communities. In 2016, a total of as many as 76,024 households from 952 management associations participated in the initiative.

\* Sohgho Housing Service started the water sprinkling operations in 2016.



## Initiatives on “Visits to Sites Where Female Employees Are Actively Involved in Construction”

The Haseko Group is working to create a workplace environment where female employees can work over a long period of time with ease. In this regard, the Group has a project called “Kensetsu Komachi” (all female workers in the construction industry) to promote proactive empowerment of female employees. At “Urawa Komaba Project New Construction” (BRANCHERA Urawa Komaba), a representative property of the Kensetsu Komachi project, a “Visit to Sites Where Female Employees Are Actively Involved in Construction” was held in July 2016, sponsored by the Japan Federation of Construction Contractors.

A total of 23 people from 9 families comprising female pupils and students of elementary and junior high schools and their guardians participated in the event, visiting the site and experiencing various work operations. The Haseko Group will continue to have similar visits going forward, working to foster “female workers in the construction industry” for the future.



### Corporate Governance

Haseko Corporation has made it a basic policy of its corporate management to contribute to society and win society's confidence through its business operations that put customers first. The Company has also positioned reinforcement of corporate governance as one of its utmost management priorities as it recognizes that it is indispensable to secure management transparency and objectivity for maximizing corporate value in a stable manner over the long term and ensuring shareholders' interests.

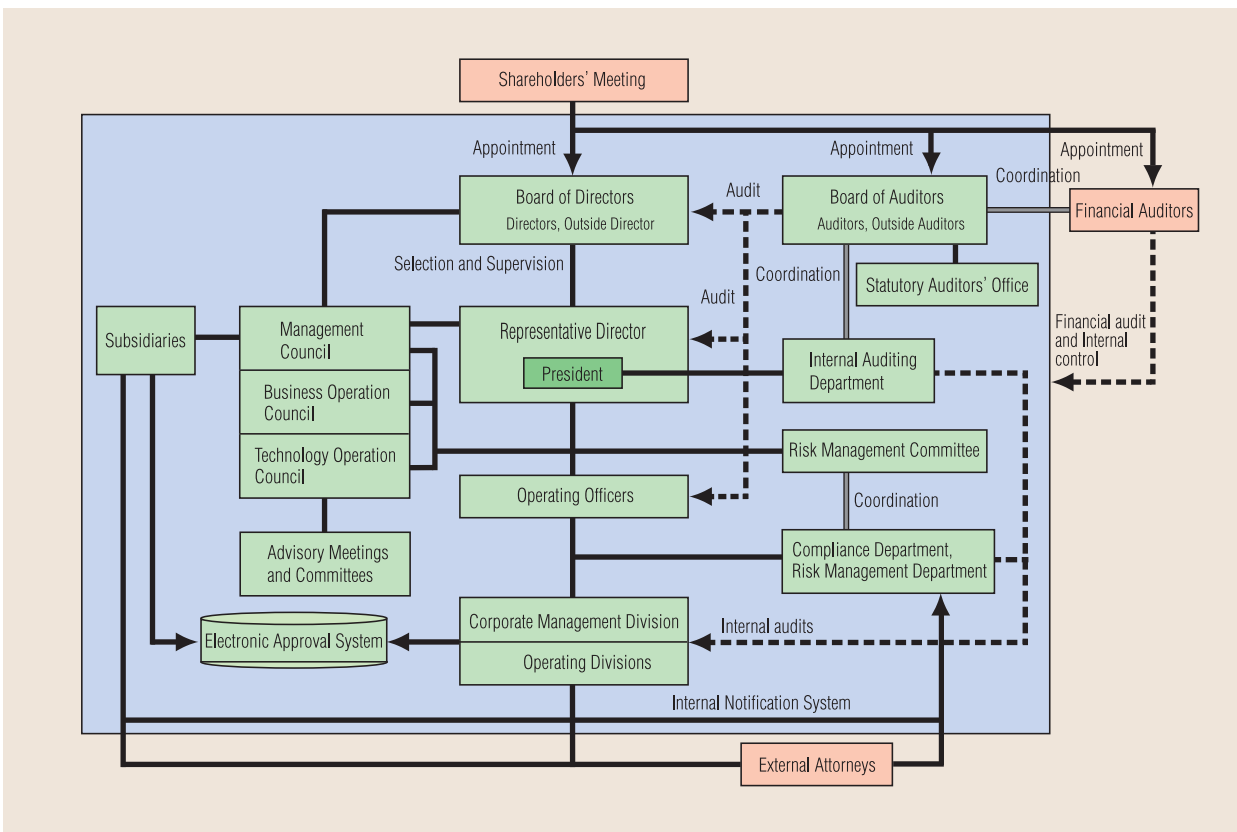
The Board of Directors of Haseko Corporation serves as the institution where directors with expert knowledge and experience in various business sectors conduct decision-making on managerial issues and supervise execution of duties of other directors. As for monitoring of management operations, the Company's system provides the Board of Auditors, the majority of which are outside auditors, with the monitoring function from an objective and neutral standpoint from outside through implementation of

audits. On top of these functions, starting in June 2016, Haseko appointed outside directors with abundant experience and track record to occupy at least one third of the Board of Directors, so that they shall provide appropriate opinions and advice in order to further activate discussions at the Board of Directors as well as enhance the function to monitor business management. Going forward, we will continue to look for a system that is optimum for the Company, taking into consideration the balance between the operation of the Board of Directors and the monitoring functions.

### Roles and Operations of Corporate Institutions

The Board of Directors holds regular meetings once a month and additional special meetings as necessary, and is responsible for important decision-making and regular reports on matters related to management. In addition, operating officers make operational reports on a regular basis to the Board.

Diagram of company institutions and internal governance





The company has established the Management Council and two operation councils – the Business Operation Council and the Technology Operation Council – to facilitate prompt and flexible decision-making on matters related to daily operations to the extent they are authorized by the Board of Directors. Participation of directors in the Operation Councils is limited to a certain level, so that the functions of making decisions and supervising such decision-making are divided and clarification is made for the responsibilities and authority for these functions. Moreover, the function of discussing in advance the important issues to be decided at the Board of Directors is performed by the Management Council.

The Risk Management Committee is held once every quarter under the chairmanship of the President, and shall also be held on an ad hoc basis as necessary whenever any material risk has arisen. It examines and determines the establishment, amendment or abolishment of internal rules on risk management and risk prevention plans, etc., as well as discusses and decides on the implementation policies and specific measures for risk management, among other things.

## Internal Governance and Risk Management System

### Compliance System

With the recognition that intensive compliance is indispensable for the existence and continuity of a corporation, the Company established the Haseko Group Standards of Conduct in April 2003, under which Haseko has been working to establish a management system where all directors, operating officers and staff respect societal standards and take sensible courses of action in keeping with their duties as members of society, as well as complying with all laws and the Company's articles of incorporation, so that the Company can win the confidence of society. Moreover, for enhanced compliance Haseko established the Compliance Department which conducts promotion and education of compliance based on the internal rules and regulations on compliance. An internal whistle-blowing system for consultations on compliance and notification of illegal conduct, etc. and an external contact have also been established.

In April 2005, the Company established the Internal Auditing Department that is under the direct control of the President. Pursuant to internal rules and

regulations on internal audits, the Department investigates and evaluates whether activities of respective divisions conform to laws and regulations, the Articles of Incorporation, the Company's rules and regulations, corporate policies, etc. and whether they are reasonable, and works to make improvements based on the results. The Company has no relations with anti-social forces or groups that threaten the order and security of civic life, and will cope with such anti-social forces and groups systematically, and with an adamant and resolute attitude.

### Risk Management System

In anticipation of a variety of risks, Haseko endeavors to collect risk-related information and prepares preventive measures and appropriate countermeasures in advance against risks according to their magnitude and possibility of arising. Through these efforts, Haseko aims to minimize the potential losses and to systematically cope with risk management centering on the Risk Management Department established in April 2006. Specifically, Haseko has set up a system in which respective sections of the Management Division coordinate with each other and check the status of business operations in accordance with the roles they are assigned, while the Internal Auditing Department conducts further checking.

For the corporate approval system that serves as a record of decision-making for work implementation, the Company has introduced an electronic system in which legal procedures have been digitized. This system enables auditors and the Management Division to view and check the content at any time. Furthermore, of the issues forwarded to the Board of Directors and the two operation councils (the Business Operation Council and Technology Operation Council), those involving many departments or requiring specialized knowledge are subject to sufficient verification in advance by the adequately established advisory meetings and committees. Periodical results reports are also mandatory for issues that require monitoring.

On top of these, the Company established the Risk Management Council under the chairmanship of the President, in May 2006 with the aim of strengthening the risk management system of Haseko and its entire Group. This enhanced the Company's risk management system in which cross-sectional collection of information, analysis, valuation and handling of risks are conducted in accordance with the internal rules on risk management.

## Management Team *(As of June 29, 2017)*

### Directors and Corporate Auditors

**Ikuo Oguri**  
Representative Director  
Chairman

**Noriaki Tsuji**  
Representative Director  
President

**Shosuke Muratsuka**  
Representative Director  
Executive Vice President

**Morio Shimada**  
Director  
Executive Vice President

**Yuhei Imanaka**  
Director  
Executive Operating Officer

**Kazuo Ikegami**  
Director  
Executive Operating Officer

**Kinichi Kitamura**  
Director  
Senior Operating Officer

**Fujio Hirano**  
Director  
Senior Operating Officer

**Kohei Amano**  
Outside Director

**Osamu Takahashi**  
Outside Director

**Kazuhiko Ichimura**  
Outside Director

**Masashi Kogami**  
Outside Director

**Takahisa Chikayama**  
Full-time Corporate Auditor

**Masahiro Okuyama**  
Full-time Corporate Auditor

**Yoshitaka Fukui**  
Corporate Auditor

**Mitsuo Isoda**  
Corporate Auditor

**Takeshi Ikegami**  
Corporate Auditor

### Operating Officers

#### Executive Operating Officers

**Takeshi Tsunematsu**

**Yoshinori Haraguchi**

#### Senior Operating Officers

**Junichi Tani**

**Nobuhiro Tani**

**Masaaki Matsuoka**

**Takashi Kawamura**

**Toshiyuki Murakawa**

**Katsuhide Takahashi**

**Syoji Naraoka**

**Yutaka Okada**

**Masahito Koizumi**

**Yoshifumi Sadanaga**

**Yoshiaki Yamada**

**Jun Kawamoto**

#### Operating Officers

**Takeshi Yoshioka**

**Misato Yamamoto**

**Mamoru Kameoka**

**Nobuo Imagawa**

**Takashi Tsuruta**

**Satoshi Kumano**

**Toru Yamaguchi**

**Toshihiko Tatsuno**

**Makoto Murakami**

**Shinji Yamanaka**

**Naoyuki Kumagai**

**Eijo Daimon**

**Soichiro Tamada**

**Seiji Fuseya**

**Tetsutoshi Odajima**

**Koichiro Nomura**

**Five-Year Summary**  
**Haseko Corporation and its Consolidated Subsidiaries**  
 (Years ended March 31, 2013, 2014, 2015, 2016 and 2017)

	Millions of Yen				
	2013	2014	2015	2016	2017
<b>For the Year:</b>					
Net sales	¥558,919	¥587,571	¥642,167	¥787,354	<b>¥772,328</b>
Cost of sales	505,460	526,208	563,230	674,007	<b>629,454</b>
Selling, general and administrative expenses	29,130	32,525	36,239	44,585	<b>53,842</b>
Operating income	24,329	28,838	42,698	68,762	<b>89,032</b>
Ordinary income	19,976	25,405	41,889	67,327	<b>88,827</b>
Income before income taxes	11,704	30,721	42,306	68,850	<b>78,256</b>
Net income attributable to owners of parent	13,064	24,830	28,542	51,226	<b>58,762</b>
<b>For the Year:</b>					
Cash flows from operating activities	38,231	55,267	39,984	65,590	<b>109,536</b>
Cash flows from investing activities	14,843	29,395	(4,067)	(30,801)	<b>(19,824)</b>
Cash flows from financing activities	(24,115)	(65,425)	(40,235)	(16,286)	<b>(40,213)</b>
Cash and cash equivalents at end of the year	118,239	137,689	133,563	152,115	<b>201,456</b>
<b>At Year-end:</b>					
Total current assets	¥352,624	¥356,926	¥380,841	¥448,140	<b>¥478,611</b>
Total assets	460,864	457,408	476,914	589,993	<b>630,937</b>
Total current liabilities	215,044	209,699	248,586	259,960	<b>270,002</b>
Total long-term liabilities	132,015	128,237	84,239	144,658	<b>122,468</b>
Total shareholders' equity	124,482	128,632	143,356	191,580	<b>245,358</b>
Net assets	113,805	119,472	144,089	185,375	<b>238,467</b>
Yen					
<b>Per Share Data:</b>					
Net income attributable to owners of parent	¥ 41.72	¥ 81.36	¥ 94.64	¥170.41	<b>¥195.48</b>
Diluted net income	32.52	67.98	92.90	—	—
Net assets	259.89	346.17	478.45	615.21	<b>791.24</b>
<b>Ratios:</b>					
Profit ratio of construction contracts	8.9	9.2	11.3	15.8	<b>19.2</b>
Operating income ratio	4.4	4.9	6.6	8.7	<b>11.5</b>
Equity ratio (%)	24.7	26.1	30.2	31.3	<b>37.7</b>
Return on equity (%)	12.1	21.3	21.7	31.2	<b>27.8</b>
Price/Earnings ratio (times)	10.31	7.94	12.38	6.15	<b>6.16</b>
Payout ratio (%)	—	3.7	10.6	8.8	<b>15.3</b>
Number of employees	4,640	5,188	5,379	6,136	<b>6,602</b>

Note) The Company completed a reverse stock split of its common stock and Class B I preferred stocks, at ratio of 1 share for 5 shares on October 1, 2013. Net assets per share, net income per share and diluted net income per share as of and for the year ended March 31, 2013 are calculated under the assumption that the reverse stock split took place at the beginning of the previous fiscal year.

## (1) Business Performance for the Fiscal Year Ended March 2017

For the fiscal year ended March 2017, the Japanese economy remained on a modest recovery trend, given the continued improvements in employment and income environments, although delays in recovery were seen in certain areas. Meanwhile, the condominium market remained sluggish for the period, as was the case in the previous year, with supply in the Tokyo metropolitan area remaining at the 30,000-unit level for the second consecutive year, standing at 36,450 units (down 4.4% year-on-year). In the Kinki area, new supply stayed flat at 18,359 units (down 0.1% year-on-year) despite the large supply of condominiums with studio units (3,631 units). The initial month sales rate, which serves as a benchmark of sales conditions, was 68.5% (down 4.2 points) in the Tokyo metropolitan area, dropping to the 60% level for the first time since fiscal 2008 (when the figure was 64.1%). In the Kinki area, the figure remained at the 70% level, standing at 71.9% (up 0.1 points), but the conditions became increasingly difficult. Accordingly, the number of for-sale units being marketed as of the end of March 2017 increased both in the Tokyo metropolitan area and the Kinki area, rising to 6,749 units (up 11.8%) for the former and to 2,493 units (up 9.6%) for the latter. An analysis of products supplied in the fiscal year shows that the average unit space dropped to 69.19m<sup>2</sup> (down 2.3%) and the average market price decreased to 55.41 million yen (down 1.4%) in the Tokyo metropolitan area. In the Kinki area, the average unit space shrank to 63.27m<sup>2</sup> (down 2.6%) and the average market price was 38.77 million (down 0.3%). As such, the figures turned downward in both areas.

Under such conditions, for the fiscal year under review, which represents the final year of the “newborn HASEKO Step Up Plan” (Plan NBs), the Company’s medium-term business

plan, the Haseko Group achieved record high consolidated ordinary income with condominium construction works in the Construction-Related Business achieving good results. Moreover, orders received on a non-consolidated basis renewed a record high for the third consecutive year.

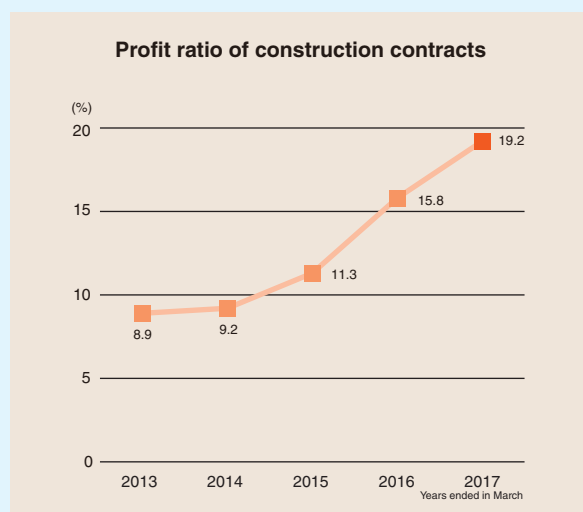
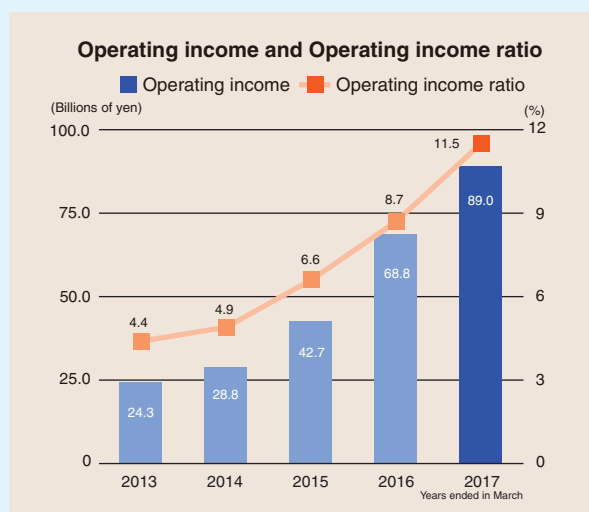
As a result of the above, while net sales decreased 1.9% year-on-year to 772.3 billion yen in the fiscal year ended March 2017, the Company posted operating income of 89.0 billion yen (up 29.5%), ordinary income of 88.8 billion yen (up 31.9%) and net income attributable to owners of parent of 58.8 billion yen (up 14.7%), due to improved gross profit margin of completed construction contracts for condominium construction works. The operating income ratio was 11.5% (up 2.8 points) and ordinary income ratio came to 11.5% (up 2.9%).

## (2) Performance by Segment

### Construction-Related Business

For construction works, project owners have continuously had a high regard for the Company’s ability to gather land information and product planning ability, its attitude regarding construction quality and keeping construction schedules, efficient production system and such. Under such circumstances, the construction profitability upon receiving orders and the gross profit margin of construction contracts completed in the fiscal year are both on an improving trend, thanks to the increasing scale of the properties to construct, among other factors.

In terms of orders for new construction of for-sale condominiums, the Company won orders for 107 projects in total throughout Japan, comprised of 72 in the Tokyo metropolitan area including 27 large projects with at least 200 units and 35 in the Kinki and Tokai areas including 10 large projects with at least 200 units. In addition, aside from for-sale condominiums, the Company received an order for the City-Sponsored



Higashi-Tamondai Housing Building Replacement Project (Tarumi-ku, Kobe-shi; 425 units), a building replacement project using the PFI method.

As for construction completion, the Company completed construction of 103 projects including 5 projects for rental housing, etc.

In design and supervision operations, the Haseko Group proactively works to enrich fundamental performance, improve versatility and secure environmental and disaster prevention performance of condominiums by utilizing plans it has proposed and technologies and know-how it has accumulated through its construction track record of over 600,000 units built.

In the Tokyo metropolitan area, the Company completed BRANCHERA Urawa Komaba (Urawa-ku, Saitama-shi; 146 units) located in a high-class residential area with abundant greenery, among other properties. For the Company, this is the first property for which female employees of the Haseko Group were engaged in all the operations from business planning to development promotion, design, construction, sale, interior fittings and management for the condominium. The property has achieved female-friendly housing, as the units are equipped with Dresser III, a washstand created from the female perspective, among other features. Such an endeavor, which internally and externally demonstrates the attractiveness of the construction industry where females can work actively, has been highly regarded. Haseko also completed The Residence Kemigawahama Gardens (Mihama-ku, Chiba-shi; 545 units). Making the best use of the extensive site of approximately 21,000m<sup>2</sup>, the property focuses on the sense of openness and has buildings arranged in a way in which all the units face southeast or southwest, with well-equipped common facilities.

In the Kinki area, construction was completed for Proud City Tsukaguchi Mark Forest (Amagasaki-shi, Hyogo; 587 units). It is the second condominium within the ZUTTOCITY

districts, a large-scale, station-front redevelopment project combining residential and retail facilities with a total development area of approximately 8.4 hectares, and is located two minutes on foot from the station. The Company also completed Laurel Court Crevia Amagasaki-Ekimae (Amagasaki-shi, Hyogo; 131 units), which is located in a large-scale redevelopment area in front of Amagasaki Station on the JR Line and a one-minute walk from the station.

In the overseas market, Haseko completed THE AUTHENTIC (110 units), a serviced apartment for Japanese people, in Hanoi, Vietnam, in the fiscal year ended March 2017. The property is the Company's first project in Vietnam.

In the sale of for-sale condominium units, the Company conducted sale and delivery of 21 properties that were newly completed in the fiscal year under review as well as other products.

As a result of the above, while the segment posted a year-on-year decrease in sales, which stood at 568.7 billion yen (down 4.6%), it achieved a year-on-year increase in operating income, amounting to 81.9 billion yen (up 14.8%), mainly due to improved gross profit margin of completed construction contracts.

## Service-Related Business

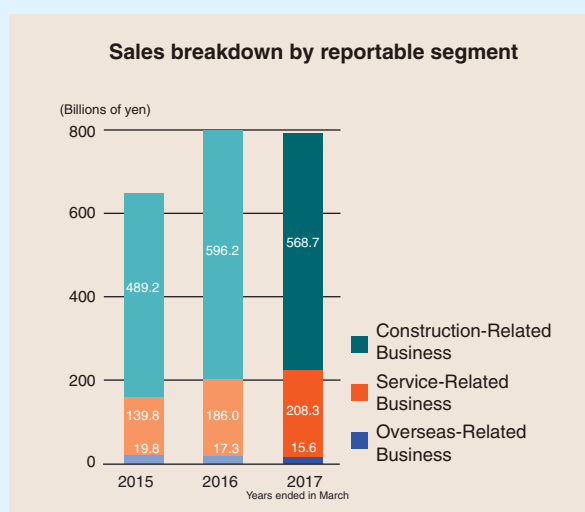
In for-sale condominium management operations, the number of units the Haseko Group is consigned to manage reached 369,288 units (up 2.2% year-on-year), reflecting the impact of orders received for large-scale projects for which the Company provides land, among other factors.

In large-scale repair work and interior remodeling, the Company endeavored to increase orders received for properties other than those the Haseko Group is consigned to manage. As a result, orders received amounted to 36.6 billion yen, a year-on-year increase of 17.1%.

In the management of rental condominiums and corporate housing management agency services, the number of units Haseko operates reached a combined total of 143,895 units, an increase of 3.0% from the end of the previous fiscal year, as additional consignment for corporate housing management agency services from existing corporate clients increased steadily.

In the senior services business, Haseko reorganized the business within the Group and acquired shares of a company that conducts community-based nursing care services specialized in care for people with dementia. The number of paid facilities for the elderly and housing for the elderly in operation totaled 2,010 units, down 2.1% year-on-year.

In consigned sales of newly-built condominiums, the number of contracted units increased year-on-year due to good achievements in large-properties for station-front redevelopment projects and multi-use development projects, although the number of newly supplied condominium units was low.



In real estate brokerage operations, the number of sold units in the renovation business, which had been increasing, decreased year-on-year, but the number of cases in which the Company conducted brokerage increased for land of for-sale condominiums and for-investment real estate, etc.

As a result of the above, the segment achieved a year-on-year increase both in sales and profit, as it did in the previous fiscal year, posting sales of 208.3 billion yen (up 12.0%) and operating income of 9.7 billion yen (up 10.5%).

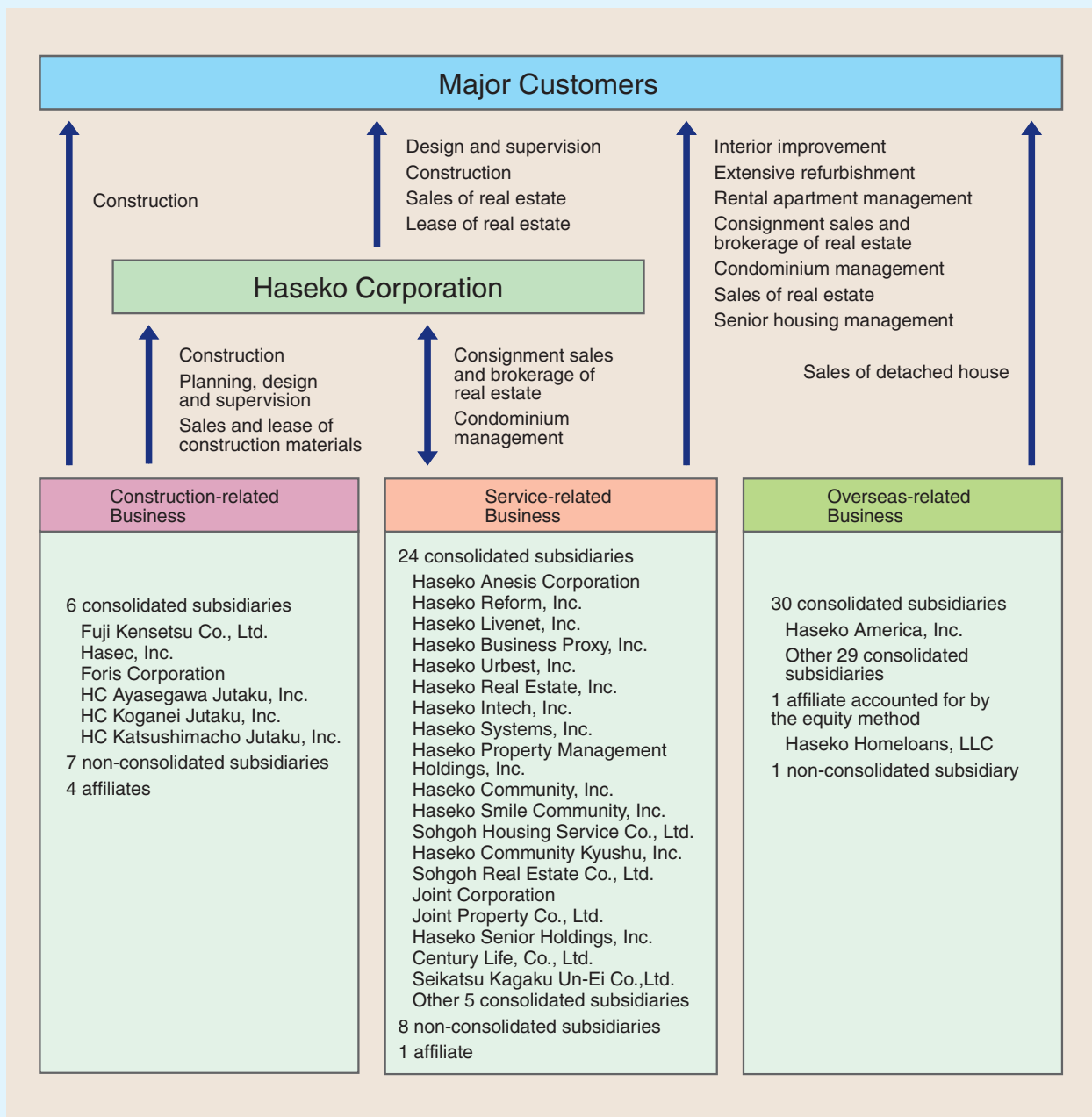
## Overseas-Related Business

Sales decreased year-on-year due to a drop in the number of contracted units and delivered units in the for-sale stand-alone housing business in Oahu, Hawaii.

As a result of the above, the segment posted sales of 15.6 billion yen (down 9.6%), while achieving operating income of 0.1 billion yen (in contrast to operating loss of 9.7 billion yen in the previous fiscal year).

Furthermore, the segment had posted operating loss in the

## Business schematic of Haseko group's reportable segments



previous fiscal year as it recorded 9.9 billion yen in valuation loss on inventories as cost of sales

## (3) Financial Position

Total assets at the end of the consolidated fiscal year ended March 2017 increased by 40.9 billion yen from the end of the previous fiscal year to 630.9 billion yen. This is because of an increase in current assets by 30.5 billion yen, mainly due to an increase in cash and bank deposits by 48.5 billion yen.

Total liabilities were 392.5 billion yen, a decrease of 12.1 billion yen from the end of the previous fiscal year. This is because of a decrease in long-term liabilities by 22.2 billion yen mainly due to repayment of borrowings, despite an increase in current liabilities by 10.0 billion yen.

Consolidated net assets were 238.5 billion yen, an increase of 53.1 billion yen from the end of the previous fiscal year, because of an increase in retained earnings by 53.8 billion yen due to the recording of net income attributable to owners of parent, among other reasons.

As a result, the equity ratio was 37.7% compared to 31.3% at the end of the previous fiscal year.

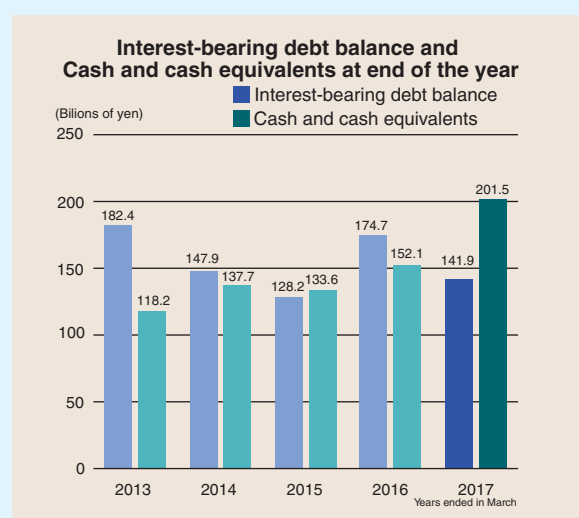
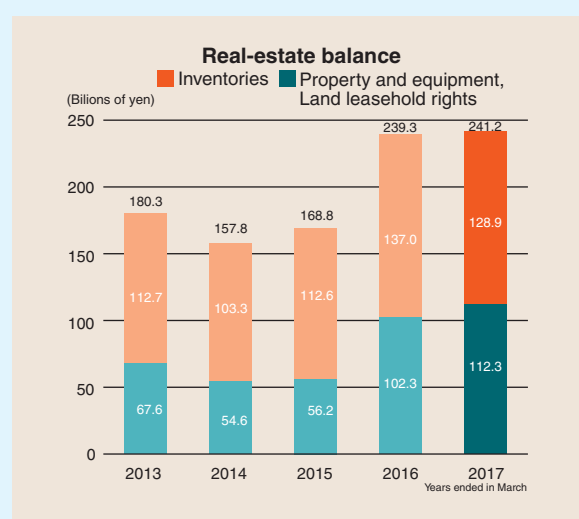
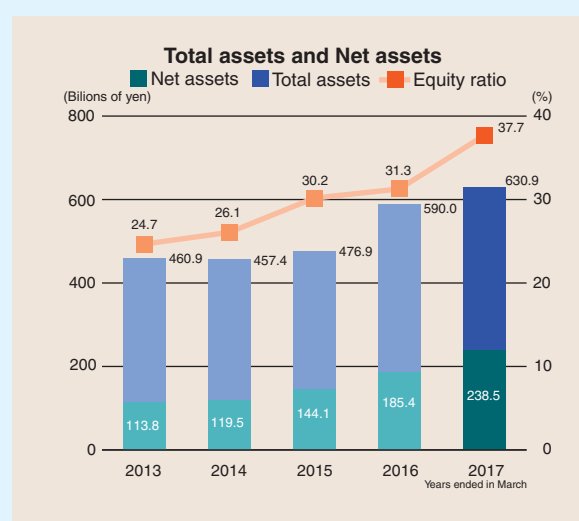
## (4) Cash Flows

Net cash provided by operating activities was 109.5 billion yen, an increase of 43.9 billion yen compared with the net cash provided by operating activities totaling 65.6 billion yen in the previous fiscal year. Major factors included the recording of 78.3 billion yen in income before income taxes.

Net cash used in investing activities was 19.8 billion yen, an increase of 11.0 billion yen in income compared with the net cash used in investing activities totaling 30.8 billion yen in the previous fiscal year. Major factors included payment of 24.1 billion yen for the acquisition of property and equipment and intangible assets.

Net cash used in financing activities was 40.2 billion yen, a decrease of 23.9 billion yen in income compared with the net cash used in financing activities totaling 16.3 billion yen in the previous fiscal year. Major factors included payment of 62.7 billion yen for the repayment of long-term debt.

As a result of the above, the balance of cash and cash equivalents at the end of the consolidated fiscal year totaled 201.5 billion yen, an increase of 49.3 billion yen from 152.1 billion yen at the end of the previous consolidated fiscal year.



# Consolidated Financial Statements

## CONSOLIDATED BALANCE SHEET

AS OF MARCH 31, 2016 AND 2017

### ASSETS

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2016	2017	2017
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and bank deposits (Notes 5, 10 and 15)	¥152,752	<b>¥201,269</b>	<b>\$1,794,001</b>
Notes and accounts receivable, trade (Notes 5 and 10)	130,271	<b>117,607</b>	<b>1,048,284</b>
Marketable securities (Notes 5,6 and 10)	—	<b>3,854</b>	<b>34,352</b>
Costs on uncompleted construction contracts	9,985	<b>9,340</b>	<b>83,252</b>
Inventories (Notes 7, 10 and 13)	137,014	<b>128,903</b>	<b>1,148,970</b>
Deferred tax assets (Note 18)	6,379	<b>5,445</b>	<b>48,534</b>
Other current assets (Note 10)	11,926	<b>12,367</b>	<b>110,233</b>
Allowance for doubtful accounts (Note 5)	(187)	<b>(174)</b>	<b>(1,551)</b>
Total current assets	448,140	<b>478,611</b>	<b>4,266,075</b>
<b>Property and Equipment</b> (Notes 8 and 10)	100,660	<b>110,392</b>	<b>983,974</b>
<b>Intangible Assets</b> (Notes 8 and 10)	10,940	<b>7,331</b>	<b>65,345</b>
<b>Investments and Other Assets:</b>			
Investment securities (Notes 5, 6 and 10)	15,556	<b>13,524</b>	<b>120,546</b>
Long-term loans receivable (Note 5)	2,853	<b>2,844</b>	<b>25,350</b>
Net defined benefit asset (Note 17)	194	<b>4,164</b>	<b>37,116</b>
Long-term deferred tax assets (Note 18)	—	<b>2,011</b>	<b>17,925</b>
Other assets	12,454	<b>12,861</b>	<b>114,635</b>
Allowance for doubtful accounts (Note 5)	(804)	<b>(801)</b>	<b>(7,140)</b>
Total investments and other assets	30,253	<b>34,603</b>	<b>308,432</b>
Total assets	¥589,993	<b>¥630,937</b>	<b>\$5,623,826</b>

See notes to consolidated financial statements.



# Consolidated Financial Statements

## CONSOLIDATED BALANCE SHEET AS OF MARCH 31, 2016 AND 2017 LIABILITIES AND NET ASSETS

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2016	2017	2017
<b>LIABILITIES</b>			
<b>Current Liabilities:</b>			
Short-term borrowings (Notes 5 and 9)	¥ —	¥ 10,000	\$ 89,135
Current portion of long-term debt (Notes 5, 9 and 10)	48,289	25,771	229,709
Lease obligations (Notes 5 and 9)	1,251	1,352	12,051
Notes and accounts payable (Note 5)	100,937	81,405	725,599
Electronically recorded obligations (Note 5)	34,415	39,598	352,955
Income taxes payable (Notes 5 and 18)	9,427	16,755	149,345
Advances received on uncompleted construction contracts	10,278	22,256	198,378
Advances received for real estate sales	11,898	10,532	93,876
Warranty	4,750	4,904	43,712
Allowance for losses on construction contracts	71	78	695
Accrued bonuses for employees	3,702	4,066	36,242
Accrued bonuses for directors	171	120	1,070
Other current liabilities	34,771	53,165	473,882
Total current liabilities	259,960	270,002	2,406,649
<b>Long-term Liabilities:</b>			
Straight bonds (Notes 5 and 9)	20,000	20,000	178,270
Long-term debt (Notes 5, 9, 10 and 16)	99,027	77,493	690,730
Lease obligations (Notes 5 and 9)	6,153	7,235	64,489
Provision for employee stock ownership plan	—	518	4,617
Provision for board benefit trust	—	80	713
Net defined benefit liability (Note 17)	3,765	1,016	9,056
Long-term deferred tax liabilities (Note 18)	1,032	—	—
Other long-term liabilities	14,681	16,126	143,738
Total long-term liabilities	144,658	122,468	1,091,613
Total liabilities	404,618	392,470	3,498,262
<b>Commitments and Contingent Liabilities</b> (Notes 11 and 12)			
<b>NET ASSETS</b> (Notes 14 and 19)			
<b>Shareholders' Equity:</b>			
Capital stock	57,500	57,500	512,523
Capital surplus	7,500	7,500	66,851
Retained earnings	126,726	180,509	1,608,958
Treasury stock, at cost — 188,240 shares in 2016 — 191,946 shares in 2017	(146)	(151)	(1,346)
Total shareholders' equity	191,580	245,358	2,186,986
<b>Accumulated Other Comprehensive Income:</b>			
Net unrealized gain on other securities	1,786	1,631	14,538
Translation adjustments	(2,416)	(3,215)	(28,657)
Retirement benefits liability adjustments	(6,013)	(5,926)	(52,821)
Total accumulated other comprehensive income (loss)	(6,643)	(7,510)	(66,940)
<b>Non-controlling interests</b>			
Total net assets	438	619	5,518
Total liabilities and net assets	185,375	238,467	2,125,564
	¥589,993	¥630,937	\$5,623,826

See notes to consolidated financial statements.

# Consolidated Financial Statements

## CONSOLIDATED STATEMENT OF INCOME

FOR THE YEARS ENDED MARCH 31, 2016 AND 2017

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2016	2017	2017
<b>Net Sales</b> (Note 13)	¥787,354	<b>¥772,328</b>	<b>\$6,884,107</b>
<b>Cost of Sales</b> (Note 13)	674,007	<b>629,454</b>	<b>5,610,607</b>
Gross profit	113,347	<b>142,874</b>	<b>1,273,500</b>
<b>Selling, General and Administrative Expenses</b> (Note 13)	44,585	<b>53,842</b>	<b>479,918</b>
Operating Income	68,762	<b>89,032</b>	<b>793,582</b>
<b>Other Income (Expenses):</b>			
Interest and dividend income	697	<b>1,182</b>	<b>10,536</b>
Equity in earnings of affiliates	428	<b>77</b>	<b>686</b>
Interest expense	(1,885)	<b>(1,401)</b>	<b>(12,488)</b>
Incidental expense for loan	(1,354)	<b>(823)</b>	<b>(7,336)</b>
Gain on adjustment of account payable	288	<b>-</b>	<b>-</b>
Other, net	391	<b>760</b>	<b>6,775</b>
	(1,435)	<b>(205)</b>	<b>(1,827)</b>
Ordinary income	67,327	<b>88,827</b>	<b>791,755</b>
<b>Special Income (Losses):</b>			
Gain (loss) on disposal or sales of property and equipment, net (Note 8)	19	<b>1,105</b>	<b>9,849</b>
Impairment loss on fixed assets (Note 8)	(3,863)	<b>(11,778)</b>	<b>(104,983)</b>
Gain on negative goodwill	4,489	<b>-</b>	<b>-</b>
Other, net	878	<b>102</b>	<b>910</b>
	1,523	<b>(10,571)</b>	<b>(94,224)</b>
<b>Income before Income Taxes</b>	68,850	<b>78,256</b>	<b>697,531</b>
<b>Income Taxes</b> (Note 18):			
Current	10,939	<b>21,385</b>	<b>190,614</b>
Deferred	6,537	<b>(2,078)</b>	<b>(18,522)</b>
	17,476	<b>19,307</b>	<b>172,092</b>
<b>Net income</b>	51,374	<b>58,949</b>	<b>525,439</b>
<b>Net income attributable to non-controlling interests</b>	148	<b>187</b>	<b>1,667</b>
<b>Net income attributable to owners of parent</b> (Note 19)	¥ 51,226	<b>¥ 58,762</b>	<b>\$ 523,772</b>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED MARCH 31, 2016 AND 2017

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2016	2017	2017
<b>Net Income</b>	¥51,374	<b>¥58,949</b>	<b>\$525,439</b>
<b>Other Comprehensive Income</b>			
Net unrealized gain (loss) on other securities	(1,557)	<b>(121)</b>	<b>(1,079)</b>
Translation adjustments	131	<b>(799)</b>	<b>(7,122)</b>
Retirement benefits liability adjustments	(5,661)	<b>87</b>	<b>776</b>
Share of other comprehensive income (loss) of affiliates accounted for by the equity method	(28)	<b>-</b>	<b>-</b>
Total other comprehensive income (loss)	(7,115)	<b>(833)</b>	<b>(7,425)</b>
<b>Comprehensive Income</b> (Note 21)	44,259	<b>58,116</b>	<b>518,014</b>
<b>Total Comprehensive Income Attributable to:</b>			
Comprehensive income attributable to owners of parent	44,111	<b>57,929</b>	<b>516,347</b>
Comprehensive income attributable to non-controlling interests	148	<b>187</b>	<b>1,667</b>

See notes to consolidated financial statements.

# Consolidated Financial Statements

## CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS FOR THE YEARS ENDED MARCH 31, 2016 AND 2017

For the year ended March 31, 2016

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
	<i>(Millions of yen)</i>				
<b>Balance at April 1, 2015</b>	<b>¥57,500</b>	<b>¥7,500</b>	<b>¥ 78,495</b>	<b>¥(139)</b>	<b>¥143,356</b>
Net income attributable to owners of parent for the year ended March 31, 2016	—	—	51,226	—	51,226
Cash dividend	—	—	(3,006)	—	(3,006)
Purchase of treasury stock	—	—	—	(7)	(7)
Disposal of treasury stock	—	0	—	0	0
Increase due to merger	—	—	11	—	11
Decrease due to change in scope of equity method	—	—	—	—	—
Change in treasury shares of parent arising from transactions with non-controlling shareholders	—	—	—	—	—
Net changes in items other than those in shareholders' equity	—	—	—	—	—
Total changes during the year	—	0	48,231	(7)	48,224
<b>Balance at March 31, 2016</b>	<b>¥57,500</b>	<b>¥7,500</b>	<b>¥126,726</b>	<b>¥(146)</b>	<b>¥191,580</b>

	Accumulated other comprehensive income					
	Net unrealized gain (loss) on other securities	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income (loss)	Non-controlling interests	Total net assets
	<i>(Millions of yen)</i>					
<b>Balance at April 1, 2015</b>	<b>¥3,371</b>	<b>¥(2,546)</b>	<b>¥ (353)</b>	<b>¥ 472</b>	<b>¥261</b>	<b>¥144,089</b>
Net income attributable to owners of parent for the year ended March 31, 2016	—	—	—	—	—	51,226
Cash dividend	—	—	—	—	—	(3,006)
Purchase of treasury stock	—	—	—	—	—	(7)
Disposal of treasury stock	—	—	—	—	—	0
Increase due to merger	—	—	—	—	—	11
Decrease due to change in scope of equity method	—	—	—	—	—	—
Change in treasury shares of parent arising from transactions with non-controlling shareholders	—	—	—	—	—	—
Net changes in items other than those in shareholders' equity	(1,585)	130	(5,660)	(7,115)	177	(6,938)
Total changes during the year	(1,585)	130	(5,660)	(7,115)	177	41,286
<b>Balance at March 31, 2016</b>	<b>¥1,786</b>	<b>¥(2,416)</b>	<b>¥(6,013)</b>	<b>¥(6,643)</b>	<b>¥438</b>	<b>¥185,375</b>

See notes to consolidated financial statements.

# Consolidated Financial Statements

For the year ended March 31, 2017

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
	<i>(Millions of yen)</i>				
<b>Balance at April 1, 2016</b>	<b>¥57,500</b>	<b>¥7,500</b>	<b>¥126,726</b>	<b>¥(146)</b>	<b>¥191,580</b>
Net income attributable to owners of parent for the year ended March 31, 2017	—	—	58,762	—	58,762
Cash dividend	—	—	(4,509)	—	(4,509)
Purchase of treasury stock	—	—	—	(5)	(5)
Disposal of treasury stock	—	0	—	—	0
Increase due to merger	—	—	—	—	—
Decrease due to change in scope of equity method	—	—	(470)	—	(470)
Change in treasury shares of parent arising from transactions with non-controlling shareholders	—	0	—	—	0
Net changes in items other than those in shareholders' equity	—	—	—	—	—
Total changes during the year	—	0	53,783	(5)	53,778
<b>Balance at March 31, 2017</b>	<b>¥57,500</b>	<b>¥7,500</b>	<b>¥180,509</b>	<b>¥(151)</b>	<b>¥245,358</b>

	Accumulated other comprehensive income					
	Net unrealized gain (loss) on other securities	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income (loss)	Non-controlling interests	Total net assets
	<i>(Millions of yen)</i>					
<b>Balance at April 1, 2016</b>	<b>¥1,786</b>	<b>¥(2,416)</b>	<b>¥(6,013)</b>	<b>¥(6,643)</b>	<b>¥438</b>	<b>¥185,375</b>
Net income attributable to owners of parent for the year ended March 31, 2017	—	—	—	—	—	58,762
Cash dividend	—	—	—	—	—	(4,509)
Purchase of treasury stock	—	—	—	—	—	(5)
Disposal of treasury stock	—	—	—	—	—	0
Increase due to merger	—	—	—	—	—	—
Decrease due to change in scope of equity method	—	—	—	—	—	(470)
Change in treasury shares of parent arising from transactions with non-controlling shareholders	—	—	—	—	—	0
Net changes in items other than those in shareholders' equity	(155)	(799)	87	(867)	181	(686)
Total changes during the year	(155)	(799)	87	(867)	181	53,092
<b>Balance at March 31, 2017</b>	<b>¥1,631</b>	<b>¥(3,215)</b>	<b>¥(5,926)</b>	<b>¥(7,510)</b>	<b>¥619</b>	<b>¥238,467</b>

See notes to consolidated financial statements.

## Consolidated Financial Statements

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
	<i>(Thousands of U.S. dollars) (Note 4)</i>				
<b>Balance at April 1, 2016</b>	<b>\$512,523</b>	<b>\$66,851</b>	<b>\$1,129,566</b>	<b>\$(1,301)</b>	<b>\$1,707,639</b>
Net income attributable to owners of parent for the year ended March 31, 2017	–	–	523,772	–	523,772
Cash dividend	–	–	(40,191)	–	(40,191)
Purchase of treasury stock	–	–	–	(45)	(45)
Disposal of treasury stock	–	0	–	–	0
Increase due to merger	–	–	–	–	–
Decrease due to change in scope of equity method	–	–	(4,189)	–	(4,189)
Change in treasury shares of parent arising from transactions with non-controlling shareholders	–	0	–	–	0
Net changes in items other than those in shareholders' equity	–	–	–	–	–
Total changes during the year	–	0	479,392	(45)	479,347
<b>Balance at March 31, 2017</b>	<b>\$512,523</b>	<b>\$66,851</b>	<b>\$1,608,958</b>	<b>\$(1,346)</b>	<b>\$2,186,986</b>

	Accumulated other comprehensive income					
	Net unrealized gain (loss) on other securities	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income (loss)	Non-controlling interests	Total net assets
	<i>(Thousands of U.S. dollars) (Note 4)</i>					
<b>Balance at April 1, 2016</b>	<b>\$15,919</b>	<b>\$(21,535)</b>	<b>\$(53,597)</b>	<b>\$(59,213)</b>	<b>\$3,904</b>	<b>\$1,652,330</b>
Net income attributable to owners of parent for the year ended March 31, 2017	–	–	–	–	–	523,772
Cash dividend	–	–	–	–	–	(40,191)
Purchase of treasury stock	–	–	–	–	–	(45)
Disposal of treasury stock	–	–	–	–	–	0
Increase due to merger	–	–	–	–	–	–
Decrease due to change in scope of equity method	–	–	–	–	–	(4,189)
Change in treasury shares of parent arising from transactions with non-controlling shareholders	–	–	–	–	–	0
Net changes in items other than those in shareholders' equity	(1,381)	(7,122)	776	(7,727)	1,614	(6,113)
Total changes during the year	(1,381)	(7,122)	776	(7,727)	1,614	473,234
<b>Balance at March 31, 2017</b>	<b>\$14,538</b>	<b>\$(28,657)</b>	<b>\$(52,821)</b>	<b>\$(66,940)</b>	<b>\$5,518</b>	<b>\$2,125,564</b>

See notes to consolidated financial statements.

# Consolidated Financial Statements

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEARS ENDED MARCH 31, 2016 AND 2017

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2016	2017	2017
<b>Cash Flows from Operating Activities:</b>			
Income before income taxes	¥ 68,850	¥ 78,256	\$ 697,531
Depreciation	2,752	3,453	30,778
Impairment loss on fixed assets	3,863	11,778	104,983
Amortization of goodwill	1,820	2,832	25,243
Gain on negative goodwill	(4,489)	—	—
(Reversal of) provision of allowance for doubtful accounts	(406)	(15)	(134)
Interest and dividend income	(697)	(1,182)	(10,536)
Interest expense	1,885	1,401	12,488
Equity in earnings of affiliates	(428)	(77)	(686)
Loss on sale of investment securities	(682)	(102)	(909)
Gain on disposal or sale of property and equipment, net	(19)	(1,105)	(9,849)
Gain on adjustment of account payable	(288)	—	—
Valuation loss on inventories	11,114	158	1,408
Changes in operating assets and liabilities			
Notes and accounts receivable	(26,656)	13,007	115,937
Costs on uncompleted construction contracts	(3,188)	645	5,749
Inventories	8,004	4,375	38,996
Notes, accounts payable and accrued expenses	7,077	(14,281)	(127,293)
Advances received on uncompleted construction contracts	(4,920)	11,978	106,765
Deposits	(3,583)	14,493	129,183
Other	11,021	(1,415)	(12,612)
Subtotal	71,030	124,199	1,107,042
Interest and dividends received	757	1,232	10,981
Interest paid	(1,756)	(1,191)	(10,616)
Income taxes paid	(4,441)	(14,704)	(131,063)
<b>Net Cash Provided by Operating Activities</b>	<b>65,590</b>	<b>109,536</b>	<b>976,344</b>
<b>Cash Flows from Investing Activities:</b>			
Proceeds from withdrawal of time deposits	7,000	—	—
Payment for purchase of securities	—	(6,772)	(60,362)
Proceeds from redemption of securities	—	4,086	36,420
Purchases of property and equipment and intangible assets	(18,870)	(24,146)	(215,224)
Proceeds from sales of property and equipment and intangible assets	234	8,447	75,292
Payment for purchase of investment securities	(1,269)	(135)	(1,203)
Proceeds from sale of investment securities	1,107	1,543	13,753
Payment for acquisition of subsidiaries' shares resulting in change in the scope of consolidation (Note 15)	(18,085)	(2,370)	(21,125)
Proceeds from acquisition of subsidiaries' shares resulting in change in the scope of consolidation (Note 15)	1,675	—	—
Payment for loans receivable	(3,222)	(2,134)	(19,021)
Collection of loans receivable	1,737	2,749	24,503
Payment for lease deposits	(1,540)	(1,493)	(13,308)
Refund of lease deposits	514	1,166	10,393
Other	(82)	(765)	(6,818)
<b>Net Cash Used in Investing Activities</b>	<b>(30,801)</b>	<b>(19,824)</b>	<b>(176,700)</b>
<b>Cash Flows from Financing Activities:</b>			
Decrease in short-term borrowings, net (Note 15)	(22,950)	10,000	89,135
Increase in long-term debt	77,923	18,728	166,931
Repayment of long-term debt (Note 15)	(75,496)	(62,715)	(559,007)
Proceeds from issuance of straight bonds	10,000	—	—
Purchase of treasury stock	(8)	(4)	(36)
Incidental expenses for loan	(1,339)	(824)	(7,345)
Cash dividends paid	(3,006)	(4,509)	(40,191)
Cash dividends paid to non-controlling shareholders	(6)	(6)	(53)
Repayment of lease obligations	(684)	(882)	(7,862)
Other	(720)	(1)	(9)
<b>Net Cash Used in Financing Activities</b>	<b>(16,286)</b>	<b>(40,213)</b>	<b>(358,437)</b>
<b>Effect of Exchange Rate Changes on Cash and Cash Equivalents</b>	<b>6</b>	<b>(158)</b>	<b>(1,409)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>18,509</b>	<b>49,341</b>	<b>439,798</b>
<b>Cash and Cash Equivalents at Beginning of the Year</b>	<b>133,563</b>	<b>152,115</b>	<b>1,355,870</b>
<b>Increase in Cash and Cash Equivalents Resulting from Merger of Unconsolidated Subsidiaries</b>	<b>43</b>	<b>—</b>	<b>—</b>
<b>Cash and Cash Equivalents at End of the Year (Note 15)</b>	<b>¥152,115</b>	<b>¥201,456</b>	<b>\$1,795,668</b>

See notes to consolidated financial statements.

# Consolidated Financial Statements

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Haseko Corporation and Consolidated Subsidiaries  
For the years ended March 31, 2016 and 2017

### 1. Basis of Presentation

Haseko Corporation (the "Company") and its consolidated domestic subsidiaries maintain their books of account in conformity with the financial accounting standards of Japan, and Haseko America Inc. and its subsidiaries ("Haseko America") maintain their books of account in conformity with the financial accounting standards of the United States of America.

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to 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.

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

Certain reclassifications or summaries of accounts have been made to present the consolidated financial statements in a form which is more familiar to readers outside Japan.

### 2. Summary of Significant Accounting Policies

#### (1) Scope of consolidation

The accompanying consolidated financial statements include the accounts of the Company and any significant companies controlled directly or indirectly by the Company. Companies over which the Company exercises significant influence in terms of their operating and financial policies have been accounted for by the equity method. As of March 31, 2017, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 60 and 1 (56 and 2 in 2016), respectively. Investments in subsidiaries and affiliates which are not consolidated or accounted for by the equity method are carried at cost or less.

The fiscal year of Haseko America and its subsidiaries ends on December 31, and they are included in the consolidation as of that date. The necessary adjustments for significant transactions that occur during the period from January 1 to March 31 are made in the preparation of the consolidated financial statements.

The fiscal year of the three silent partnerships operated by RS1 LLC, JMC1, LLC, and JMC2, LLC, respectively, ends on February 28, and they are included in the consolidation as of that date. The necessary adjustments for significant transactions that occur during the period from March 1 to March 31 are made in the preparation of the consolidated financial statements.

#### (2) Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank deposits that may be withdrawn on demand and time deposits that can be easily withdrawn and bear no risk of value fluctuation.

#### (3) Marketable securities and Investment securities

Securities other than investments in non-consolidated subsidiaries and affiliates are classified into two different categories, held-to-maturity and other securities. The Company holds no trading securities.

Held-to-maturity securities are stated at amortized cost.

Marketable securities classified as other securities are stated at fair value. Net unrealized gains or losses on these securities are reported as a separate component of accumulated other comprehensive income at a net-of-tax amount. Non-marketable securities classified as other securities are stated at cost. Cost of securities sold is determined by the moving-average method.

#### (4) Inventories

Costs on uncompleted construction contracts and real estate for sale are stated at cost determined by the individual cost method. Raw materials are stated at cost determined by the average method. Supplies are stated at cost determined by the individual cost method. The book value of inventories on the balance sheet is written down based on the fall in profitability. Real estate for lease included in inventories is depreciated in a similar manner as property and equipment.

Some consolidated subsidiaries have incorporated the interest paid on funds used for the real-estate development business into the costs of real estate for sale.

#### (5) Property and equipment

Depreciation of property and equipment is principally computed by declining-balance method while the straight-line method is applied to buildings (excluding structures attached to buildings) acquired on or after April 1, 1998 and facilities attached to buildings and structures acquired on or after April 1, 2016. Certain consolidated subsidiaries depreciate property and equipment by the straight-line method.

#### (6) Intangible assets

Intangible assets are amortized by the straight-line method over the estimated useful period, except for land leasehold rights, which are not amortized.

Computer software for internal use is amortized by the straight-line method over the estimated useful period of five years.

#### (7) Leases

Depreciation of leased assets capitalized in finance lease transactions is computed by the straight line method over the lease term, as useful life, with assuming no residual value, unless a guaranteed residual value is provided under corresponding lease contract.

Finance leases, except for those that transfer the ownership of the leased assets to the lessees, which had been entered into on or before March 31, 2008, as stated in the "Accounting Standard for Lease Transactions" [Accounting Standards Board of Japan (ASBJ) Statement No. 13], have been recorded in accordance with the accounting method for operating lease transactions.

# Consolidated Financial Statements

## **(8) Allowance for doubtful accounts**

Allowance for doubtful accounts is provided for the estimated future loss on bad debt. It is estimated using the Company's experience of the loss ratio and a specific estimate of known doubtful accounts.

## **(9) Warranty**

Warranty is provided for the estimated repair expense owed by the Company in the event of defects found in the completed constructions after handover.

## **(10) Allowance for losses on construction contracts**

In order to prepare for future losses from construction orders, estimated amounts of losses have been recorded for construction projects prior to delivery as of the end of fiscal year for those that are expected to generate losses and whose losses can be evaluated rationally.

## **(11) Accrued bonuses for employees**

Accrued bonuses for employees are provided for the estimated amount of bonuses to be paid to employees for the services rendered by the balance sheet date.

## **(12) Accrued bonuses for directors**

Accrued bonuses for directors are provided for the estimated amount of bonuses to be paid to directors for the services rendered by the balance sheet date.

## **(13) Provision for employee stock ownership plan**

In order to prepare for the provision of the Company's shares to its employees, estimated amounts of benefits attributable to the current fiscal year have been recorded.

## **(14) Provision for board benefit trust**

In order to prepare for the provision of the Company's shares to its directors and officers, estimated amounts of benefits attributable to the current fiscal year have been recorded.

## **(15) Retirement benefits**

The retirement benefit obligation for employees is attributed to each period by the benefit formula method.

Prior service costs are amortized by the straight-line method over the average remaining service period of the employees (13-16 years) at the time of occurrence.

Actuarial differences are amortized from the next year in which the difference arises by the straight-line method over the average remaining service period of the employees (5-22 years).

Some consolidated subsidiaries calculate liability for retirement benefits and retirement benefit expense by adopting the simplified method, which assumes their retirement benefit obligation to be equal to the benefits payable as if all eligible employees voluntarily terminated their employment at fiscal year end.

## **(16) Foreign currency translation**

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the foreign exchange rates prevailing at the respective balance sheet dates and a net exchange loss/gain is included in net income. Furthermore, the assets/liabilities and earnings/expenses of overseas consolidated subsidiaries are translated at the foreign exchange rates prevailing at the respective balance sheet dates and the resulting translation adjustments are reported as "Translation adjustments" in net assets.

## **(17) Hedge accounting**

The Company and its consolidated subsidiaries use interest rate swap contracts to hedge interest rate fluctuation risk on long-term debt with variable interest rates. Certain interest rate swap contracts which meet certain criteria as qualified hedges are not measured at fair value. The differences between paid and received amounts under such swap agreements are recognized in interest expenses as incurred.

The assessment of hedge effectiveness is omitted when the notional amounts, interest rates and contract periods of the hedging instruments and the hedged items are the same.

## **(18) Amortization of goodwill**

Goodwill is amortized on a straight-line basis over the period economic benefits are expected. However, immaterial amounts of goodwill are charged to income as incurred.

## **(19) Recognition on sales and costs of construction contracts**

The Company and its consolidated subsidiaries recognize revenues and costs on construction contracts on a percentage-of-completion basis for construction projects and on a completed-contract basis for other construction contracts.

## **(20) Income taxes**

Deferred tax assets and liabilities have been recognized in the consolidated financial statements with respect to the differences between financial reporting and the tax bases of the assets and liabilities, and were measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse. The Company files tax returns under the consolidated corporate-tax system.

## **(21) Consumption taxes**

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes. For some consolidated companies that fall under the category of tax-exempt enterprise, however, transactions are recorded inclusive of consumption tax.

## **(22) Deferred assets**

Issuance costs for straight bonds are charged to income.

## **3. Supplemental Information**

### **Accounting change**

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

In accordance with the revisions to the Corporation Tax Act of Japan, 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), effective from the year ended March 31, 2017. As a result, the computation method for depreciation of facilities attached to buildings and structures acquired on or after April 1, 2016 has been changed from the declining-balance method to the straight-line method.

The impact of this change on income for the fiscal year ended March 31, 2017 was immaterial.



# Consolidated Financial Statements

## **Changes in presentation (Notes to consolidated statement of cash flows)**

The amount of the increase (decrease) in the amount of deposits was included in "Other" item of "Cash flows from operating activities," in the prior fiscal year. However, since the amount in the current fiscal year was determined quantitatively material, it has been presented separately from "Other" item in the fiscal year ended March 31, 2017.

As a result, ¥7,440 million presented under "Other" in "Cash flows from operating activities" of the consolidated statement of cash flows for the fiscal year ended March 31, 2016 has been reclassified as (¥3,583 million) in decrease in the amount of deposits and ¥11,023 million in "Other."

## **(Additional information) (Application of the Implementation Guidance on Recoverability of Deferred Tax Assets)**

The Company has applied the Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, issued on March 28, 2016), effective from the fiscal year ended March 31, 2017.

## **4. U.S. Dollar Amounts**

The U.S. dollar amounts are included solely for convenience of readers outside Japan, at the prevailing exchange rate on March 31, 2017, which was ¥112.19=U.S.\$1. The above translation should not be construed as a representation that yen have been, could have been, or could in the future be converted into U.S. dollars at the above or any other rate.

## **5. Financial Instruments**

### **Overview**

#### **(1) Policy for financial instruments**

The Company and its consolidated subsidiaries manage surplus funds only through deposits and procure funds through the issuance of straight bonds and borrowings from financial institutions. The Company and its consolidated subsidiaries use derivative instruments in order to hedge against interest rate fluctuations and do not enter into derivative transactions for trading or speculative purposes, in accordance with internal policy.

#### **(2) Nature and extent of risks arising from financial instruments**

Notes and accounts receivable, trade, which are trade receivables of the Company and its consolidated subsidiaries, are exposed to credit risks of customers. Marketable securities are the negotiable deposits which can easily be converted to cash and are subject to little risk of change in value and have high liquidity. As for investment securities, which are primarily stocks of companies with which the Company has business relationships, listed securities are exposed to market risks, and non-listed securities are exposed to risks of fluctuations in the financial conditions of the issuers. In addition, the Company provides loans to its subsidiaries and affiliates.

Notes and accounts payable and electronically recorded obligations, which are trade payables, are mostly due within a year. Straight bonds, borrowings and debt are means of fund procurement primarily in connection with business activities, and the Company uses derivative instruments (interest rate swap transactions) for a certain portion of these liabilities as hedging instruments to mitigate interest rate fluctuation risks and to fix its interest payments. With regard to the method of evaluation of hedge effectiveness, the Company omitted the evaluation of the effectiveness as the requirements for the special treatment of interest-rate swaps are satisfied. In addition, financial covenants have been applied to major borrowings and debt. Lease obligations relating to financial leases are primarily used for capital investment.

#### **(3) Risk management for financial instruments *Management of credit risks (risks associated with business partners' default etc.)***

With regard to trade receivables, in accordance with its internal rules, the Company checks the creditworthiness of its business partners, manages the balance of accounts receivable and monitors the status of any delay in collection, and works to obtain collateral when it is necessary to protect accounts receivable, in an endeavor to identify and mitigate risks on collections. Credit risk is also managed by its consolidated subsidiaries in accordance with its internal rules. Loans receivable are managed by the Company by conducting credit investigations on a regular basis in accordance with its internal provisions and working to obtain collateral, if necessary. When the Company conducts derivative transactions, it deals exclusively with Japanese financial institutions that have high creditworthiness.

#### ***Management of market risks (interest rate fluctuation risks, etc.)***

With regard to investment securities, the Company determines their fair values and evaluates the financial position of the issuers regularly. For derivative transactions, the Company operates a system that separates execution and management functions based on the internal rules that stipulate policies, usage/and the range of derivatives, and so forth. Under the system, the balance of derivative transactions and the gains or loss from valuation are regularly reported to the director in charge of finance. Furthermore, derivative transactions by the Company and its consolidated subsidiaries are conducted, in principle, as a means to hedge risks, and should work to reduce market risks that might arise between the targeted assets and the liabilities. As such, the Company believes that market risks are fairly limited.

#### ***Management of liquidity risks (risks that the Company may not be able to meet its obligation on scheduled due dates) associated with funds procurement***

The Company endeavors to secure liquidity as the finance division prepares funding plans appropriately based on reports from each division and other information and implements fund procurement by utilizing commitment lines in coordination with the scheduled due dates. In addition, the Company confirms the funding status of its consolidated subsidiaries to appropriately manage the funds of the Company and its consolidated subsidiaries as a whole.

#### **(4) Supplementary explanation of the estimated fair value of financial instruments**

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in a different fair value. In addition, the notional amounts of derivatives in Note 16. Derivative Transactions are not necessarily indicative of the actual market risk involved in derivative transactions.

# Consolidated Financial Statements

## Fair values of financial instruments

The carrying value of financial instruments on the consolidated balance sheet as of March 31, 2016 and 2017, and estimated fair value are shown in the following tables. The following tables do not include financial instruments for which it is extremely difficult to determine the fair value (Please refer to Note 2 below).

	Millions of yen		
	2016		
	Carrying value	Fair value	Difference
Cash and bank deposits	¥152,752	¥152,752	¥ -
Notes and account receivable, trade	130,271	130,584	313
Securities	-	-	-
Investment securities	10,633	10,623	(10)
Long-term loans receivable	2,853		
Allowance for doubtful accounts	(23)		
Sub-total	2,830	3,023	193
Total	¥296,486	¥296,982	¥496
Notes and accounts payable	100,937	100,934	(3)
Electronically recorded obligations	34,415	34,415	-
Short-term borrowings	-	-	-
Current portion of long-term debt	48,289	48,389	100
Income taxes payable	9,427	9,427	-
Straight bonds	20,000	20,138	138
Long-term debt	99,027	99,211	184
Lease obligations	7,404	7,404	0
Total	¥319,499	¥319,918	¥419
Derivatives	¥ -	¥ -	¥ -

	Millions of yen		
	2017		
	Carrying value	Fair value	Difference
Cash and bank deposits	¥201,269	¥201,269	¥ -
Notes and account receivable, trade	117,607	117,755	148
Securities	3,854	3,854	-
Investment securities	8,851	8,862	11
Long-term loans receivable	2,844		
Allowance for doubtful accounts	(25)		
Sub-total	2,819	2,982	163
Total	¥334,400	¥334,722	¥322
Notes and accounts payable	81,405	81,404	(1)
Electronically recorded obligations	39,598	39,598	-
Short-term borrowings	10,000	10,000	-
Current portion of long-term debt	25,771	25,805	34
Income taxes payable	16,755	16,755	-
Straight bonds	20,000	20,086	86
Long-term debt	77,493	77,425	(68)
Lease obligations	8,587	8,639	52
Total	¥279,609	¥279,712	¥103
Derivatives	¥ -	¥ -	¥ -

	Thousands of U.S. dollars		
	2017		
	Carrying value	Fair value	Difference
Cash and bank deposits	\$1,794,001	\$1,794,001	\$ -
Notes and account receivable, trade	1,048,284	1,049,603	1,319
Securities	34,352	34,352	-
Investment securities	78,894	78,992	98
Long-term loans receivable	25,350		
Allowance for doubtful accounts	(223)		
Sub-total	25,127	26,580	1,453
Total	\$2,980,658	\$2,983,528	\$2,870
Notes and accounts payable	725,599	725,591	(8)
Electronically recorded obligations	352,955	352,955	-
Short-term borrowings	89,135	89,135	-
Current portion of long-term debt	229,709	230,012	303
Income taxes payable	149,345	149,345	-
Straight bonds	178,269	179,036	767
Long-term debt	690,730	690,124	(606)
Lease obligations	76,540	77,002	462
Total	\$2,492,282	\$2,493,200	\$ 918
Derivatives	\$ -	\$ -	\$ -

Notes:

1) Methods to determine the fair value of financial instruments and other matters related to investment securities and derivative transactions

Cash and bank deposits

Since these items are settled in a short period of time, their carrying value approximates fair value.

Notes and accounts receivable, trade

The carrying values of notes and accounts receivable that are settled in the short term are used to determine their fair value, as their fair values approximate their carrying values. With regard to notes and accounts receivable that are settled in the long term, they are classified by period and their fair values are then calculated based on the present values discounted by the interest rates determined taking into account the collection periods and credit risks.

Securities

Since these items are negotiable deposits and settled in the short term, their carrying value approximates fair value.

Investment securities

Quoted market prices on the stock exchanges are used to determine the fair values of these instruments.

For information on securities classified by holding purposes, please refer to Note 6. Investment Securities.

Long-term loans receivable

Long-term loans receivable are classified by period, and their fair values are calculated based on the present values discounted by the interest rates determined taking into account credit spreads and appropriate market data such as yields of government bonds.

In addition, fair values of doubtful accounts are estimated based on collectable amounts.

Notes and accounts payable, and electronically recorded obligations

The carrying values of notes and accounts payable and electronically recorded obligations that are settled in the short term are used to determine their fair values, as the fair values approximate the carrying values. With regard to notes and accounts payable that are settled in the long term, they are classified by period and their fair values are calculated based on the present values discounted by the interest rates determined taking into account the payment periods and credit risks.

# Consolidated Financial Statements

Short-term borrowings and income taxes payable  
As these are settled in the short term, their fair values approximate carrying values.

Straight bonds  
Fair value is calculated based on available market value. If a market value is not available, fair value is calculated based on the present value of the total amount of principal and interest discounted by an interest rate reflecting the remaining maturity and credit risk of the straight bonds.

Long-term debt including current portion  
Fair values are calculated based on the present value of the total amount of principal and interest discounted by the interest rates to be applied if similar new borrowings were entered into.

The fair values of long-term debt with floating interest rates hedged by interest rate swap transactions subject to the special treatment are calculated based on the present value of the total amount of principal and interest, accounted for together with the interest rate swap transactions, discounted by the interest rates to be applied if similar new borrowings were entered into.

Lease obligations  
Fair value of lease obligations is calculated based on the present value of, the total amount of principal and interest on the lease obligations discounted by the interest rates to be applied if similar new lease transactions were entered into.

Derivatives  
Please refer to Note 16. Derivative Transactions.

2) Financial instruments whose fair values are extremely difficult to determine

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Equity securities of affiliates	¥3,587	<b>¥3,851</b>	<b>\$34,326</b>
Unlisted securities	723	<b>820</b>	<b>7,309</b>
Preferred subscription certificates	0	<b>0</b>	<b>0</b>
Others	613	<b>2</b>	<b>18</b>

The above instruments have not been included in the preceding table, "Fair values of financial instruments, Investment securities," as there are no quoted market prices available and it is extremely difficult to determine their fair values.

3) Redemption schedule for monetary receivables and securities with maturity dates at March 31, 2016 and 2017

	Millions of yen				
	2016				
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years	Total
Cash and bank deposits	¥152,752	¥ –	¥ –	¥ –	¥152,752
Notes and accounts receivable, trade	107,398	20,801	2,072	0	130,271
Securities:					
Negotiable certificate of deposits	–	–	–	–	–
Investment securities:					
Other securities with maturity dates					
Japanese government bonds, etc.	70	50	–	–	120
Long-term loans receivable	700	615	1,382	155	2,852
<b>Total</b>	<b>¥260,920</b>	<b>¥21,466</b>	<b>¥3,454</b>	<b>¥155</b>	<b>¥285,995</b>

	Millions of yen				
	2017				
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years	Total
Cash and bank deposits	<b>¥201,269</b>	¥ –	¥ –	¥ –	<b>¥201,269</b>
Notes and accounts receivable, trade	<b>107,762</b>	<b>9,150</b>	<b>695</b>	–	<b>117,607</b>
Securities:					
Negotiable certificate of deposits	<b>3,854</b>	–	–	–	<b>3,854</b>
Investment securities:					
Other securities with maturity dates					
Japanese government bonds, etc.	<b>148</b>	<b>329</b>	–	–	<b>477</b>
Long-term loans receivable	<b>732</b>	<b>698</b>	<b>1,231</b>	<b>183</b>	<b>2,844</b>
<b>Total</b>	<b>¥313,765</b>	<b>¥10,177</b>	<b>¥1,926</b>	<b>¥183</b>	<b>¥326,051</b>

	Thousands of U.S. dollars				
	2017				
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years	Total
Cash and bank deposits	<b>\$1,794,001</b>	\$ –	\$ –	\$ –	<b>\$1,794,001</b>
Notes and accounts receivable, trade	<b>960,532</b>	<b>81,557</b>	<b>6,195</b>	–	<b>1,048,284</b>
Securities:					
Negotiable certificate of deposits	<b>34,352</b>	–	–	–	<b>34,352</b>
Investment securities:					
Other securities with maturity dates					
Japanese government bonds, etc.	<b>1,319</b>	<b>2,933</b>	–	–	<b>4,252</b>
Long-term loans receivable	<b>6,525</b>	<b>6,222</b>	<b>10,972</b>	<b>1,631</b>	<b>25,350</b>
<b>Total</b>	<b>\$2,796,729</b>	<b>\$90,712</b>	<b>\$17,167</b>	<b>\$1,631</b>	<b>\$2,906,239</b>

# Consolidated Financial Statements

4) Repayment schedule for short-term borrowings, straight bonds, long-term debt, and lease obligations at March 31, 2016 and 2017

	Millions of yen				Millions of yen			
	2016				2017			
	Short-term borrowings	Straight bonds	Long-term debt	Lease obligations	Short-term borrowings	Straight bonds	Long-term debt	Lease obligations
Due within 1 year	¥-	¥ -	¥48,289	¥ 803	¥10,000	¥ -	¥25,771	¥ 928
Due after 1 year through 2 years	-	-	26,827	763	-	-	27,176	860
Due after 2 years through 3 years	-	-	28,226	685	-	10,000	17,674	796
Due after 3 years through 4 years	-	10,000	15,239	620	-	10,000	4,171	725
Due after 4 years through 5 years	-	10,000	3,435	548	-	-	5,971	662
Due after 5 years	-	-	25,300	3,985	-	-	22,501	4,616

	Thousands of U.S. dollars			
	2017			
	Short-term borrowings	Straight bonds	Long-term debt	Lease obligations
Due within 1 year	\$89,135	\$ -	\$229,709	\$ 8,272
Due after 1 year through 2 years	-	-	242,232	7,666
Due after 2 years through 3 years	-	89,135	157,536	7,095
Due after 3 years through 4 years	-	89,135	37,178	6,462
Due after 4 years through 5 years	-	-	53,222	5,901
Due after 5 years	-	-	200,562	41,144

5) Investments in non-consolidated subsidiaries and affiliates are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Investment securities	¥4,562	¥2,555	\$22,774
Other securities	1,037	1,296	11,552

## 6. Marketable Securities and Investment Securities

(1) Marketable securities classified as held-to-maturity debt securities as of March 31, 2016 and 2017 consisted of the following:

	Millions of yen					
	2016			2017		
	Carrying value	Fair Value	Unrealized gain (loss)	Carrying value	Fair Value	Unrealized gain (loss)
(Securities whose fair value exceeds their carrying value)						
Equity securities	¥-	¥-	¥-	¥ -	¥ -	¥ -
Japanese government bonds	-	-	-	417	429	12
Sub-total	¥-	¥-	¥-	¥417	¥429	¥12
(Securities whose fair value does not exceed their carrying value)						
Equity securities	¥-	¥-	¥-	¥ -	¥ -	¥ -
Japanese government bonds	-	-	-	-	-	-
Sub-total	¥-	¥-	¥-	¥ -	¥ -	¥ -
Total	¥-	¥-	¥-	¥417	¥429	¥12

	Thousands of U.S. dollars		
	2017		
	Carrying value	Fair Value	Unrealized gain (loss)
(Securities whose fair value exceeds their carrying value)			
Equity securities	\$ -	\$ -	\$ -
Japanese government bonds	3,717	3,824	107
Sub-total	\$3,717	\$3,824	\$107
(Securities whose fair value does not exceed their carrying value)			
Equity securities	\$ -	\$ -	\$ -
Japanese government bonds	-	-	-
Sub-total	\$ -	\$ -	\$ -
Total	\$3,717	\$3,824	\$107

# Consolidated Financial Statements

(2) Other securities whose fair value is available as of March 31, 2016 and 2017 consisted of the following:

	Millions of yen					
	2016			2017		
	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)
(Securities whose carrying value exceeds their acquisition cost)						
Equity securities	¥8,502	¥6,308	¥2,194	<b>¥8,294</b>	<b>¥6,258</b>	<b>¥2,036</b>
Japanese government bonds	120	119	1	<b>50</b>	<b>50</b>	<b>0</b>
Sub-total	¥8,622	¥6,427	¥2,195	<b>¥8,344</b>	<b>¥6,308</b>	<b>¥2,036</b>
(Securities whose carrying value does not exceeds their acquisition cost)						
Equity securities	¥ -	¥ -	¥ -	<b>¥ 90</b>	<b>¥ 124</b>	<b>¥ (34)</b>
Japanese government bonds	-	-	-	-	-	-
Sub-total	¥ -	¥ -	¥ -	<b>¥ 90</b>	<b>¥ 124</b>	<b>¥ (34)</b>
Total	¥8,622	¥6,427	¥2,195	<b>¥8,434</b>	<b>¥6,432</b>	<b>¥2,002</b>

	Thousands of U.S. dollars		
	2017		
	Carrying value	Acquisition cost	Unrealized gain (loss)
(Securities whose carrying value exceeds their acquisition cost)			
Equity securities	<b>\$73,928</b>	<b>\$55,780</b>	<b>\$18,148</b>
Japanese government bonds	<b>446</b>	<b>446</b>	<b>0</b>
Sub-total	<b>\$74,374</b>	<b>\$56,226</b>	<b>\$18,148</b>
(Securities whose carrying value does not exceeds their acquisition cost)			
Equity securities	<b>\$ 802</b>	<b>\$ 1,105</b>	<b>\$ (303)</b>
Japanese government bonds	-	-	-
Sub-total	<b>\$ 802</b>	<b>\$ 1,105</b>	<b>\$ (303)</b>
Total	<b>\$75,176</b>	<b>\$57,331</b>	<b>\$17,845</b>

(3) Other securities sold for the year ended March 31, 2016 were as follows:

	Millions of yen	
	2016	
Equity securities:		
Proceeds from sales	¥ 96	
Gain on sales	67	
Loss on sales	-	
Japanese government bonds:		
Proceeds from sales	¥1,001	
Gain on sales	615	
Loss on sales	-	

Note: There were no sales transactions of other securities for the year ended March 31, 2017.

## 7. Inventories

Inventories as of March 31, 2016 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Real estate for sale	¥ 39,931	<b>¥ 51,684</b>	<b>\$ 460,683</b>
Costs and advances for real estate operations	70,330	<b>53,188</b>	<b>474,089</b>
Real estate for development projects	26,753	<b>24,031</b>	<b>214,198</b>
	<u>¥137,014</u>	<u><b>¥128,903</b></u>	<u><b>\$1,148,970</b></u>

## 8. Property and Equipment and Intangible Assets

(1) Property and equipment as of March 31, 2016 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Buildings and structures	¥ 48,064	<b>¥ 49,390</b>	<b>\$ 440,235</b>
Machinery, vehicles, equipment and furniture	7,115	<b>6,117</b>	<b>54,524</b>
Land	61,281	<b>64,988</b>	<b>579,267</b>
Leased assets	7,789	<b>9,328</b>	<b>83,145</b>
Construction in progress	450	<b>3,874</b>	<b>34,531</b>
Sub-total	124,699	<b>133,697</b>	<b>1,191,702</b>
Accumulated depreciation	(24,039)	<b>(23,305)</b>	<b>(207,728)</b>
	<u>¥100,660</u>	<u><b>¥110,392</b></u>	<u><b>\$ 983,974</b></u>

(2) Intangible assets as of March 31, 2016 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Land leasehold rights	¥ 1,607	<b>¥1,872</b>	<b>\$16,686</b>
Goodwill	8,031	<b>4,209</b>	<b>37,517</b>
Other	1,302	<b>1,250</b>	<b>11,142</b>
	<u>¥10,940</u>	<u><b>¥7,331</b></u>	<u><b>\$65,345</b></u>

# Consolidated Financial Statements

(3) Net gain (loss) on disposal or sales of property and equipment and intangible assets for the years ended March 31, 2016 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Buildings and structures	¥ (2)	¥ 429	\$3,824
Machinery, vehicles, equipment and furniture	(8)	46	410
Land	33	636	5,669
Leased assets	(4)	(3)	(27)
Other	—	(3)	(27)
	¥19	¥1,105	\$9,849

(4) Impairment loss on fixed assets

The Company and its consolidated domestic subsidiaries recognized impairment losses on the following fixed assets for the years ended March 31, 2016 and 2017:

2016			
Use	Type	Location	No. of Cases
Real estate for construction related business	Land and buildings	Koshigaya-shi, Saitama, etc.	2
Real estate for service related business	Land and buildings	Ota-ku, Tokyo, etc.	9
Assets for service related business	Leased assets	Chikusa-ku Nagoya-shi etc.	32

2017			
Use	Type	Location	No. of Cases
Real estate for construction related business	Land and buildings	Minato-ku, Tokyo, etc.	2
Real estate for service related business	Land and buildings	Chuo-ku, Osaka, etc.	22
Assets for service related business	Leased assets	Inuyama-shi Aichi, etc.	16
Assets for service related business	Goodwill	—	2

The Company and its consolidated domestic subsidiaries recognized impairment loss on certain real estate for construction business, service related business, and assets for service related business, which are grouped separately for the assessment of impairment.

(2016)

The expected retirements as part of the relocation plans, the lowered economic performance, the planned dispositions during the year ended March 31, 2016 triggered the recognition of impairment, and the carrying values of those assets have been written down to their recoverable amounts, resulting in impairment losses on fixed assets of ¥3,863 million for the year ended March 31, 2016, which were presented as "Special Losses" on the consolidated statement of income.

(2017)

The planned dispositions, a decrease in excess earning power from what was assumed at the time of acquisition of the shares, changes in manner in which the assets are used, lowered economic performance and other factors in the year ended March 31, 2017 triggered the recognition of impairment, and the carrying values of those assets have been written down to their recoverable amounts, resulting in impairment losses on fixed assets of ¥11,778 million (\$104,983 thousand) for the year ended March 31, 2017, which were presented as "Special Losses" on the consolidated statement of income.

The details of impairment losses on fixed assets were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Buildings and structures	¥ 815	¥ 412	\$ 3,672
Equipment and furniture	14	27	241
Land	2,784	8,353	74,454
Land leasehold rights	67	—	—
Leased assets	183	50	446
Goodwill	—	2,935	26,161
Intangible assets	—	1	9
	¥3,863	¥11,778	\$104,983

The recoverable amount was the higher of the net selling price or value in use. The net selling price for real estate is the appraisal value less the cost of disposal, and the comparison approach value for other assets. Value in use is the sum of the net future cash flows discounted at a rate of 5.0% for the years ended March 31, 2016 and 2017.

(5) Rental Properties

The Company and some of its consolidated subsidiaries own residential properties for lease, office buildings for lease (including land), commercial facilities for lease, etc. mainly in the Tokyo metropolitan area and the Kinki area. Income/expenses of the leasing business related to the rental properties for the years ended March 31, 2016 and 2017 were ¥1,151 million and ¥2,013 million (\$17,943 thousand), respectively.

Moreover, ¥1,040 million (\$9,270 thousand) in gain on sales and ¥243 million (\$2,166 thousand) in impairment loss were recorded as special income and special losses, respectively, for the year ended March 31, 2017.

Income from the leasing business is recorded as leasing and management revenue and expenses for the leasing business are recorded as leasing and management expenses.

The recorded amount of the rental properties, etc. in the consolidated balance sheet, have increased/decreased during the year and fair value as of the end of the fiscal year are as follows.

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Book value:			
Balance at the beginning of the year	¥11,519	¥56,218	\$501,096
Increase/decrease	46,699	9,126	81,345
Balance at the end of the year	58,218	65,344	582,441
Fair value	¥57,189	¥70,606	\$629,343

Notes:

1) The rental properties are recorded on the consolidated balance sheet at their acquisition costs net of accumulated depreciation and impairment losses.

# Consolidated Financial Statements

- 2) The book value increased mainly due to the acquisition of new properties (¥16,230 million) and the consolidation of Sohgo Real Estate Co., Ltd., its two subsidiaries, and Joint Corporation and its four subsidiaries, which owns the rental properties (¥28,180 million), net of the depreciation expenses (¥285 million) for the year ended March 31, 2016.

Of the amount of increase (decrease) for the year ended March 31, 2017, the amount of increase is primarily attributable to acquisition of real estate (¥12,116 million, \$107,995 thousand) and transfer to rental properties due to changes in holding purposes (¥3,494 million, \$31,144 thousand), and the amount of decrease is primarily attributable to sale of real estate (¥4,591 million, \$40,922 thousand) and depreciation (¥582 million, \$5,188 thousand).

- 3) The fair value at the end of the current fiscal year is the appraisal value taken from the real estate appraisal reports for major properties; and the calculations by the Company in accordance with the "Real Estate Appraisal Standards" for others. However, for certain properties the value at the time of acquisition or value obtained using a general fair value calculation formula is stated as the fair value at the end of the current fiscal year when there has been no significant fluctuation in the index, which is deemed to be a kind of appraised value or appropriate reflection of market value since they were acquired or most recently appraised.

## 9. Short-term Borrowings, Long-term Debt and Lease Obligations

- (1) The following is a summary of the interest bearing debt as of March 31, 2016 and 2017:

	Average interest rate	Millions of yen		Thousands of U.S. dollars
		2016	2017	2017
Short-term borrowings	0.36%	¥ -	¥10,000	\$89,135
Current portion of long-term debt	0.92%	48,289	25,771	229,709
Current portion of lease obligations	2.69%	803	928	8,272
Straight bond due Nov. 5, 2019	0.44%	10,000	10,000	89,135
Straight bond due Jul. 22, 2020	0.41%	10,000	10,000	89,135
Long-term debt due from 2018 to 2023	0.73%	99,027	77,493	690,730
Lease obligations due from 2018 to 2027	2.76%	6,601	7,659	68,268
Total		¥174,720	¥141,851	\$1,264,384

Note: The weighted average interest rate for the end-of-year balance of outstanding debt is shown as the "average interest rate."

The weighted average interest rate for the end-of-year balance of outstanding lease obligations, whose interests are calculated based on the effective interest method, is shown as the "Average interest rate" of lease obligation.

- (2) The annual maturities of straight bonds, long-term debt and lease obligations (excluding the current portion) as of March 31, 2017 were as follows:

Year ending March, 31	Millions of yen				Thousands of U.S. dollars
	Straight bonds	Long-term debt	Lease obligations	Total	Total
2019	¥ -	¥27,176	¥ 860	¥ 28,036	\$249,897
2020	10,000	17,674	796	28,470	253,766
2021	10,000	4,171	725	14,896	132,775
2022	-	5,971	662	6,633	59,123
2023 and thereafter	-	22,501	4,616	27,117	241,707
Total	¥20,000	¥77,493	¥7,659	¥105,152	\$937,268

- (3) The Company has committed lines of credit available for immediate and stable borrowings with certain five financial institutions as of March 31, 2016 and 2017. The lines of credit and unused lines of credit as of March 31, 2016 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Line of credit	¥63,000	¥63,000	\$561,547
Amount utilized	-	-	-
Unused line of credit	¥63,000	¥63,000	\$561,547

- (4) One consolidated subsidiary has concluded an overdraft agreement with a financial institution in order to secure stable and flexible procurement of operating funds. The balance of the unexecuted portion as of March 31, 2016 and 2017 based on this agreement were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Overdraft limit	¥1,300	¥1,300	\$11,587
Amount utilized	-	-	-
Amount unused	¥1,300	¥1,300	\$11,587

## 10. Collateral

- (1) Assets provided as collateral as of March 31, 2016 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Cash and bank deposits	¥ 5,577	¥ 4,050	\$ 36,099
Notes and accounts receivable, trade	11	-	-
Securities	-	350	3,120
Real estate for development projects	26,754	24,032	214,208
Other current assets	38	76	677
Buildings and structures	1,355	528	4,706
Machinery, vehicles, equipment and furniture	18	17	152
Land	2,631	1,845	16,445
Intangible assets	1	1	9
Investment securities	13	18	161
Total	¥36,398	¥30,917	\$275,577

Other than the above assets provided as collateral, other current assets of ¥458 million as of March 31, 2016, in the consolidated subsidiaries of Haseko America Inc., which have been eliminated on the consolidated balance sheet, have been provided as collateral for the borrowings related to the real estate development and sale business in Hawaii, U.S.A.

- Secured liabilities as of March 31, 2016 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Long-term debt	¥3,267	¥ 706	\$6,293
Guaranteed obligation	463	409	3,645
Total	¥3,730	¥1,115	\$9,938

# Consolidated Financial Statements

- (2) The following assets have been provided as collateral for borrowings by HC Ayasegawa Jutaku, Inc., HC Koganei Jutaku, Inc., and HC Katsushimacho Jutaku, Inc., related to PFI projects:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Notes and accounts receivable, trade	¥10,980	<b>¥4,147</b>	<b>\$36,964</b>
Buildings and structures	19	<b>65</b>	<b>579</b>
Other current assets	1	<b>31</b>	<b>277</b>
	<u>¥11,000</u>	<u><b>¥4,243</b></u>	<u><b>\$37,820</b></u>

Secured liabilities as of March 31, 2016 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Current portion of long-term debt	¥7,682	<b>¥ 636</b>	<b>\$ 5,669</b>
Long-term debt	–	<b>3,178</b>	<b>28,327</b>
	<u>¥7,682</u>	<u><b>¥3,814</b></u>	<u><b>\$33,996</b></u>

In addition to the above, the following assets have been provided as collateral, all of which have been eliminated on the consolidated balance sheet:

## (2016)

Shares of HC Ayasegawa Jutaku Inc., HC Koganei Jutaku Inc., and HC Katsushimacho Jutaku Inc. (¥27 million) owned by Haseko Corporation and Haseko Community Inc.  
Loans receivable (¥408 million) lent by Haseko Corporation to HC Ayasegawa Jutaku Inc., HC Koganei Jutaku Inc., and HC Katsushimacho Jutaku Inc.

## (2017)

Shares of HC Katsushimacho Jutaku Inc. (¥9 million, \$80 thousand) owned by Haseko Corporation and Haseko Community Inc.  
Loans receivable (¥157 million, \$1,399 thousand) lent by Haseko Corporation to HC Katsushimacho Jutaku Inc.

## 11. Contingent Liabilities

The Company was contingently liable for guarantees on bank loans and other guarantees as of March 31, 2016 and 2017 as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Customers using housing loans and other loans to purchase real estate	¥26,879	<b>¥55,228</b>	<b>\$492,272</b>

## 12. Lease Transactions

### (1) Finance lease transactions

#### (a) Details of leased assets

Leased assets are mainly high voltage power collective receiving facilities in the "Service-related Business."

#### (b) Depreciation method of leased assets

Please refer to Note 2 (7) Summary of Significant Accounting Policies relating depreciations of leased assets.

### (2) Operating lease transactions

#### (As lessee)

Outstanding future minimum lease payments under noncancelable operating leases as of March 31, 2016 and 2017 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Within one year	¥ 2,614	<b>¥ 2,480</b>	<b>\$ 22,105</b>
Over one year	8,582	<b>10,423</b>	<b>92,905</b>
Total	<u>¥11,196</u>	<u><b>¥12,903</b></u>	<u><b>\$115,010</b></u>

#### (As lessor)

Outstanding future minimum lease income under noncancelable operating leases as of March 31, 2016 and 2017 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Within one year	¥ 872	<b>¥ 652</b>	<b>\$ 5,812</b>
Over one year	11,221	<b>5,876</b>	<b>52,375</b>
Total	<u>¥12,093</u>	<u><b>¥6,528</b></u>	<u><b>\$58,187</b></u>

## 13. Supplementary Profit and Loss Information

- (1) Sales from construction contracts calculated according to the percentage-of-completion method were ¥455,521 million and ¥428,494 million (\$3,819,360 thousand) for the years ended March 31, 2016 and 2017, respectively.

- (2) Allowance for losses on construction contracts that was included in cost of sales for the years ended March 31, 2016 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Construction contracts	¥4	<b>¥13</b>	<b>\$116</b>
Design and supervision	5	<b>6</b>	<b>53</b>



# Consolidated Financial Statements

- (3) Valuation losses on inventories included in cost of sales for the years ended March 31, 2016 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Real estate	¥11,114	¥158	\$1,408

- (4) Selling, general and administrative expenses for the years ended March 31, 2016 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Salaries and allowances	¥17,812	¥21,361	\$190,400
Provision for bonuses for employees	1,585	1,717	15,304
Provision for bonuses for directors	171	120	1,070
Provision for employee stock ownership plan	—	265	2,362
Provision for board benefit plan	—	78	695
Retirement benefit expenses	591	762	6,792
Rent	2,514	2,908	25,920
Depreciation	824	936	8,343
Amortization	1,820	2,832	25,243
Other	19,268	22,863	203,789
Total	¥44,585	¥53,842	\$479,918

- (5) Research and development costs included in selling, general and administrative expenses for the years ended March 31, 2016 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Research and development costs	¥1,020	¥1,172	\$10,447

- (2) Dividends

- (a) Dividends paid

In the year ended March 31, 2016

Resolution	Type of shares	Total amount of dividend (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Annual meeting of shareholders on June 26, 2015	Common stock	¥3,006	¥10.00	March 31, 2015	June 29, 2015

In the year ended March 31, 2017

Resolution	Type of shares	Total amount of dividend (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Annual meeting of shareholders on June 24, 2016	Common stock	¥4,509	¥15.00	March 31, 2016	June 27, 2016

## 14. Net Assets

- (1) Shares issued and treasury stock

Changes in number of shares issued and treasury stock for the year ended March 31, 2016 were as follows:

	Number of shares			
	2015	Increase	Decrease	2016
Shares issued:				
Common stock	300,794,397	—	—	300,794,397
Treasury stock:				
Common stock (Notes 1 and 2)	182,686	5,808	254	188,240

Notes:

- Increase in treasury stock (common stock) due to the request by shareholders for purchase of shares less than one standard unit.
- Decrease in treasury stock due to the request by shareholders for sale of shares less than one standard unit.

Changes in number of shares issued and treasury stock for the year ended March 31, 2017 were as follows:

	Number of shares			
	2016	Increase	Decrease	2017
Shares issued:				
Common stock	300,794,397	—	—	300,794,397
Treasury stock:				
Common stock (Notes 1 and 2)	188,240	3,886	180	191,946

Notes:

- Increase in treasury stock (common stock) due to the request by shareholders for purchase of shares less than one standard unit.
- Decrease in treasury stock due to the request by shareholders for sale of shares less than one standard unit.

# Consolidated Financial Statements

(b) Dividends with the cut-off date in the year ended March 31, 2017 and the effective date in the year ending March 31, 2018

Resolution	Type of shares	Total amount of dividend		Dividend per share		Record date	Effective date
		(Millions of yen)	(Thousands of U.S. dollars)	(Yen)	(U.S. dollars)		
Annual meeting of shareholders on June 29, 2017	Common stock	<b>¥9,018</b>	<b>\$80,381</b>	<b>¥30.00</b>	<b>\$0.27</b>	March 31, 2017	June 30, 2017

## 15. Cash and Cash Equivalents

(1) A reconciliation between cash and cash equivalents on the consolidated statement of cash flows and the cash and bank deposits on the consolidated balance sheet as of March 31, 2016 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Cash and bank deposits	¥152,752	<b>¥201,269</b>	<b>\$1,794,001</b>
Time deposits pledged as collateral	(202)	<b>(202)</b>	<b>(1,801)</b>
Saving accounts for insurance agency	(435)	<b>(449)</b>	<b>(4,002)</b>
Negotiable certificates of deposit, which included in Securities	—	<b>1,168</b>	<b>10,411</b>
Restricted deposit	—	<b>(330)</b>	<b>(2,941)</b>
Cash and cash equivalents	<u>¥152,115</u>	<u><b>¥201,456</b></u>	<u><b>\$1,795,668</b></u>

(2) Newly recognized assets and liabilities relating to finance lease transactions, which are considered significant non-cash transactions, as of March 31, 2016 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Assets	¥2,620	<b>¥1,966</b>	<b>\$17,524</b>
Liabilities	2,775	<b>2,084</b>	<b>18,576</b>

(3) Major breakdown of assets and liabilities of companies which newly became consolidated subsidiaries through share acquisition.

A breakdown of assets and liabilities at the time of consolidation in line with the acquisition of shares of Sohgho Real Estate Co., Ltd., and its two subsidiaries; and the reconciliation between the acquisition price of the company's shares and proceeds (net amount) due to acquisition of subsidiaries' shares resulting in change in the scope of consolidation are as follows:

	Millions of yen
	2016
Current assets	¥ 34,366
Fixed assets	15,840
Goodwill	919
Current liabilities	(40,441)
Long-term liabilities	(10,674)
Acquisition price of Sohgho Real Estate Co., Ltd. shares	¥ 10
Cash and cash equivalents of Sohgho Real Estate Co., Ltd.	(1,685)
Difference: Proceeds from acquisition of subsidiaries' shares accompanying change in the scope of consolidation	<u>¥ (1,675)</u>

A breakdown of assets and liabilities at the time of consolidation in line with the share acquisition of Joint Corporation and its four subsidiaries; and the reconciliation between the acquisition price of the company's shares and payment (net amount) due to the acquisition of the subsidiaries' shares resulting in a change in the scope of consolidation are as follows:

	Millions of yen
	2016
Current assets	¥ 37,905
Fixed assets	16,275
Current liabilities	(3,447)
Long-term liabilities	(11,595)
Negative goodwill	(4,073)
Non-controlling interests	(35)
Acquisition price of Joint Corporation's shares	35,030
Cash and cash equivalents of Joint Corporation	(17,112)
Difference: Net payment for acquisition of subsidiaries' shares resulting in a change in the scope of consolidation	<u>¥ 17,918</u>

(4) The increase/decrease in short-term borrowings, net and repayment of long-term debt in the current fiscal year include amounts the Company loaned to Sohgho Real Estate Co., Ltd., and Sohgho Real Estate Co., Ltd., repaid part of existing borrowings during the period between the acquisition date and the deemed acquisition date for acquiring Sohgho Real Estate Co., Ltd., and its two subsidiaries, which newly become consolidated subsidiaries. Such amounts were ¥13,379 million for increase/decrease in short-term borrowings, net, and ¥7,976 million for repayment of long-term debt.

# Consolidated Financial Statements

## 16. Derivative Transactions

Derivative transactions for which hedge accounting is applied were as follows:

Hedge accounting method	Hedging instrument	Hedged item	As of March 31, 2016		
			Notional amount	Of which, maturing after one year	Fair value
<i>(Millions of yen)</i>					
Special treatment of interest rate swaps	Interest rate swap transaction Pay fixed / Receive floating	Long-term debt	¥57,726	¥42,690	(Note)
<b>As of March 31, 2017</b>					
Hedge accounting method	Hedging instrument	Hedged item	As of March 31, 2017		
			Notional amount	Of which, maturing after one year	Fair value
<i>(Millions of yen)</i>					
Special treatment of interest rate swaps	Interest rate swap transaction Pay fixed / Receive floating	Long-term debt	<b>¥42,690</b>	<b>¥34,575</b>	(Note)
			<i>(Thousands of U.S. dollars)</i>		
			<b>\$380,515</b>	<b>\$308,183</b>	

Note: The fair value of interest rate swaps accounted for by special treatment is included in the fair value of the applicable long-term debt as such swaps are accounted for together with the hedged long-term debt.

There were no derivative transactions for which hedge accounting was not applied as of March 31, 2016 and 2017.

## 17. Retirement Benefit Plans

The Company and its consolidated subsidiaries have established a lump-sum retirement allowance plan, funded defined benefit plan, multi-employer pension plan or smaller enterprise retirement allowance plan, and defined contribution pension plans.

Certain consolidated subsidiaries participate in the multi-employer pension plan. When the pension assets held by the multi-employer pension plan corresponding to the subsidiaries' contribution cannot be reliably determined, the accounting treatment applied is the same as that for a defined contribution plan.

(1) The changes in the retirement benefit obligation during the years ended March 31, 2016 and 2017 were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2016	2017	2017
Balance at the beginning of the year	¥41,930	<b>¥49,713</b>	<b>\$443,114</b>
Service cost	2,451	<b>2,765</b>	<b>24,646</b>
Interest cost	410	<b>96</b>	<b>856</b>
Actuarial loss	6,251	<b>405</b>	<b>3,610</b>
Retirement benefit paid	(2,165)	<b>(2,295)</b>	<b>(20,456)</b>
Other	836	<b>26</b>	<b>231</b>
Balance at the end of the year	<u>¥49,713</u>	<u><b>¥50,710</b></u>	<u><b>\$452,001</b></u>

(2) The changes in plan assets during the years ended March 31, 2016 and 2017 were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2016	2017	2017
Balance at the beginning of the year	¥43,953	<b>¥46,142</b>	<b>\$411,284</b>
Expected return on plan assets	1,083	<b>1,122</b>	<b>10,001</b>
Actuarial gain (loss)	(1,702)	<b>168</b>	<b>1,497</b>
Contributions by the Company	3,821	<b>8,092</b>	<b>72,128</b>
Retirement benefits paid	(2,114)	<b>(2,228)</b>	<b>(19,859)</b>
Other	1,101	<b>563</b>	<b>5,019</b>
Balance at the end of the year	<u>¥46,142</u>	<u><b>¥53,859</b></u>	<u><b>\$480,070</b></u>

(3) The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2016 and 2017.

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2016	2017	2017
Funded retirement benefit obligation	¥ 49,068	<b>¥ 49,991</b>	<b>\$ 445,592</b>
Plan assets at fair value	(46,142)	<b>(53,859)</b>	<b>(480,070)</b>
	2,926	<b>(3,868)</b>	<b>(34,478)</b>
Unfunded retirement benefit obligation	645	<b>720</b>	<b>6,418</b>
Net liability for retirement benefits in the balance sheet	3,571	<b>(3,148)</b>	<b>(28,060)</b>
Liability for retirement benefits	3,765	<b>1,016</b>	<b>9,056</b>
Asset for retirement benefits	(194)	<b>(4,164)</b>	<b>(37,116)</b>
Net liability for retirement benefits in the balance sheet	<u>¥ 3,571</u>	<u><b>¥ (3,148)</b></u>	<u><b>\$ (28,060)</b></u>

# Consolidated Financial Statements

(4) The components of retirement benefit expense for the years ended March 31, 2016 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Service cost	¥ 2,143	¥ 2,377	\$ 21,187
Interest cost	410	96	856
Expected return on plan assets	(1,083)	(1,122)	(10,001)
Amortization of actuarial loss	248	804	7,166
Amortization of prior service cost	(440)	(441)	(3,931)
Retirement benefit expense	¥ 1,278	¥ 1,714	\$ 15,277

Notes:

- Service cost does not include the amounts contributed by employees with respect to welfare pension fund plans.
- Retirement benefit expenses for consolidated subsidiaries adopting the simplified method which assumes retirement benefit obligation to be equal to the benefits payable as if all eligible employees voluntarily terminated their employment at fiscal year-end are included in "Service cost."

(5) The components of retirement benefits liability adjustments included in other comprehensive income (before tax effect) for the years ended March 31, 2016 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Actuarial loss	¥ (441)	¥(441)	\$(3,931)
Prior service cost	(7,705)	566	5,045
Total	¥(8,146)	¥125	\$ 1,114

(6) The components of retirement benefits liability adjustments included in accumulated other comprehensive income (before tax effect) as of March 31, 2016 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Unrecognized prior service cost	¥(1,780)	¥(1,339)	\$(11,935)
Unrecognized actuarial loss	10,448	9,882	88,083
Total	¥ 8,668	¥ 8,543	\$ 76,148

(7) The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2016 and 2017 were as follows:

	2016	2017
Bonds	48%	47%
Stocks	26%	25%
Alternative investments (Note)	20%	17%
Life insurance general accounts, etc.	6%	11%
Total	100%	100%

Note: Alternative investments are mainly investments in hedge funds.

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

(8) The assumptions used in accounting for the above plans were as follows:

	2016	2017
Discount rates	0.2% - 0.4%	0.2% - 0.4%
Expected rates of return on plan assets	2.5%	2.5%

(9) Defined Contribution Plan

The required contributions to the defined contribution plans of consolidated subsidiaries for the years ended March 31, 2016 and 2017 were ¥5 million and ¥18 million (\$160 thousand), respectively.

(10) Multi-employer pension plan

The required contributions, which were accounted in the same way as the defined contribution plan for the years ended March 31, 2016 and 2017 were ¥55 million and ¥41 million (\$364 thousand), respectively. The most recent funded status was as follows:

	Millions of yen	
	2015	2016
Pension assets	¥50,884	¥48,820
Total of the amount of actuarial obligations under pension funding program and minimum policy reserves	58,698	55,219
Difference	¥(7,814)	¥(6,399)

The average contribution ratios to total contributions made to all plans for the years ended March 31, 2016 and 2017 were 2.95% and 3.12%, respectively. This ratio does not accord with the actual contribution ratio of the Company group.

The differences of ¥7,814 million and ¥6,399 million as described above were due to prior service cost under pension funding programs (¥10,603 million and ¥10,101 million, respectively) and special reserve fund (¥2,789 million and ¥3,702 million, respectively).

Prior service costs under this program are amortized using the straight-line method (20 years)

## 18. Income Taxes

(1) The significant components of deferred tax assets and liabilities as of March 31, 2016 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Deferred tax assets:			
Allowance for doubtful accounts	¥ 281	¥ 258	\$ 2,300
Warranty	1,433	1,517	13,522
Accrued bonuses for employees	1,194	1,490	13,281
Liability for retirement benefits	2,896	271	2,416
Valuation loss on real estate for sale	6,347	3,230	28,790
Impairment loss on fixed assets	2,775	2,091	18,638
Valuation loss on investment securities	2,917	3,029	26,999
Revaluation of assets on consolidation	-	2,881	25,680
Tax loss carry forwards	37,064	34,675	309,074
Other	3,002	4,797	42,757
Sub-total	57,909	54,239	483,457
Loss: Valuation allowance	(47,528)	(43,147)	(384,589)
Total deferred tax assets	10,381	11,092	98,868
Deferred tax liabilities:			
Unrealized gain on other securities	(451)	(377)	(3,360)
Prepaid pension cost	(1,787)	(1,207)	(10,759)
Revaluation of assets on consolidation	(1,955)	(1,696)	(15,117)
Other	(841)	(356)	(3,173)
Total deferred tax liabilities	(5,034)	(3,636)	(32,409)
Net deferred tax assets	¥ 5,347	¥ 7,456	\$ 66,459

# Consolidated Financial Statements

## Notes:

- Valuation loss on real estate for sale includes ¥2,451 million and ¥44 million (\$392 thousand) for the years ended March 31, 2016 and 2017, respectively, for properties that were reclassified from "Current Assets" to "Property and Equipment" following a change in holding purpose.
- The net deferred taxes as of March 31, 2016 and 2017 were classified as follows in the consolidated balance sheets:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Current assets – Deferred tax assets	¥ 6,379	<b>¥5,445</b>	<b>\$48,534</b>
Fixed assets – Deferred tax assets	–	<b>2,011</b>	<b>17,925</b>
Current liabilities – Deferred tax liabilities	(1,032)	–	–

- The reconciliation of the statutory tax rate to the effective income tax rate for the years ended March 31, 2016 and 2017 were as follows:

	2016	2017
Statutory tax rate	33.1%	<b>30.9%</b>
(Adjustment)		
Non-deductible expenses	0.5	<b>0.8</b>
Permanent non-taxable items	(0.2)	<b>(0.6)</b>
Per capita inhabitant tax	0.2	<b>0.2</b>
Change in valuation allowances	(6.3)	<b>(7.2)</b>
Tax credit for salary growth	(1.3)	<b>(1.8)</b>
Consolidation goodwill	(0.7)	<b>2.2</b>
Other	0.1	<b>0.2</b>
Effective income tax rate	25.4%	<b>24.7%</b>

## Corporate income tax rate change and its effects on deferred tax assets and deferred tax liabilities

On November 18, 2016, the Japanese Diet passed the "Act for Partial Amendment of the Act for Partial Amendment, etc. of the Consumption Tax Act, Etc. to Conduct Drastic Reform of the Taxation System for Ensuring Stable Financial Resources, etc. for Social Security" (Act No. 85 of 2016) and the "Act for Partial Amendment of the Act for Partial Amendment, etc. of the Local Tax Act and the Local Allocation Tax Act to Conduct Drastic Reform of the Taxation System for Ensuring Stable Financial Resources, etc. for Social Security" (Act No. 86 of 2016). Due to these acts, the implementation date for the increase in the consumption tax rate increase to 10% was postponed from April 1, 2017 to October 1, 2019.

In accordance with this, abolition of the special local corporation tax and accompanying restoration of the enterprise tax as well as the revision of the local corporation tax rate and the revision of the corporation tax rate for inhabitant tax were postponed from fiscal years commencing on or after April 1, 2017 to fiscal years commencing on or after October 1, 2019.

While the statutory effective tax rate used to calculate deferred tax assets and liabilities remains unchanged, a reclassification in the tax rates has arisen between national taxes and local taxes.

The impact of this reclassification on income will be immaterial.

## 19. Per Share Information

- Per share information as of and for the years ended March 31, 2016 and 2017 were as follows:

	Yen		U.S. dollars
	2016	2017	2017
Net assets per share	¥615.21	<b>¥791.24</b>	<b>\$7.05</b>
Net income per share			
Basic	170.41	<b>195.48</b>	<b>1.74</b>
Diluted	–	–	–

- The following is the basis for calculating the basic and diluted net income per share:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Net income	¥51,226	<b>¥58,762</b>	<b>\$523,772</b>
Net income not attributable to owners of parent	–	–	–
Net income attributable to owners of parent	¥51,226	<b>¥58,762</b>	<b>\$523,772</b>
Weighted average number of shares outstanding (thousands of shares)	300,608	<b>300,604</b>	

- The following is the basis for calculating the net assets per share:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Net assets	¥185,375	<b>¥238,467</b>	<b>\$2,125,564</b>
Amount not attributable to common shareholders:			
Non-controlling interests	438	<b>619</b>	<b>5,518</b>
Net assets attributable to common shareholders	¥184,937	<b>¥237,848</b>	<b>\$2,120,046</b>
The number of common shares of the end of the period used in the calculation of the net assets per share (thousands of shares)	300,606	<b>300,602</b>	

## 20. Segment Information

### Overview of segment information

The reportable segments of the Company are components for which discrete financial information is available and which are subject to periodic review in order for the Board of Directors to decide on resource allocation and to assess performance.

The Company group operates its business with any housing related business being at the core. An organizational unit comprises of several business groups with common business/operation targets and responsibilities in certain business domains. The Company has "Construction-Related Business," which primarily targets the market for new housing supply, etc., "Service-Related Business," which primarily deals with existing residences and "Overseas-Related Business," which engages in the development and sales of real estate overseas as reportable segments.

The accounting policies of the segments are substantially the same as those described in Note 2, "Summary of Significant Accounting Policies." Segment performance is evaluated based on operating income or loss. Intersegment sales amounts are determined based on market price.

# Consolidated Financial Statements

1. Reportable segment information for the years ended March 31, 2016 and 2017 were as follows:

<i>Millions of yen</i>						
2016						
	Reportable segments				Adjustments and eliminations (Note)	Consolidated
	Construction-related business	Service-related business	Overseas-related business	Total		
Sales, income or loss and assets by reportable segments						
Sales to third parties	¥589,054	¥181,043	¥17,257	¥787,354	¥ –	¥787,354
Inter-segment sales and transfer	7,156	4,936	–	12,092	(12,092)	–
Net sales	596,210	185,979	17,257	799,446	(12,092)	787,354
Segment income (loss)	71,339	8,799	(9,750)	70,388	(1,626)	68,762
Segment assets	¥254,967	¥217,438	¥35,455	¥507,860	¥ 82,133	¥589,993
Other items						
Depreciation and amortization	¥ 707	¥ 2,044	¥ 9	¥ 2,760	¥ (8)	¥ 2,752
Investment in equity-method affiliates	2,012	–	12	2,024	–	2,024
Capital expenditures	14,783	5,962	14	20,759	64	20,823

<i>Millions of yen</i>						
2017						
	Reportable segments				Adjustments and eliminations (Note)	Consolidated
	Construction-related business	Service-related business	Overseas-related business	Total		
Sales, income or loss and assets by reportable segments						
Sales to third parties	<b>¥553,550</b>	<b>¥203,183</b>	<b>¥15,595</b>	<b>¥772,328</b>	<b>¥ –</b>	<b>¥772,328</b>
Inter-segment sales and transfer	<b>15,103</b>	<b>5,068</b>	<b>–</b>	<b>20,171</b>	<b>(20,171)</b>	<b>–</b>
Net sales	<b>568,653</b>	<b>208,251</b>	<b>15,595</b>	<b>792,499</b>	<b>(20,171)</b>	<b>772,328</b>
Segment income	<b>81,932</b>	<b>9,720</b>	<b>131</b>	<b>91,783</b>	<b>(2,751)</b>	<b>89,032</b>
Segment assets	<b>¥249,061</b>	<b>¥241,668</b>	<b>¥35,195</b>	<b>¥525,924</b>	<b>¥105,013</b>	<b>¥630,937</b>
Other items						
Depreciation and amortization	¥ 776	¥ 2,686	¥ 8	¥ 3,470	¥ (17)	¥3,453
Investment in equity-method affiliates	–	–	18	18	–	18
Capital expenditures	<b>16,667</b>	<b>10,169</b>	<b>4</b>	<b>26,840</b>	<b>(340)</b>	<b>26,500</b>

<i>Thousands of U.S. dollars</i>						
2017						
	Reportable segments				Adjustments and eliminations (Note)	Consolidated
	Construction-related business	Service-related business	Overseas-related business	Total		
Sales, income or loss and assets by reportable segments						
Sales to third parties	<b>\$4,934,040</b>	<b>\$1,811,062</b>	<b>\$139,005</b>	<b>\$6,884,107</b>	<b>\$ –</b>	<b>\$6,884,107</b>
Inter-segment sales and transfer	<b>134,620</b>	<b>45,173</b>	<b>–</b>	<b>179,793</b>	<b>(179,793)</b>	<b>–</b>
Net sales	<b>5,068,660</b>	<b>1,856,235</b>	<b>139,005</b>	<b>7,063,900</b>	<b>(179,793)</b>	<b>6,884,107</b>
Segment income	<b>730,297</b>	<b>86,639</b>	<b>1,167</b>	<b>818,103</b>	<b>(24,521)</b>	<b>793,582</b>
Segment assets	<b>\$2,219,993</b>	<b>\$2,154,096</b>	<b>\$313,709</b>	<b>\$4,687,798</b>	<b>\$ 936,028</b>	<b>\$5,623,826</b>
Other items						
Depreciation and amortization	\$ 6,917	\$ 23,942	\$ 71	\$ 30,930	\$ (152)	\$ 30,778
Investment in equity-method affiliates	–	–	160	160	–	160
Capital expenditures	<b>148,560</b>	<b>90,641</b>	<b>36</b>	<b>239,237</b>	<b>(3,031)</b>	<b>236,206</b>

# Consolidated Financial Statements

Notes:

1) Adjustments and eliminations are as follows:

(2016)

- (1) Adjustments and eliminations for segment income (loss) include ¥542 million of elimination of inter-segment transactions and ¥1,084 million of corporate expenses, which are not allocable to the reportable segments. These corporate expenses mainly consist of general and administrative expenses not attributable to reportable segments.
- (2) Adjustment and eliminations for segment assets include ¥5,325 million of elimination of receivables stemming from inter-segment transactions and ¥87,458 million of corporate assets. Corporate assets are primarily comprised of cash and bank deposits of the Company.
- (3) Since Sohgo Real Estate Co., Ltd., and its two subsidiaries are newly consolidated in the current fiscal year, segment assets in the Service -Related Business increased ¥51,152 million compared with the end of the previous fiscal year.

Since Joint Corporation and its four subsidiaries are newly consolidated in the current fiscal year, segment assets in the Service -Related Business increased ¥43,623 million compared with the end of the previous fiscal year.

(2017)

- (1) Adjustments and eliminations for segment income include ¥1,152 million (\$10,268 thousand) of elimination of inter-segment transactions and ¥1,599 million (\$14,253 thousand) of corporate expenses, which are not allocable to the reportable segments. These corporate expenses mainly consist of general and administrative expenses not attributable to reportable segments.
  - (2) Adjustment and eliminations for segment assets include ¥7,479 million (\$66,664 thousand) of elimination of receivables stemming from inter-segment transactions and ¥112,492 million (\$1,002,692 thousand) of corporate assets. Corporate assets are primarily comprised of cash and bank deposits of the Company.
- 2) Segment income has been adjusted with operating income in the consolidated statement of income.

2. Impairment losses on fixed assets by reportable segments for the years ended March 31, 2016 and 2017 were summarized as follows:

<i>Millions of yen</i>						
2016						
Reportable segments						
	Construction-related business	Service-related business	Overseas-related business	Total	Adjustments and eliminations (Note)	Consolidated
Impairment loss on fixed assets	¥1,123	¥2,740	¥-	¥3,863	¥-	¥3,863

<i>Millions of yen</i>						
2017						
Reportable segments						
	Construction-related business	Service-related business	Overseas-related business	Total	Adjustments and eliminations (Note)	Consolidated
Impairment loss on fixed assets	¥1,275	¥10,503	¥-	¥11,778	¥(0)	¥11,778

<i>Thousands of U.S. dollars</i>						
2017						
Reportable segments						
	Construction-related business	Service-related business	Overseas-related business	Total	Adjustments and eliminations (Note)	Consolidated
Impairment loss on fixed assets	\$11,365	\$93,618	\$-	\$104,983	\$ (0)	\$104,983

3. The following table presents the amortization and balance of goodwill as of and for the years ended March 31, 2016 and 2017 by reportable segment:

<i>Millions of yen</i>						
2016						
Reportable segments						
	Construction-related business	Service-related business	Overseas-related business	Total	Adjustments and eliminations (Note)	Consolidated
Amortization	¥-	¥1,820	¥-	¥1,820	¥-	¥1,820
Balance as of March 31	¥-	¥8,031	¥-	¥8,031	¥-	¥8,031

# Consolidated Financial Statements

<i>Millions of yen</i>						
<b>2017</b>						
Reportable segments						
	Construction-related business	Service-related business	Overseas-related business	Total	Adjustments and eliminations (Note)	Consolidated
Amortization	¥-	¥2,832	¥-	¥2,832	¥-	¥2,832
Balance as of March 31	¥-	¥4,209	¥-	¥4,209	¥-	¥4,209

<i>Thousands of U.S. dollars</i>						
<b>2017</b>						
Reportable segments						
	Construction-related business	Service-related business	Overseas-related business	Total	Adjustments and eliminations (Note)	Consolidated
Amortization	\$-	\$25,243	\$-	\$25,243	\$-	\$25,243
Balance as of March 31	\$-	\$37,517	\$-	\$37,517	\$-	\$37,517

Starting from the previous fiscal year, Joint Corporation and its four subsidiaries in the Service-Related Business are included in the scope of consolidation due to a share acquisition. Gain on negative goodwill caused by bargain purchase of ¥4,073 million for the previous fiscal year was recognized as a result of this share acquisition.

#### 4. Information by product and service

Information by product and service is omitted as similar information has already been disclosed in this section.

#### 5. Geographical information

##### (1) Net sales

Net sales information is omitted since net sales to external customers in Japan exceeds 90% of net sales recorded in the consolidated statement of income for the years ended March 31, 2016 and 2017.

##### (2) Property and equipment

Property and equipment information is omitted, since the amount of property and equipment located in Japan exceeds 90% of the amount of property and equipment recorded in the consolidated balance sheet as of March 31, 2016 and 2017.

#### 6. Information by major customers

Information by major customers is omitted, as net sales to any one specific customer were less than 10% of net sales recorded in the consolidated statement of income for the years ended March 31, 2016 and 2017.

#### 21. Other Comprehensive Income

Reclassification adjustments and tax effects on components of other comprehensive income for the years ended March 31, 2016 and 2017 were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2016	2017	2017
Net unrealized gain (loss) on other securities:			
Amount arising during the year	¥(2,197)	¥(195)	\$(1,738)
Reclassification adjustments for gains (losses) recognized in net income	(42)	-	-
Amount before tax effect	(2,239)	(195)	(1,738)
Tax effect	682	74	659
Net unrealized gain (loss) on other securities	(1,557)	(121)	(1,079)
Translation adjustments:			
Amount arising during the year	131	(799)	(7,122)
Retirement benefits liability adjustments:			
Amount arising during the year	(7,953)	(237)	(2,112)
Reclassification adjustments for gains (losses) recognized in net income	(193)	363	3,236
Amount before tax effect	(8,146)	126	1,124
Tax effect	2,485	(39)	(348)
Retirement benefit liability adjustments	(5,661)	87	776
Share of other comprehensive income (loss) of affiliates accounted for by the equity method:			
Amount arising during the year	(28)	0	0
Total other comprehensive income (loss)	¥(7,115)	¥(833)	\$(7,425)



# Consolidated Financial Statements

## Independent Auditor's Report

The Board of Directors  
HASEKO Corporation

We have audited the accompanying consolidated financial statements of HASEKO Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2017, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of HASEKO Corporation and its consolidated subsidiaries as at March 31, 2017, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

### *Convenience Translation*

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 4.

*Ernst & Young Shinrihō LLC*

June 29, 2017  
Tokyo, Japan

A member firm of Ernst & Young Global Limited

# History

## Dec. 1974

Completed construction of headquarters building, "Akasaka Long Beach Bldg.," in Akasaka, Minato-ku Tokyo and transferred headquarters there

## Dec. 1973

Achieved number one of accumulated condominium construction in Japan (35,000 units)

## Dec. 1970

Transferred headquarters to Hasegawa Building No. 8 in Dogenzaka, Shibuya-ku, Tokyo

## Jul. 1970

Completed construction of "Nissho Iwai Shiroganedai Condominium," the first condominium Haseko constructed in Tokyo Metropolitan Area

## Feb. 1969

Completed construction of "Ashiya Matsuhama Heights," the first condominium Haseko constructed

## Apr. 1965

Listed on the 1st Sections of Tokyo Stock Exchange, Osaka Securities Exchange and Nagoya Stock Exchange

## Aug. 1953

Transferred headquarters to Osaka

## Feb. 1951

Opened Tokyo branch Office

## Aug. 1946

Incorporated Hasegawa Komuten Co., Ltd., headquartered in Himeji-shi, Hyogo

## Feb. 1937

Established Hasegawa Komuten in Amagasaki-shi, Hyogo



1969 Ashiya Matsuhama Heights

● The first condominium constructed by Haseko

Note: The year number of photograph caption is a completion year.

## Jul. 1997

Obtained ISO 9001 certification, an international standard for quality control and quality assurance system, in Kansai area for design and construction of multi-family dwellings

## Mar. 1997

Obtained ISO 9001 certification, an international standard for quality control and quality assurance system, in Tokyo area \*First such certification for a Japanese company in the design and construction of multi-family dwellings" category

## Oct. 1992

Completed construction of "Acro City Towers," a 32-storied skyscraper condominium

## Jan. 1989

Completed "Century City Omiya Koen," a condominium with services for elder people

## Oct. 1988

Changed corporate name to HASEKO Corporation

## Jan. 1981

Completed construction of "Shiba Head Office Building" in Shiba, Minato-ku, Tokyo and transferred headquarters there



1977 Palais Royal Nagatacho

● High-grade condominium

**Accumulated number of condominium units constructed by Haseko**



## Mar. 2003

Started operation of "Century City Kita Urawa," a paid care house for elderly people

## Oct. 2001

Obtained ISO 14001 certification, a international standard for environmental management, in Tokyo area

## Jul. 2001

Obtained ISO 14001 certification, a international standard for environmental management, in Kansai area

## Dec. 2000

Completed construction of "House Solana," Haseko's first skeleton-infill housing

## Mar. 1999

Finished "Hills Kugahara," a large-scale replacement project

## Dec. 1998

Achieved construction of accumulated 300,000 condominium units



1984 Palais Royal Ashiya-Midorigaoka

● The first rebuilt condominium



1992 Acrocity Towers

● The first ultra-skyscraper condominium

# History

## Jun. 2009

Obtained certification as “long-life, high-quality housing” for the two projects of “BRANCHERA Urawa” and “BRANCHERA Suitakatayama-koen” -the first such certification in Japan for for-sale condominiums

## Mar. 2009

Completed construction of “The Kitahama,” a 54-storied condominium with 465 units built on the former site of a department store in Kitahama, Osaka

## Nov. 2006

Created “Sakura no Sato,” a large-scale new town

## Mar. 2006

Completed “Obel Grandio Haginaka,” Japan’s first rebuilding of a condominium applying the Revised Condominium Unit Ownership Act

## Nov. 2005

Completed the “Shirokane Urban Renewal Project” in Shirokane, Minato-ku, Tokyo, that harmonized living, commercial and industrial settings

## Mar. 2005

Participated in the reuse business and opened the first “KASIKOSH” store, a recycle shop

## Sep. 2003

Completed the “Urayasu AMC Project,” an advanced multi-purpose urban development project

## Apr. 2003

Established “Haseko Anesis Corporation,” a service-related new subsidiary



2004 Fukasawa House

● The first introduction of disaster prevention sets

## Nov. 2013

Seikatsu Kagaku Un-Ei Co., Ltd. became a subsidiary by share acquisition (the present consolidated subsidiary), Main businesses are operation and other services for paid facilities for the elderly

## Mar. 2013

Season Suite Shiki-no-Mori certified as a low carbon building (the first acquisition of such certification among for-sale condominiums)

## Jul. 2012

Established “Haseko Real Estate, Inc.,” a comprehensive real estate brokerage subsidiary

## Jul. 2011

Completed construction of “BRANCHERA Suitakatayama-koen,” a 10-storied condominium with 114 units, that was certified as “long-life, high-quality housing”

## Jun. 2011

Achieved construction of a cumulative total of 500,000 condominium units

## May 2011

Completed construction of “BRANCHERA Urawa,” a 18-storied condominium with 69 units, that was certified as “long-life, high-quality housing”



2009 The Kitahama

● 54-storied ultra-skyscraper condominium



2011 BRANCHERA Suitakatayama-koen

● Long-life, high-quality housing



2011 BRANCHERA Urawa

● Long-life, high-quality housing



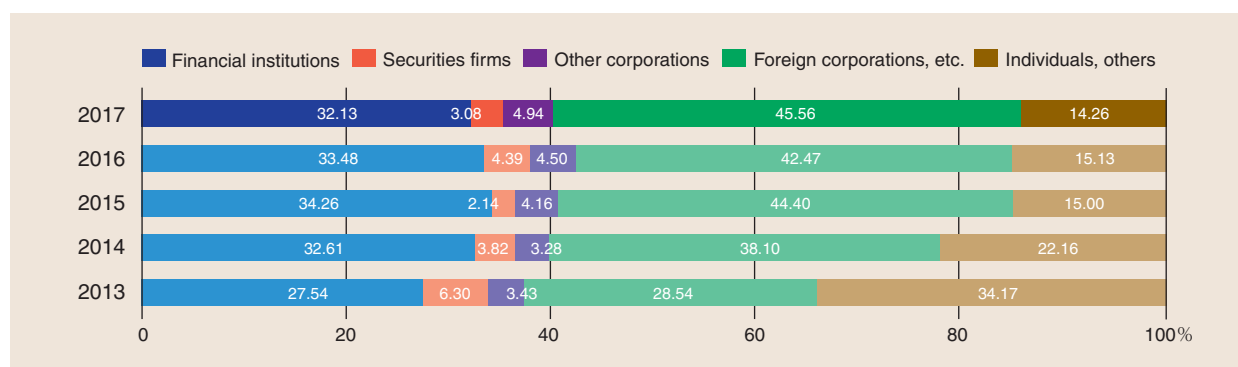
~2004 ~2005 ~2006 ~2007 ~2008 ~2009 ~2010 ~2011 ~2012 ~2013 ~2014 ~2015 ~2016 ~June 2017

**Share overview** (As of March 31, 2017)

Total shares authorized to issue:	420 million shares
Outstanding shares:	300 million shares
Shareholders:	45,256 parties

Note 1. Shares of less than million shares have been cut off prior to being displayed.  
2. Common stocks do not include fractional shares of less than the share unit.

**Composition of shareholders** (As of March 31, 2017)



**Principal shareholders** (As of March 31, 2017)

Shareholder	Shares (1,000 shares)	Voting rights (%)
Japan Trustee Services Bank, Ltd. (Trust account)	21,107	7.03
The Master Trust Bank of Japan, Ltd. (Trust account)	20,757	6.91
Resona Bank, Limited	12,609	4.20
GOLDMAN, SACHS & CO. REG	12,151	4.04
STATE STREET BANK AND TRUST COMPANY 505225	8,569	2.85
Sumitomo Realty & Development Co., Ltd.	7,152	2.38
Japan Trustee Services Bank, Ltd. (Trust account 9)	7,052	2.35
Mizuho Bank, Ltd.	6,305	2.10
Haseko Group Employee Shareholders Association	5,908	1.96
Japan Trustee Services Bank, Ltd. (Trust account 5)	4,803	1.60

Note 1. The shareholdings of The Master Trust Bank of Japan, Ltd. and Japan Trustee Services Bank, Ltd are all interests in trust.  
2. All owned shares of less than 1,000 shares have been rounded off.  
3. All decimals from the 1,000th place have been rounded off in indicating the percentage of voting rights.

**Changes in Stock Price**

**Highest and lowest stock prices by fiscal year over past 5 years**

Accounting period	Fiscal year ended March 2013	Fiscal year ended March 2014	Fiscal year ended March 2015	Fiscal year ended March 2016	Fiscal year ended March 2017
Highest	100	167 860*	1,198	1,699	1,358
Lowest	45	80 584*	604	891	918

Note 1. The stock price indicates the price recorded at the First Section of the Tokyo Stock Exchange.  
2. As of October 1, 2013, the Company consolidated its common stock at a rate of 1 share for every 5 shares.  
Accordingly, the figures marked by an asterisk "\*" represent the highest and the lowest prices after the share consolidation.

### Overview *(As of March 31, 2017)*

**Name:**

Haseko Corporation

**Founded:**

February 1937

**Established:**

August 1946

**Paid-in capital:**

57,500 million yen

**Number of employees:**

2,325 (Non-consolidated)

6,602 (Consolidated)

**Stock exchange listing:**

Tokyo Stock Exchange 1st section,

**Ticker code:**

1808

**Shares per trading units:**

100 shares

**Number of consolidated subsidiaries:**

60

**Number of companies accounted for by the equity method:**

1

**Transfer agent and registrar:**

Mitsubishi UFJ Trust and Banking Corporation

**Independent auditor:**

ERNST & YOUNG SHIN NIHON

**Head office:**

32-1 Shiba 2-chome, Minato-ku,

Tokyo 105-8507

Tel: 813-3456-5451

**Kansai office:**

5-7 Hiranomachi 1-chome, Chuo-ku,

Osaka-shi, Osaka 541-0046

Tel: 816-6203-5661

**Saitama branch:**

4th Floor, Omiya Shimocho 1-chome Building,

8-1 Shimocho 1-chome, Omiya-ku,

Saitama-shi, Saitama 330-0844

**Yokohama branch:**

9th Floor, Nittsu Shoji Yokohama Building,

19-3 Takashima 2-chome, Nishi-ku,

Yokohama-shi, Kanagawa 220-0011

**Nagoya branch:**

9th Floor, Sakae Sun City Building,

1-8 Sakae 4-chome, Naka-ku,

Nagoya-shi, Aichi 460-0008

**Kyoto branch:**

7th Floor, Chushin Ekimae Building,

734 Higashishiokouji-cho, Karasuma-dori,

Shichijou-kudaru, Shimogyo-ku,

Kyoto-shi, Kyoto 600-8216

**Kyushu Operations Division:**

2nd Floor, Hakataekimae Square,

21-28 Hakataekimae 1-chome, Hakata-ku,

Fukuoka-shi, Fukuoka 812-0011

**Technical research institute:**

2968 Nishikata, Koshigaya-shi,

Saitama 343-0822

**Hanoi representative office:**

7th Floor, Vinafor Building,

No.127 Lo Duc, Dong Mac Ward,

Hai Ba Trung District, Hanoi, Vietnam

