

# SECURITIES REPORT

(Report under Article 24, Paragraph 1 of the Financial Instruments and Exchange Act)

**Fiscal Year (55th Term)**

(from January 1, 2017 to December 31, 2017)

**CTI Engineering Co., Ltd.**

21-1, Nihombashi-hamacho 3-chome, Chuo-ku, Tokyo

(941-172)

55th Term (from January 1, 2017 to December 31, 2017)

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# SECURITIES REPORT

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1. This securities report is the one obtained by attaching the table of contents to the paginating data on the securities report compiled under Article 24, Paragraph 1 of the Financial Instruments and Exchange Act, which was submitted through the Electronic Disclosure for Investors' Network (EDINET) stipulated in Article 27-30-2 of the Act, and by outputting and printing the data.
2. This report does not include documents attached to the securities report submitted using the method mentioned above, but the audit reports are inserted at the end of this report.

(The above-mentioned audit reports are omitted from the English translation.)

CTI Engineering Co., Ltd.

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## Cover

Document submitted	Securities report
Legal basis	Article 24, Paragraph 1 of the Financial Instruments and Exchange Act
Recipient of document	Director of the Kanto Local Finance Bureau
Date of submission	March 28, 2018
Fiscal Year	55th term (from January 1, 2017 to December 31, 2017)
Company name	CTI Engineering Co., Ltd.
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Note: This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.

## Part 1: CORPORATE INFORMATION

### CHAPTER 1: GENERAL

#### 1. Changes in Major Management Indices

(1) Consolidated management indices of the Company

Fiscal year		51st term	52nd term	53rd term	54th term	55th term
Fiscal year-end		December 2013	December 2014	December 2015	December 2016	December 2017
Sales amount	(million yen)	36,435	39,524	40,220	42,033	49,301
Ordinary profit	(million yen)	1,638	2,525	2,734	2,433	2,500
Net income attributable to owners of the parent	(million yen)	982	1,490	1,633	1,447	1,615
Comprehensive income	(million yen)	1,270	1,584	1,891	1,259	2,237
Net assets	(million yen)	21,392	21,870	23,816	24,793	26,885
Total assets	(million yen)	37,132	41,011	43,937	42,644	49,444
Net assets per share	(yen)	1,504.86	1,539.79	1,675.40	1,746.31	1,881.01
Net income per share	(yen)	69.46	105.38	115.51	102.37	114.22
Net income per share after adjustment of potential shares	(yen)	—	—	—	—	—
Net worth ratio	(%)	57.3	53.1	53.9	57.9	53.8
Profit ratio of net worth	(%)	4.7	6.9	7.2	6.0	6.3
Price earnings ratio	(times)	15.22	14.62	10.75	10.18	10.08
Cash flow from operating business activities	(million yen)	3,012	3,591	1,613	-201	2,834
Cash flow from investment activities	(million yen)	-962	568	-1,766	-163	-6,857
Cash flow from financial activities	(million yen)	89	-108	-196	-683	-739
Closing balance of cash and cash equivalents	(million yen)	8,592	12,659	12,310	11,244	6,515
Number of employees (plus average number of temporary employees)	(persons)	1,633 (492)	1,652 (496)	1,855 (499)	1,886 (504)	2,826 (817)

- Notes: 1. Sales amount does not include consumption tax.  
2. Net income per share after adjustment of potential shares is not entered because no potential shares have been issued.

(2) Non-consolidated Management Indices of the Company

Fiscal year		51st term	52nd term	53rd term	54th term	55th term
Fiscal year-end		December 2013	December 2014	December 2015	December 2016	December 2017
Sales amount	(million yen)	30,059	33,211	33,734	34,256	35,440
Ordinary profit	(million yen)	1,619	2,275	2,513	2,465	2,643
Net income	(million yen)	969	1,366	1,520	1,545	1,609
Capital stock	(million yen)	3,025	3,025	3,025	3,025	3,025
Number of outstanding shares	(shares)	14,159,086	14,159,086	14,159,086	14,159,086	14,159,086
Net assets	(million yen)	20,840	22,040	23,608	24,923	26,528
Total assets	(million yen)	32,553	36,282	38,498	38,762	41,386
Net assets per share	(yen)	1,473.74	1,558.60	1,669.52	1,762.55	1,876.06
Cash Dividend per share (Interim dividend per share)	(yen)	18.00 (-)	18.00 (-)	20.00 (-)	20.00 (-)	22.00 (-)
Net income per share	(yen)	68.59	96.66	107.54	109.27	113.81
Net income per share after adjustment of potential shares	(yen)	-	-	-	-	-
Net worth ratio	(%)	64.0	60.7	61.3	64.3	64.1
Profit ratio of net worth	(%)	4.7	6.4	6.4	6.4	6.3
Price earnings ratio	(times)	15.41	15.94	11.55	9.54	10.11
Dividend Payout ratio	(%)	26.2	18.6	18.6	18.3	19.3
Number of employees (plus average number of temporary employees)	(persons)	1,295 (441)	1,315 (443)	1,399 (441)	1,450 (449)	1,511 (448)

- Notes:
1. Sales amount does not include consumption tax.
  2. Net income per share after adjustment of potential shares is not entered because no potential shares have been issued.
  3. Dividend of 18 yen per share for the fiscal year ended December 31, 2013 includes a commemorative dividend of 2 yen to commemorate the 50th anniversary of founding as a stock company.

## 2. Chronology

Date	Outline
April 1963	Established “Kensetsu Giken KK” in Ginza-nishi (Ginza 3-chome at present), Chuo-ku, Tokyo to conduct engineering consulting business
April 1963	Started business at the Head Office and Osaka Office in Minami-ku (Chuo-ku at present), Osaka at the same time as company establishment
February 1964	Changed trading name to “KK Kensetsu Gijutsu Kenkyujo (= CTI Engineering Co., Ltd.)”
December 1964	Registered at the Ministry of Construction as a construction consultant (No. 39-133)
June 1967	Opened Fukuoka Liaison Office (Fukuoka Office at present) in Fukuoka-shi, Fukuoka
April 1969	Moved the Head Office to Nihombashi-koamicho, Chuuo-ku, Tokyo
September 1973	Moved the Head Office to Nihombashi-honcho, Chuo-ku, Tokyo
January 1975	Opened Overseas Project Office (Overseas Department at present) in the Head Office to increase the number of oversea project orders
April 1976	Opened Sendai Liaison Office (Tohoku Office at present) in Sendai, Miyagi
September 1976	Opened Nagoya Liaison Office (Chubu Office at present) in Nakamura-ku, Nagoya
April 1977	Opened Hiroshima Liaison Office (Chugoku Office at present) in Hiroshima-shi, Hiroshima
July 1980	Opened Okinawa Liaison Office (Okinawa Office at present) in Urazoe-shi, Okinawa
April 1983	Opened Niigata Liaison Office (Hokuriku Office at present) in Niigata-shi, Niigata and Takamatsu Liaison Office (Shikoku Office at present) in Takamatsu-shi, Kagawa
December 1983	Established “CTI Chousasekkei KK” (CTI AURA Co., Ltd. at present) to be exclusively engaged in construction management projects
June 1988	Opened Sapporo Liaison Office (Hokkaido Office at present) in Chuo-ku, Sapporo
July 1989	Opened Front Department to be in charge of hydraulic model experiments for dams, rivers and erosion control
April 1991	Opened Tokyo Office (Tokyo Head Office at present) in Nihombashi-honcho, Chuo-ku, Tokyo in preparation for larger-scale business
April 1994	Opened CM Headquarters in the Head Office to participate in “Construction Management (CM)” business acting as an agent in construction projects ranging from planning and design through to selection of constructor and construction control
June 1994	Registered over-the-counter stock with the Japan Securities Dealers Association
August 1996	Changed organization of the Front Dept. and opened Tsukuba Research Center in Tsukuba-shi, Ibaraki
October 1996	Stock listed on the Second Section of the Tokyo Stock Exchange
March 1999	Established CTI Engineering International Co., Ltd. to isolate overseas operations making it independent of other operations
April 1999	Assigned the goodwill of the overseas division to the CTI Engineering International
June 1999	Stock listed on the First Section of the Tokyo Stock Exchange
December 1999	Established Management Techno Co., Ltd. to be exclusively engaged in management businesses
April 2000	Opened Management Business Department to be in charge of management business
April 2003	CTI Academy Co., Ltd. (CTI Frontier Co., Ltd. at present) was established to specialize in training, the conducting of seminars, and other businesses.
May 2005	In the company’s 60th year of operations, the head office was relocated to Nihombashi Hamacho, Chuo-ku, Tokyo.
June 2006	On June 1, 2006, the Fukuoka Association of Land Readjustment transferred its commercial operations to the Company’s wholly owned subsidiary, Fukuoka Land Readjustment Co., Ltd. (Newly founded and started operation on June 1, 2006) (presently Japan Urban Engineering Co., Ltd.)
January 2008	Established Wuhan CTI-CRSRI Engineering & Environment Co., Ltd. to implement environmental consulting services with Changjiang River Scientific Research Institute
October 2010	The Company’s wholly owned subsidiary, Chi-ken Sogo Consultants Co., Ltd., absorbed the construction consultant business of SUMIKO CONSULTANTS CO., LTD. (presently Sumiko Resources Exploration & Development Co., Ltd.) and started operations.
March 2014	Established CTI Myanmar Co., Ltd. to implement engineering consulting services jointly with Duwun Export & Import Co., Ltd.
June 2015	Environmental Research & Solutions CO., LTD., started its operations as the Company’s wholly owned subsidiary by way of a share transfer from UNITIKA LTD.
November 2015	NISSOKEN ARCHITECTS & ENGINEERS Co., Ltd. started operations as the Company’s wholly owned subsidiary by way of a share transfer in the form of an incorporation-type company split.
June 2017	Waterman Group Plc started operations as the Company’s wholly owned subsidiary by way of a takeover bid.

### 3. Business Contents

The Company's group consists of CTI Engineering Co., Ltd. (hereinafter "the Company") and other subsidiaries (hereinafter collectively "the Group") all of which are engaged in engineering consulting business related to public works for rivers, dams, roads, environment and information, etc. In the settlement of the current term, the Company has twenty-seven consolidated subsidiaries and no affiliates carried by the equity method.

Descriptions of the Group's businesses, including the Company and other related companies, are shown as follows. Effective from the current consolidated fiscal year, the reportable segments have been changed. For details, please see CHAPTER 5: STATUS OF ACCOUNTING, 1. Consolidated Financial Statements and Other Materials, (1) Consolidated Financial Statements, Notes, (Segment Information).

#### (i) Domestic consulting engineering business

The Company's major domestic consulting engineering services include planning, research, feasibility studies, design, client support, construction supervision, management for operation and maintenance for public works in Japan as well as incidental system development, maintenance and supporting of general clerical works, land readjustment works, geological survey works, and architectural design and supervision. The Company is mainly in charge of all of these operations, except for land readjustment works, geological survey works, and architectural design and supervision. The Company's subsidiary Japan Urban Engineering Co., Ltd. is in charge of land readjustment works. The Company's subsidiary Chi-ken Sogo Consultants Co., Ltd. is in charge of geological survey works. The Company's subsidiary NISSOKEN ARCHITECTS & ENGINEERS Co., Ltd. is in charge of architectural design and supervision.

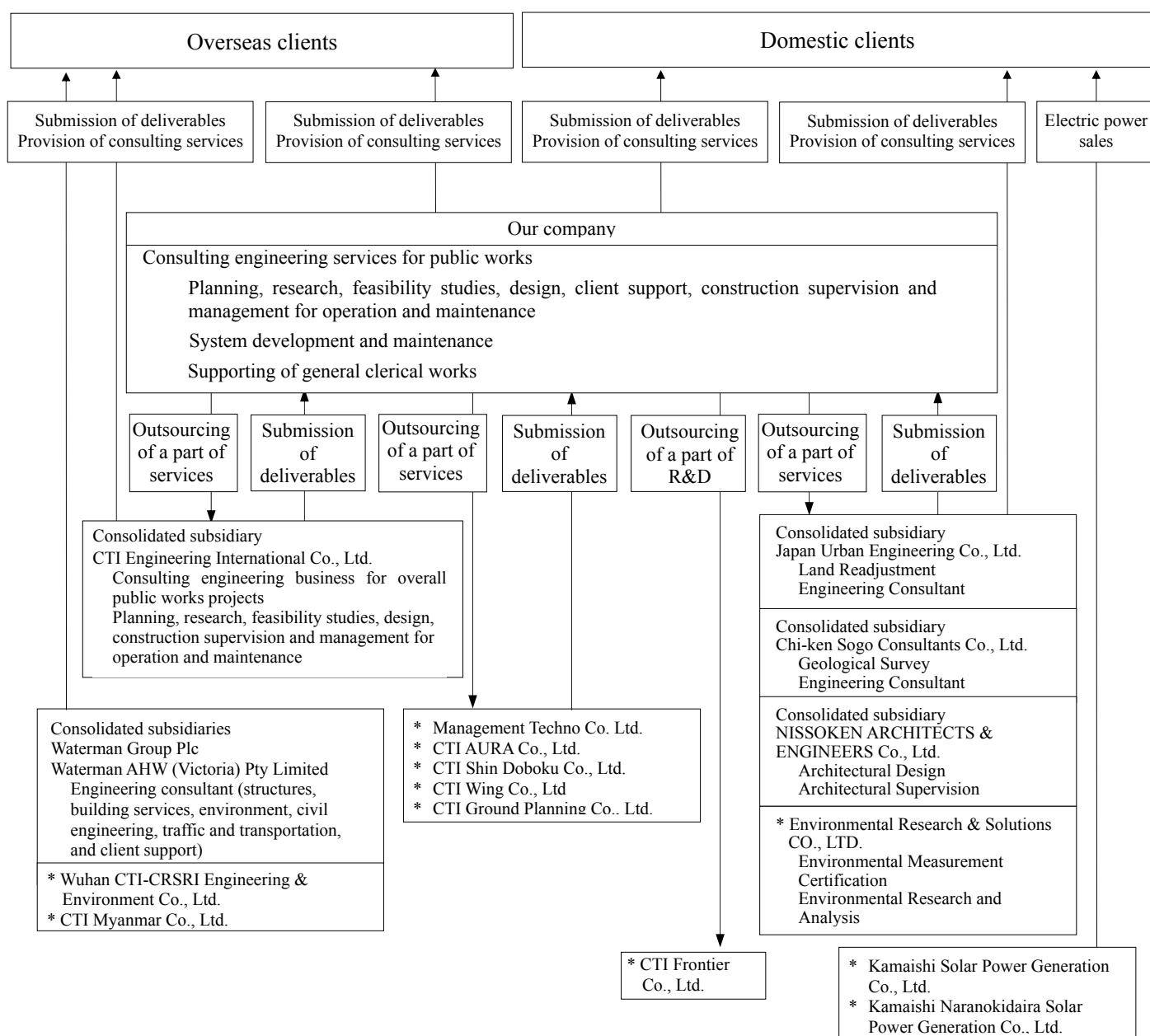
#### (ii) Overseas consulting engineering business

The Company's major overseas consulting engineering services include project finding, formulation of master plans, planning, research, feasibility studies, design, construction supervision and management for operation and maintenance for overall public works projects, as well as building-related operations including structural design and facilities and equipment design. The Company is in charge of consulting engineering services together with its subsidiaries CTI Engineering International Co., Ltd. and Waterman Group Plc. The Company's subsidiaries Waterman Group Plc and Waterman AHW (Victoria) Pty Limited are in charge of building-related operations.

Furthermore, the Company's overseas subsidiary, Wuhan CTI-CRSRI Engineering & Environment Co., Ltd., is in charge of water environmental consulting services in China.

The above description is shown in the business chart on the next page.





Note: Companies marked with asterisks are excluded from the scope of consolidation due to a lower degree of importance concerning scale.

#### 4. Situation of Consolidated Subsidiaries

Company name	Address	Capital	Major business contents	Voting right ratio (indirect ratio) (%)	Relation contents
CTI Engineering International Co., Ltd.	Koto-ku, Tokyo	100 million yen	Overseas consulting engineering	70.0	Receives orders for engineering consulting services in overseas markets. Some directors double as directors of the Company.
Waterman Group Plc (Note)	London, UK	3.3 million pounds	Overseas consulting engineering	100.0	Mainly receives direct orders for consulting engineering services and building-related operations in the UK. Some directors double as directors of the Company.
Waterman AHW (Victoria) Pty Limited (Note)	Melbourne, Australia	7.6 million Australian dollars	Overseas consulting engineering	51.0 (51.0)	Mainly receives direct orders for building-related operations in Australia.
Japan Urban Engineering Co., Ltd.	Chuo-ku, Tokyo	100 million yen	Domestic consulting engineering	100.0	Receives orders for engineering consulting services from the Company. In addition, directly receives orders for land readjustment works, from local governments.
Chi-ken Sogo Consultants Co., Ltd.	Arakawa-ku, Tokyo	100 million yen	Domestic consulting engineering	100.0	Receives orders for engineering consulting services from the Company. In addition, directly receives orders for geological survey works, from local governments.
NISSOKEN ARCHITECTS & ENGINEERS Co., Ltd.	Shibuya-ku, Tokyo	100 million yen	Domestic consulting engineering	100.0	Directly receives orders for architectural design and supervision.

Note: These companies are specified subsidiaries of the Company.

#### 5. Situation of Employees

##### (1) Consolidation basis

As of December 31, 2017

Segment name	Number of employees (persons)
Domestic consulting engineering business	1,805 (503)
Overseas consulting engineering business	1,021 (314)
Total	2,826 (817)

- Notes:
1. “Number of employees” shows the number of regular workers. For temporary employees, the average number of additional temporary workers during the year is shown in ( ).
  2. The number of employees increased by 940 compared to the end of the previous consolidated fiscal year. This was mainly because the Company acquired Waterman Group Plc as a consolidated subsidiary effective as of June 22, 2017.

(2) Non-consolidation basis

As of December 31, 2017

Number of employees (persons)	Age on average (years old)	Average length of employment (years)	Average yearly wage (yen)
1,511 (448)	42.72	13.20	8,460,757

- Notes:
1. “Number of employees” shows the number of regular workers. For temporary employees, the average number of additional temporary workers during the year is shown in ( ).
  2. The average yearly wage contains bonus and extra wages.

(3) Situation of labor union

At the submitting company, a labor union has been organized as follows:

(i) Name: Labor Union of CTI Engineering

(ii) Umbrella organization: National Federation of Construction Engineering Worker’s Unions for Japan

(iii) Number of union members: 901 (as of December 31, 2017)

(iv) Other: There is no matter in particular to be mentioned, and labor-management relations are maintained in a stable manner based on mutual trust.

## CHAPTER 2: BUSINESS SITUATION

### 1. Outline of Results

#### (1) Results

During the current consolidated fiscal year, the Japanese economy continued its moderate recovery trend backed by improved employment and income conditions. The global economy, meanwhile, continued to show favorable trends such as rising stock prices in both developed and emerging countries, in spite of political risks.

The business environment surrounding the Group remained steady, buoyed by supporting factors such as ongoing works for restoration from the Great East Japan Earthquake and the 2016 Kumamoto Earthquake, as well as budgetary measures taken in association with countermeasures against torrential rains caused by successive typhoons, the promotion of disaster-prevention and disaster-mitigation measures, and many requests received for infrastructure-related works such as maintenance and administration.

Under these circumstances, the Group has strengthened its competitive edge in technical know-how and price and implemented measures to improve its management resources such as human resources training programs. Through these efforts, the Group acquired stable orders received beyond its plans and steadily increased sales and income mainly in businesses related to disaster prevention and disaster mitigation, and businesses related to the maintenance, management, and renewal of social infrastructure.

The results of our consolidated subsidiaries fell below our plan, although Japan Urban Engineering Co., Ltd. and Chi-ken Sogo Consultants Co., Ltd. both performed stably. Overall, however, the Group pressed ahead in its work to reinforce its comprehensive capabilities by strengthening group supervisory functions, supporting group companies' management, and developing new business areas through group cooperation.

In addition, the Group greatly expanded the scale of its business development from the second quarter of the current consolidated fiscal year by adding a new member of the Group, Waterman Group Plc, a UK-based company that mainly engages in building-related operations including structural design and facilities and equipment design.

As a consequence, orders received of the Group during this consolidated fiscal year were 52,775 million yen, a YoY increase of 24.2%. Meanwhile, income from completed services was 49,301 million yen, a YoY increase of 17.3%, and ordinary profit increased by 2.8% YoY to 2,500 million yen. Net income attributable to owners of the parent increased by 11.6% YoY to 1,615 million yen.

Results by reportable segment of the Group were as follows.

Reportable segments have been changed effective from the current consolidated fiscal year. The following segment information in comparison to the previous consolidated fiscal year is stated using the figures for the segments after the change.

#### 1) Domestic consulting engineering business

Orders received for domestic consulting engineering business increased by 7.1% YoY to 41,949 million yen, income from completed services increased by 2.2% YoY to 39,665 million yen, and segment income increased by 7.9% YoY to 2,505 million yen.

#### 2) Overseas consulting engineering business

Orders received for overseas consulting engineering business increased by 224.7% YoY to 10,949 million yen, income from completed services increased by 199.6% YoY to 9,728 million yen, and segment

income increased by 139.5% YoY to 134 million yen.

(2) Cash flow

At the end of the current consolidated fiscal year, cash and cash equivalents (funds) decreased by 4,728 million yen YoY, to a total of 6,515 million yen.

Net cash provided by operating activities was 2,834 million yen (net cash used for operating activities was 201 million yen for the previous consolidated fiscal year). The major items were net income before income tax of 2,444 million yen, a 852 million yen increase in advances received from uncompleted services, and payment of corporation income tax etc. of 910 million yen.

Net cash used for investment activities was 6,857 million yen (net cash used for investment activities was 163 million yen for the previous consolidated fiscal year). The major item was purchase of shares in subsidiaries resulting in change in scope of consolidation of 5,675 million yen.

Net cash used for financial activities was 739 million yen, a YoY increase of 8.3%. The major items were dividend payments of 282 million yen and a net decrease in short-term borrowings of 371 million yen.

## 2. Production, Orders Received and Sales

Reportable segments have been changed effective from the current consolidated fiscal year. The following segment information in comparison with the previous consolidated fiscal year is stated using the figures for the segments after the change.

### (1) Production results

Category	Current consolidated fiscal year (From January 1, 2017 to December 31, 2017) (million yen)	Change from the same term in previous year (%)
Domestic consulting engineering business	39,603	2.1
Overseas consulting engineering business	9,697	198.9
Total	49,301	17.3

Notes: 1. The amounts are calculated according to the sales prices.

2. The amounts represent sales to outside customers and do not include inter-segment transactions and transfers.

### (2) Order receiving situation

Category	Current consolidated fiscal year (From January 1, 2017 to December 31, 2017)			
	Orders received (million yen)	Change from the same term in previous year (%)	Orders in hand (million yen)	Change from the same term in previous year (%)
Domestic consulting engineering business	41,887	7.0	41,649	5.8
Overseas consulting engineering business	10,887	225.1	15,891	225.4
Total	52,775	24.2	57,541	30.0

Notes: 1. The amounts are calculated according to the sales prices.

2. The amounts represent sales to outside customers and do not include inter-segment transactions and transfers.

### (3) Sales results

#### 1) Sales results

Category	Current consolidated fiscal year (From January 1, 2017 to December 31, 2017) (million yen)	Change from the same term in previous year (%)
Domestic consulting engineering business	39,603	2.1
Overseas consulting engineering business	9,697	198.9
Total	49,301	17.3

Notes: 1. The amounts are calculated according to the sales prices.

2. The amounts represent sales to outside customers and do not include inter-segment transactions and transfers.

## 2) Sales results by client

In the current consolidated fiscal year, the clients representing at least 10% of the total sales results are as follows:

Client	Previous consolidated fiscal year (From January 1, 2016 to December 31, 2016)		Current consolidated fiscal year (From January 1, 2017 to December 31, 2017)	
	Amount (million yen)	Ratio (%)	Amount (million yen)	Ratio (%)
National Government of Japan	18,485	44.0	20,516	41.6

### **3. Management Policy, Business Environment, and Our Tasks Ahead, etc.**

Matters related to the future stated herein were decided as of the end of the current consolidated fiscal year.

Construction consultants play their respective roles in enhancing infrastructure (social capital) indispensable to the development of mankind.

The business philosophy of the Group is to “contribute to a progressive, safe, pleasant, and prosperous living environment through the Group’s globally recognized professional expertise and technical capabilities” by rendering services with neutrality and independency as a construction consultant in order to realize the welfare of citizens who use infrastructure and preserve the global environment.

For the future business environment, the Cabinet decided budgetary measures for public works spending in its supplementary budget for fiscal 2017 in relation to disaster-recovery works, disaster prevention and disaster mitigation works, and other works. The main budget for fiscal 2018 is expected to remain at the same level as that for fiscal 2017. In addition, there remain a host of public initiatives to pursue in relation to the enhancement of social infrastructures such as national resilience, improved maintenance and administration, and local creation, together with moves to improve productivity by introducing AI and new technology. Construction consultants will play a more important role than ever before under these circumstances.

In light of this management environment, the Group will increase its competitiveness by fully exploiting the power it has been accumulating, while continuing to make forward-looking investments. The Group will promote its corporate activities under the action guidelines listed below with a view to completing ongoing efforts focused on reforming working styles, developing dynamic business operations through the concerted efforts of the entire Group, and improving the revenue of the Group companies:

- 1) Reforming working styles
- 2) Business development through the concerted efforts of the entire Group
- 3) Improving the revenue of the Group companies

All of our employees and executives will continue to make concerted efforts with their utmost energy to carry out CTI Engineering’s social mission as a construction consultant with an important role in the security and safety of Japan’s citizens.

### **4. Business Risks**

(Domestic business risks)

The Group’s business depends greatly on public works, so its business performance may be affected by public works trends.

(Overseas business risks)

In the event of unforeseeable amendments to legal systems or the emergence of unexpected situations in the political and economic environments in the countries and regions where the Group is to develop business in the future, the business performance of the Group may be affected.

### **5. Important Agreement Related to the Management**

The Company decided to make an amicable tender offer for shares issued and shares to be issued by Waterman Group Plc (headquartered in London, UK) in the UK stock markets effective on May 9, 2017, and the offer was made. Details are described in CHAPTER 5: STATUS OF ACCOUNTING, 1. Consolidated Financial Statements



and Other Materials, (1) Consolidated Financial Statements, Notes, (Business Combination).

## **6. Research and Development**

The Group develops business both in Japan and abroad and carries out research and development necessary for its business.

Investment areas are divided into the opening up of new business areas and new business development (strategic research, international research, research for business development, and research for the development of new businesses), research in national land and culture, technology development, and human resources development.

During the current consolidated fiscal year, the Group invested a total of 1,052 million yen with a focus on domestic consulting engineering business to carry out research and study on the following major subjects. Research and investigation expenses by segment consisted of 1,050 million yen for domestic consulting engineering business and 2 million yen for overseas consulting engineering business.

- 1) Strategic research (promotion of CIM and promotion of infrastructure maintenance business)
- 2) International research (international business promotion and overseas training for development of human resources)
- 3) Research for business development (services for the provision of weather information, etc., development of the logistics business, development of the smart communities business, development of the farmland soil analysis business, survey of active faults, development of geological disposal business, etc.)
- 4) Research for the development of new business areas (business development in environmental DNA technology, business development in regional agricultural and environmental resources, business development in harbors and fishing ports, business development in urban reconstruction, business development toward ZEB buildings, business development in green infrastructure in agriculture and agricultural villages, etc.)
- 5) Research in national land and culture (declining population society, hydroelectric power generation valuation, study on the effects of changes in economic and social systems, study on diversified mobility, study for restoring plankton nets, environmental design, regional restoration starting from rivers, support for the disaster prevention of cultural assets, etc.)
- 6) Technological research and development (technology for mitigating high tides and tsunamis, technology for visualizing river channel management, development of functions for erosion control facilities, the upgrading of dam operations, automatic detection of traffic jams, etc., identification of cracks using AI, traffic analysis using smartphones, assistance for automatic operations, conservation technology for rare species, disaster prevention utilizing SR and AR, development of methods such as ecological models of earth and soil movements, etc.)
- 7) Human resources development (training inside or outside of the company, dispatch of employees with full-time jobs to graduate school, dispatch for overseas training, etc.)

## **7. Analysis of Financial Conditions, Business Performance and Cash Flow**

### **(1) Financial conditions**

#### **(Assets)**

At the end of the current consolidated fiscal year, the Group's total assets totaled 49,444 million yen, an increase of 15.9% compared to the end of the previous fiscal year. The major items were an increase in cash

at hand mainly attributable to consignment fee income and an increase in goodwill resulting from the acquisition of Waterman Group Plc.

(Liabilities)

Total liabilities at the end of this consolidated fiscal year were 22,558 million yen, an increase of 26.4% compared to the end of the previous fiscal year. The major item was an increase in advances received from uncompleted services.

(Net Assets)

At the end of the current consolidated fiscal year, net assets totaled 26,885 million yen, an increase of 8.4% compared to the end of the previous fiscal year. The major item was net income attributable to owners of the parent.

(2) Business performance

As of the end of this consolidated fiscal year, the Group's orders received amounted to 52,775 million yen, a YoY increase of 24.2%. Income from completed services was 49,301 million yen, a YoY increase of 17.3%. Ordinary profit increased by 2.8% YoY to 2,500 million yen, and net income attributable to owners of the parent for this consolidated fiscal year increased by 11.6% YoY to 1,615 million yen.

(3) Cash flow

At the end of the current consolidated fiscal year, cash and cash equivalents (funds) decreased by 4,728 million yen YoY, to a total of 6,515 million yen.

Net cash provided by operating activities was 2,834 million yen (net cash used for operating activities was 201 million yen for the previous consolidated fiscal year). The major items were net income before income tax of 2,444 million yen, a 852 million yen increase in advances received from uncompleted services, and payment of corporation income tax etc. of 910 million yen.

Net cash used for investment activities was 6,857 million yen (net cash used for investment activities was 163 million yen for the previous consolidated fiscal year). The major item was purchase of shares in subsidiaries resulting in change in scope of consolidation of 5,675 million yen.

Net cash used for financial activities was 739 million yen, a YoY increase of 8.3%. The major items were dividend payments of 282 million yen and a net decrease in short-term borrowings of 371 million yen.

## CHAPTER 3: FACILITIES & EQUIPMENT

### 1. Outline of Investment into Facilities and Equipment

The total amount of capital investment for the current consolidated fiscal year was 692 million yen. The amounts of capital investment by segment were as follows.

(Domestic consulting engineering business)

The major capital investment was committed for the current consolidated fiscal year to move an office building of Environmental Research & Solutions CO., LTD., a subsidiary of the Company, as follows:

New construction of CTI Keihanna Bldg.	384 million yen
Acquisition of CTI Okazaki Bldg.	138 million yen

(Overseas consulting engineering business)

There were no capital investments or sales or dispositions of facilities or equipment that had significant impacts on production capabilities in the current consolidated fiscal year.

### 2. Major Facilities and Equipment

Major facilities and equipment of the Group are as shown below.

(1) Company submitting the report

As of December 31, 2017

Establishment (location)	Business line	Book value (million yen)						Number of employees (persons)
		Buildings and structures	Machinery and delivery equipment	Land (area: m <sup>2</sup> )	Lease assets	Other	Total	
Head Office (Chuo-ku, Tokyo)	General administration facilities	9	—	—	0	50	61	126 (5)
Tokyo Head Office (Chuo-ku, Tokyo)	Office	59	—	—	6	54	119	435 (141)
Tokyo Head Office Saitama Office (Urawa-ku, Saitama)	Office	651	0	772 (1,978)	4	7	1,436	133 (83)
Research Center Tsukuba (Tsukuba-shi, Ibaraki)	Office and laboratory facilities	248	6	1,937 (50,605)	1	5	2,199	44 (16)
Yono Dormitory (Chuo-ku, Saitama)	Welfare facilities	175	—	820 (1,565)	—	0	996	— (—)
Kyushu Office (Chuo-ku, Fukuoka)	Office	286	1	1,025 (1,136)	2	10	1,325	149 (18)

Notes: 1. Land area of Research Center Tsukuba includes the area of 14,895 m<sup>2</sup> leased from a party other than the consolidated company.

2. The number of temporary employees is given in ( ) with the average additional number during the year.

3. The Company operates a single segment consisting of domestic consulting engineering business.

(2) Subsidiaries in Japan

Not applicable.

(3) Subsidiaries out of Japan

Not applicable.

### **3. New Construction or Removal Plan for Equipment**

#### **(1) Construction of major equipment**

The following buildings are under construction in a project to move an office building of Environmental Research & Solutions CO., LTD., a subsidiary of the Company.

New construction of CTI Keihanna Bldg.

Scheduled to be completed in August 2018

Repair of CTI Okazaki Bldg.

Scheduled to be completed in September 2018

#### **(2) Removal of major equipment**

There are no plans to remove any major equipment.

## CHAPTER 4: STATUS OF THE COMPANY

### 1. Status of Shares

(1) Total number of shares, etc.

(i) Total number of shares

Class	Total number of shares to be issued (shares)
Common stock	40,000,000
Total	40,000,000

(ii) Number of shares issued

Class	Issued shares as of the end of the fiscal year (shares) (December 31, 2017)	Issued shares as of the date for submission (shares) (March 28, 2018)	Listed stock exchanges or securities dealers association at which the Company's stock is registered	Details
Common stock	14,159,086	14,159,086	Tokyo Stock Exchange First Section	Number of shares in one voting unit: 100 shares
Total	14,159,086	14,159,086	—	—

(2) Stock options, etc.

Not applicable.

(3) Current status of moving strike stock options, etc.

Not applicable.

(4) Rights plan

Not applicable.

(5) Change in total number of shares issued and capital stock

Date	Increase/decrease in the total number of shares issued (shares)	Total number of shares issued (shares)	Increase/decrease in capital (million yen)	Capital (million yen)	Increase/decrease in capital reserve (million yen)	Capital reserve (million yen)
February 19, 1999 (Note)	1,287,189	14,159,086	—	3,025	—	4,122

Note: Increase due to stock splits at a ratio of 1 for 1.1 shares

## (6) Shareholders

As of December 31, 2017

As of December 31, 2017

Category	Distribution of shares (Number of shares per unit: 100 shares)								Shares below a unit (shares)
	Government and local public entities	Financial institutions	Financial instruments firm	Other corporations	Foreign corporations etc.		Individuals etc.	Total	
					Other than Individuals	Individuals			
Number of shareholders (persons)	—	28	26	82	74	5	2,868	3,083	—
Number of shares held (units)	—	34,839	2,812	14,682	19,260	203	69,531	141,327	26,386
Shareholding ratio (%)	—	24.7	2.0	10.4	13.6	0.1	49.2	100.0	—

- Notes: 1. Among treasury stocks (18,566 stocks), 185 units are counted as “Individuals etc.” and 66 shares are counted as “Shares below a unit” in the table above.
2. “Other corporations” and “Shares below a unit” in the table above include 41 units of shares and 72 shares held by the Securities Custody and Transfer Organization respectively.

## (7) Major shareholders

As of December 31, 2017

Name	Address	Number of shares held (thousand)	Ratio of the number of shares held against the number of shares issued (%)
CTI Engineering Employees' Stock-sharing Association	21-1, Nihombashi-hamacho 3-chome, Chuo-ku, Tokyo	1,331	9.4
The Master Trust Bank of Japan, Ltd. (trust account)	11-3, Hamamatsucho 2-chome, Minato-ku, Tokyo	386	2.7
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	7-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo	371	2.6
Mitsubishi UFJ Trust and Banking Corporation (Standing proxy: The Master Trust Bank of Japan, Ltd.)	4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo (11-3, Hamamatsucho 2-chome, Minato-ku, Tokyo)	354	2.5
Japan Trustee Services Bank, Ltd. (trust account)	8-11, Harumi 1-chome, Chuo-ku, Tokyo	354	2.5
DFA INTL SMALL CAP VALUE PORTFOLIO (Standing proxy: Citibank Japan Ltd.)	388 GREENWICH STREET, NY, NY 10013, USA (27-30, Shinjuku 6-chome, Shinjuku-ku, Tokyo)	351	2.5
Sumitomo Life Insurance Company (Standing proxy: Japan Trustee Services Bank, Ltd.)	18-24, Tsukiji 7-chome, Chuo-ku, Tokyo (8-11, Harumi 1-chome, Chuo-ku, Tokyo)	300	2.1
Dai-ichi Life Insurance Company, Limited (Standing proxy: Trust & Custody Services Bank, Ltd.)	13-1, Yurakucho 1-chome, Chiyoda-ku, Tokyo (8-12, Harumi 1-chome, Chuo-ku, Tokyo)	269	1.9
Japan Trustee Services Bank, Ltd. (trust account 5)	8-11, Harumi 1-chome, Chuo-ku, Tokyo	251	1.8
THE BANK OF NEW YORK, NON-TREATY JASDEC ACCOUNT (Standing proxy: The Bank of Tokyo-Mitsubishi UFJ, Ltd.)	225 LIBERTY STREET, NEW YORK, NEW YORK 10286, USA (7-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo)	195	1.4
Total	—	4,166	29.4

Note: 352 thousand shares held in Japan Trustee Services Bank, Ltd. (trust account), 251 thousand shares held in Japan Trustee Services Bank, Ltd. (trust account 5), and 386 thousand shares held in The Master Trust Bank of Japan, Ltd. (trust account) are shares related to trust services.

## (8) Voting rights

## (i) Issued shares

As of December 31, 2017

Category	Number of shares (shares)	Number of voting rights (votes)	Details
Nonvoting shares	—	—	—
Shares with limited voting rights (Treasury stocks, etc.)	—	—	—
Shares with limited voting rights (Other)	—	—	—
Shares with complete voting rights (Treasury stocks, etc.)	(Treasury stock) Common stock 18,500	—	—
Shares with complete voting rights (Other)	Common stock 14,114,200	141,142	—
Shares below a unit	Common stock 26,386	—	—
Total number of shares issued	14,159,086	—	—
Voting rights of total shareholders	—	141,142	—

- Notes: 1. “Shares with complete voting rights (other)” include 4,100 shares (41 votes) registered in the name of the Japan Securities Depository Center, Inc.
2. “Shares below a unit” include 66 treasury stocks held by the Company.

## (ii) Treasury Stocks, etc.

As of December 31, 2017

Name of owners	Address of owners	Number of shares held in its own name (shares)	Number of shares held disguised ownership (shares)	Total number of shares held (shares)	Ratio of the shares held against the total number of shares issued (%)
CTI Engineering Co., Ltd.	21-1, Nihombashi-hamacho 3-chome, Chuo-ku, Tokyo	18,500	—	18,500	0.1
Total	—	18,500	—	18,500	0.1

## (9) Contents of the stock option system

Not applicable.



## 2. Acquisition of Treasury Stocks

Class of Shares      Acquisition of ordinary shares in accordance with Article 155, Item 7 of the Companies Act.

(1) Acquisition of shares by resolution at a General Shareholders Meeting  
None.

(2) Acquisition of shares by resolution at a Board of Directors Meeting  
None.

(3) Items not related to resolutions at a General Shareholders Meeting or Board of Directors Meeting

Category	Number of Shares	Total Price (Yen)
Treasury stock acquired in this fiscal year	110	113,681
Treasury stock acquired in this period	—	—

Note: Treasury stock acquired in this period does not include shares acquired that were less than one transaction unit from March 1, 2018 to the date of the submission of this Securities Report.

(4) Disposal and holding of acquired treasury stock

Category	This Fiscal Year		This Period	
	Number of Shares	Total Amount Received on Divestiture (Yen)	Number of Shares	Total Amount Received on Divestiture (Yen)
Treasury stock acquired by public subscription	—	—	—	—
Treasury stock extinguished	—	—	—	—
Treasury stock acquired due to transfers from mergers, share swaps and company split-offs	—	—	—	—
Other	—	—	—	—
Held Treasury Stock	18,566	—	18,566	—

Note: Treasury stock acquired in this period does not include shares acquired that were less than one transaction unit from March 1, 2018 to the date of the submission of this Securities Report.

### 3. Dividend Policy

The Company determines dividends by resolution at a General Shareholders Meeting. While the Company's Articles of Incorporation, pursuant to Article 454, Paragraph 5 of the Companies Act, allow payment of interim dividends, as a general rule, dividends are paid once a year.

In determining dividends, while considering returns to investors, it is critical to maintain an appropriate level of internal reserves to ensure stable operations, as a construction consultancy engaged in operations of a highly public nature. Internal reserves are for future use to ensure the necessary funds for business expansion, to execute new operations systems for future public works which are predicted to expand, and for priority investment in new fields of technology related to the environment, urban planning and new energy.

As in the past, based on a stable dividend policy, the Company will continue to provide returns on shareholder investment with the aim of attaining a targeted dividend payment ratio of 30% for the mid- to long-term.

Note: In respect of the dividend for the record date, December 31, 2017, it was resolved at the 55th Ordinary General Shareholders Meeting held on March 27, 2018 to pay a dividend of 22 yen per share (total dividend payment amount: 311 million yen).

### 4. Change in Stock Price

(1) Highest and lowest stock prices for the past 5 fiscal years

Fiscal year	51st term	52nd term	53rd term	54th term	55th term
Fiscal year end	December 2013	December 2014	December 2015	December 2016	December 2017
Highest (yen)	1,080	1,942	1,576	1,240	1,238
Lowest (yen)	564	958	1,055	753	983

Note: The highest and lowest stock prices are those marked on the First Section of the Tokyo Stock Exchange.

(2) Highest and lowest stock prices by month for the past six months

Month	July 2017	August 2017	September 2017	October 2017	November 2017	December 2017
Highest (yen)	1,170	1,173	1,057	1,088	1,143	1,238
Lowest (yen)	1,057	997	983	1,021	1,042	1,124

Note: The highest and lowest stock prices are those marked on the First Section of the Tokyo Stock Exchange.

## 5. Executive Management

Male: 14 persons Female: 1 person (Ratio of female Directors and Auditors: 6.7 %)

Board member position	Company position	Name	Date of birth	Career		Term of office (Note no.)	Number of shares held (thousand)
President & Representative Director		Kazuo Murata	September 26, 1951	April 1978 April 1997 April 1999 April 2001 March 2003 April 2004 March 2006 April 2009 March 2010 March 2011 April 2011 March 2013	Joined CTI Engineering General Manager, Water Resources Div. V, Water Resources Dept. Tokyo Office Chief, Water Resources Dept., Tokyo Office Deputy Branch Administrator, Tokyo Head Office Director, Member of the Board and Chief of Headquarters Quality Management Dept. General Manager of Management Planning Dept. and Deputy Chief of Management Div. Managing Director, General Manager of Management Dept. Principal, Kyushu Office and Okinawa Office Director, Managing Executive Officer Senior Managing Executive Officer Principal, Tokyo Head Office President & Representative Director (present post)	1	56
Executive Officer, Vice President & Representative Director	Chief, Corporate Planning Dept.	Asao Yu	January 17, 1955	April 1979 April 1997 March 2003 March 2005 April 2005 March 2006 April 2009 March 2010 March 2011 March 2013 April 2013 March 2016 March 2017	Joined CTI Engineering General Manager Technology Div., Nagoya Branch Office, Tokyo Office Deputy Branch Administrator, Tokyo Head Office Director & Member of the Board Deputy Administrator, Tokyo Head Office General Manager, Management Planning Dept. Principal, Chubu Office Executive Officer Director, Managing Executive Officer, Principal, Osaka Head Office Senior Managing Executive Officer Principal, Tokyo Head Office Executive Officer & Vice President (present post) Representative Director & Chief, Corporate Planning Dept. (present post)	1	32
Executive Officer, Vice President & Representative Director	(In charge of international business).	Norio Tomonaga	September 15, 1953	April 1979 April 1998 April 2004 March 2006 March 2010 March 2011 March 2013 April 2013 March 2016 April 2017 March 2018	Joined CTI Engineering General Manager, Technology Div. IV, Road and Traffic Dept., Tokyo Office Deputy Branch Administrator, Tokyo Head Office Deputy Administrator, Tokyo Head Office, Director & Member of the Board Executive Officer Director, Principal, Chubu Office Managing Executive Officer Chief, Headquarters Business Development Dept. Senior Managing Executive Officer President and CEO, CTI Engineering International Co., Ltd. (present post) Executive Officer, Vice President & Representative Director, CTI Engineering (present post)	1	39

Board member position	Company position	Name	Date of birth	Career		Term of office (Note no.)	Number of shares held (thousand)
Executive Officer, Vice President & Representative Director	Chief, Headquarters Engineering Dept.	Hideaki Kurita	January 1, 1954	April 1980 April 1998  April 2004 April 2005 March 2006 April 2009 March 2010 March 2011 March 2013 April 2013 March 2016 April 2017 March 2018	Joined CTI Engineering General Manager, Technology Div., Hiroshima Branch Office, Osaka Office Deputy Branch Administrator, Osaka Office Deputy Administrator, Osaka Head Office Director & Member of the Board Chief, Headquarters Management Dept. Executive Officer Director Managing Executive Officer Principal, Osaka Head Office Senior Managing Executive Officer Chief, Headquarters Engineering Dept. (present post) Executive Officer, Vice President & Representative Director (present post)	1	31
Senior Managing Executive Officer & Director	Principal, Osaka Head Office	Kazuhiro Terao	February 28, 1956	April 1981 April 1999  April 2003 April 2007 March 2012 April 2012 March 2013 April 2013 March 2016 April 2017 March 2018	Joined CTI Engineering General Manager, Environmental Measures Div., Headquarters Environment Dept., Osaka Office General Manager, Management Business Division Deputy Branch Administrator, Tokyo Head Office Executive Officer Deputy Administrator, Tokyo Head Office Director (present post) Chief, Headquarters Management Dept. Managing Executive Officer Principal, Osaka Head Office (present post) Senior Managing Executive Officer (present post)	1	20
Senior Managing Executive Officer & Director	Principal, Tokyo Head Office	Tetsumi Nakamura	March 4, 1957	April 1979 April 2002  April 2006 April 2009 March 2010 April 2011 March 2013 March 2015 March 2016 April 2017 March 2018	Joined CTI Engineering General Manager, Water Resources Dept., Tokyo Head Office Deputy Branch Administrator, Tokyo Head Office Deputy Administrator, Tokyo Head Office Executive Officer Principal, Tohoku Office Director (present post) Principal, Kyushu Office and Okinawa Office Managing Executive Officer Principal, Tokyo Head Office (present post) Senior Managing Executive Officer (present post)	1	22
Managing Executive Officer & Director	Chief, Headquarters Business Development Dept.	Akinori Nakahira	April 14, 1953	March 1994 April 1994 April 1999  April 2009 March 2010 April 2012 March 2015 March 2017 April 2017	Resigned from Nakahori Soil Corner Co., Ltd. Joined CTI Engineering General Manager, Technology Div. IV, Road and Traffic Dept., Osaka Head Office Deputy Administrator, Osaka Head Office Executive officer President & Representative Director, Fukuoka Urban Engineering Co., Ltd. Director (present post) & Principal, Chubu Office, CTI Engineering Managing Executive Officer (present post) Chief, Headquarters Business Development Dept. (present post)	1	19

Board member position	Company position	Name	Date of birth	Career		Term of office (Note no.)	Number of shares held (thousand)
Managing Executive Officer & Director	Chief, Headquarters Management Dept.	Koichi Watanabe	October 20, 1954	March 1990 April 1990 April 2006  April 2009  March 2012 March 2016 March 2017 April 2017	Resigned from Nishikishoji Co., Ltd. Joined CTI Engineering General Manager, Accounting Div., Headquarters Management Dept. Deputy Chief, Headquarters Management Dept., General Manager, General Affairs Div., Headquarters Management Dept. Executive Officer Managing Executive Officer (present post) Director (present post) Chief, Headquarters Management Dept. (present post)	1	20
Director		Shuichi Ikebuchi	July 5, 1943	February 1979  April 1996  May 1999  October 2004  April 2007  April 2013  March 2017	Professor, Disaster Prevention Research Institute, Kyoto University Chief, Water Resources Research Center, Disaster Prevention Research Institute, Kyoto University Director, Disaster Prevention Research Institute, Kyoto University Director and General Manager, Research Institute, Meteorological Engineering Center, Inc. Professor Emeritus, Kyoto University; Research Advisor, Foundation of River & Watershed Environment Management Research Fellow, The River Foundation (present post) Director, CTI Engineering (present post)	1	—
Director		Fumiko Kosao	April 17, 1954	April 1973 July 1997  July 2011 July 2014 August 2015 June 2016 March 2017	Employed by National Tax Agency Teacher, Tokyo Training Center, National Tax College District Director, Gyoda Tax Office, Kantoshinetsu Regional Taxation Bureau District Director, Nihonbashi Tax Office Registered as Certified Public Tax Accountant (present post) Auditor, TOBISHIMA CORPORATION (present post) Director, CTI Engineering (present post)	1	—
Statutory Auditor		Shujiro Ozono	January 26, 1958	April 1982 April 2003  April 2006  April 2013 April 2015  March 2017	Joined CTI Engineering Manager, Geology Center, Headquarters Business Promotion Dept. General Manager, Geo-environment Div., Tokyo Head Office Senior Engineer, Tokyo Head Office Manger, Internal Audit Office and Manager, Compliance Office Statutory Auditor (present post)	2	6
Auditor		Yuichi Tou	March 2, 1955	April 1977 April 2000  April 2008 April 2011  March 2015 March 2017	Joined CTI Engineering General Manager, Technology Div. I, Chubu Office General Manager, Operations Management Div., Headquarters Engineering Dept. Manger, Human Resources Development Office, Headquarters Management Dept. Statutory Auditor Auditor (present post)	3	14

Board member position	Company position	Name	Date of birth	Career		Term of office (Note no.)	Number of shares held (thousand)
Auditor		Kunihiro Horiuchi	April 24, 1943	April 1968 April 1992 April 1996 June 1997 April 1999 March 2000 April 2010	Appointed as Public Prosecutor Public Prosecutor of Tokyo High Public Prosecutor's Office Public Prosecutor of the Supreme Public Prosecutor's Office Opened Horiuchi General Law Office (present post) Professor at the Law Department, Tokai University Auditor, CTI Engineering (present post) Professor at the Law Department, Ryutsu Keizai University	3	—
Auditor		Yasuro Tanaka	February 9, 1946	April 1971 April 1981 April 1985 April 1994 February 2003 February 2005 March 2009 February 2011 April 2011 March 2015	Appointed as Assistant Judge Judge of Tokyo District Court General Manager, Training Div., United Nations Asia and Far East Institute for the Prevention of Crime and the Treatment of Offenders General Judge of Tokyo District Court Director of Morioka District and Domestic Relations Courts General Judge of Tokyo High Court Director of Sapporo High Court Registered as attorney (present post) Professor at the Meiji University Graduate School of Law (present post) Auditor, CTI Engineering (present post)	3	—
Total							263

- Notes: 1 From March 27, 2018 until the conclusion of the Ordinary General Meeting of Shareholders held in respect of the fiscal year ending December 31, 2019.
- 2 From March 24, 2017 until the conclusion of the Ordinary General Meeting of Shareholders held in respect of the fiscal year ending December 31, 2020.
- 3 From March 26, 2015 until the conclusion of the Ordinary General Meeting of Shareholders held in respect of the fiscal year ending December 31, 2018.
- 4 Directors, Shuichi Ikebuchi and Fumiko Kosao, are External Directors.
- 5 Auditors, Kunihiro Horiuchi and Yasuro Tanaka, are External Auditors.
- 6 To ensure that the Company fully satisfies all conditions set forth under applicable laws a reserve auditor was appointed pursuant to Article 329-3 of the Companies Act. The history of that auditor is as stated below.

Name	Date of Birth	History		Term of office (Note no.)	No. of shares held (Thousand)
Setsuko Yufu	March 28, 1952	April 1981 January 2002 April 2010	Registered as attorney (present post) Senior Partner, Atsumi & Usui Law Office (currently Atsumi & Sakai) (present post) Part-time Instructor at the Keio University Law School	1	—

- Notes: 1 From March 26, 2015 until the conclusion of the Ordinary General Meeting of Shareholders held in respect of the fiscal year ending December 31, 2018.
- 2 The reserve auditor, Setsuko Yufu, satisfies requirements as an External Auditor.

## 6. Corporate Governance

### (1) Status of corporate governance

#### 1) Basic policy of corporate governance

As stated in our corporate mission statement, the Company is a construction consultant that plays a role in providing the infrastructure vital for the improvement of the lifestyles of all people. As a member of the construction consultancy profession, it is the Company's basic management policy to conduct its operations in a neutral and independent manner, and to protect the lifestyle enjoyed by ordinary citizens who are the end users of this infrastructure. Therefore, the Company believes that it is necessary to increase the transparency of its management and the effectiveness of its internal control.

#### 2) Implementation of corporate governance measures

##### 1. The role of our corporate bodies

Boards of Directors Meetings, as a general rule, are held once a month. The Board, in addition to passing resolutions on important business matters and other items also required under law, is also responsible for the overall supervision of the conduct of the Company's business. Further, the Board thoroughly discusses both internal and external issues.

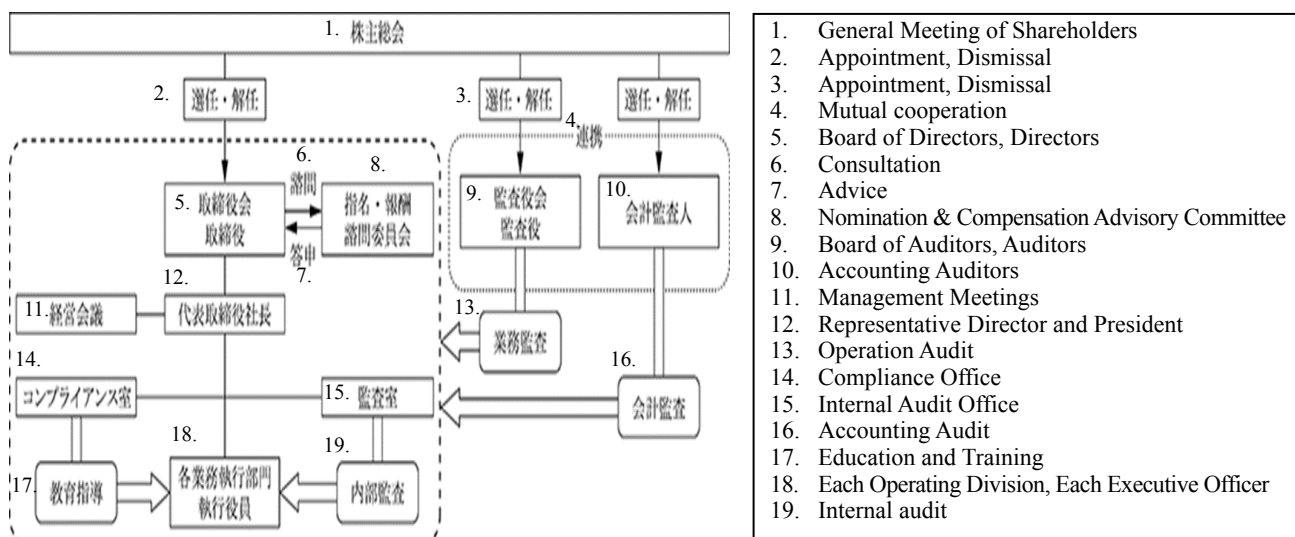
The Company has appointed Auditors. The Auditors, in addition to attendance at Board of Directors Meetings and other important meetings within the Company, audit corporate conduct as an independent body. At present 2 of the 4 Auditors are legal practitioners who have been appointed as External Auditors.

In addition, the Company holds a regular Management Meeting, an advisory body to the President consisting of Chiefs of the Head Office and representatives of business establishments, etc., once a month in principle. The Management Meeting discusses and submits reports on matters necessary for the execution of the President's duties.

The Company introduced an Executive Officers system in March 2010 to establish a structure for accelerating decision-making and for clarifying the functional differences between supervision and execution.

The Company believes that it can fully achieve supervisory and observation functions for the execution of its business by establishing an auditing system operated by its Auditors (including External Auditors) to monitor the execution of duties, by strengthening corporate governance through the participation of its External Directors in management, and by clarifying the supervisory functions of the Board of Directors through the introduction of the Executive Officers system.

The roles of the various bodies within the Company are as shown below.



The Company has established a management system to oversee the Group based on the content of the mission statement such as the Group's management philosophies and management strategies, to the effect that Directors of subsidiaries must report to the parent company on important managerial matters in accordance with the provisions of the Regulations on the Management of Subsidiaries, and the Directors must obtain prior approval from the parent company as necessary.

## 2. Improvement of the risk management system

Risk management of our service's quality is undertaken by Headquarter Engineering Dept. and that of other general matters by the Headquarter Management Dept.

## 3. Relationship with External Directors/Auditors

There are no human relationships, financial relationships, business relationships, or other interests between the Company and the 2 External Directors.

At present, the 2 Directors appointed as External Directors are 1 academic and 1 Certified Public Tax Accountant. The Company appointed the academic to take advantage of his rich experience and broad knowledge in the civil engineering field and appointed the Certified Public Tax Accountant to make use of her specialized expertise and professional ethics.

There are no human relationships, financial relationships, business relationships, or other interests between the Company and the 2 External Auditors.

At present 2 Auditors are legal practitioners who have been appointed as External Auditors. The appointment of legal practitioners, with their high level of expertise and professional ethics, means that advice can be actively provided at an early stage of the decision-making process and ensures that the audit process is extremely thorough. In addition, the External Auditors supervise the Company's management from an independent position and objective point of view, give appropriate advice and opinions inside and outside the Board of Directors, and thereby appropriately perform their duties. Accordingly, the Company believes that the independence of these External Auditors is steadfastly maintained. In addition, the Company concluded a corporate lawyer agreement with one of the External Auditors.

Of the 4 Auditors, 2, or half of the total, are External Auditors. The Company considers this number



appropriate for the supervision of its management.

The Company strengthens its corporate governance through the participation of the External Directors in management and reinforces the Board of Directors' functions of decision-making and supervision of the execution of duties through the introduction of the Executive Officers system. In addition, the Company has reinforced the subjective and neutral functions of management supervision from outside by electing 2 External Auditors out of the 4 Auditors. Furthermore, the 2 External Auditors attended almost all of the Board of Auditors Meetings, and we believe that we have established a structure essential for corporate governance wherein the subjective and neutral functions of management supervision from outside are fully operating. The Company thus adopts the present structure.

Although the Company has no standard or policy on the election of independent External Directors/Auditors, the Company mainly adheres to the Standard of Judgment on the independence of independent directors/auditors set by Tokyo Stock Exchange, Inc. and has reported Mr. Shuichi Ikebuchi, Ms. Fumiko Kosao, and Mr. Yasuro Tanaka as independent directors/auditors to the exchange.

#### 4. Internal control system

A Compliance Office and Internal Audit Office under the direct control of the President have been established, as has a corporate framework that ensures legal compliance by strengthening internal control systems. In addition, one of the legal practitioners appointed as an External Auditor has been requested to provide independent advice to staff members with concerns, as a means of further strengthening the company's in-house operations monitoring system. The Internal Audit Office and Compliance Office, two departments responsible for internal control, regularly hold discussions and work in close cooperation with the Board of Auditors, a body whose meetings are also attended by the External Auditors.

In addition, the Board of Auditors regularly holds discussions and works in close cooperation with the Accounting Auditor to ensure that the operation audit function and accounting audit function are mutually strengthened.

As a further safeguard, the Company regularly seeks the advice of its auditing firms to ensure the appropriate handling of all matters before any problems arise.

#### 5. Internal, external and financial audits

Internal audits are performed by the Internal Audit Office that has the authority to request additional personnel as required. At present, the Internal Audit Office staff is comprised of 2 Audit officers and 3 assisting staff members. Specifically, planned internal comprehensive operational audits are performed annually on all divisions and departments within the Company.

Based on directives from the Board of Auditors, the Auditor performs the audit with his/her assisting staff. The Auditors, including External Auditors, actively contribute to the decision-making process in its early stages to ensure thorough implementation of the Company's auditing system. In addition, the Board of Auditors, a body whose meetings are also attended by the External Auditors, holds discussions as required and works in close cooperation with the Accounting Auditor to ensure that the operation audit function and accounting audit function are mutually strengthened. With regard to internal control, the Auditors attend the Board of Directors Meeting and other internally important meetings to receive reports and request explanations, as necessary, to ensure that the operational duties are properly executed.

The Company has concluded an auditing agreement with Deloitte Touche Tohmatsu LLC as the Accounting Auditor. The CPAs Hiroki Kitakata and Katsumi Takizawa have been jointly responsible for audits for the consolidated fiscal year. The CPAs Hiroki Kitakata and Katsumi Takizawa have been in charge since March 2013. The auditors' support staff consists of 19 persons, including 5 CPAs.

6. Executives' compensation, etc.

a. The total amount of compensation, etc. by category of executive, the total amount of compensation, etc. by classification, and the number of covered executives

Category of executive	Total amount of compensation, etc. (million yen)	Amount of compensation, etc. by classification (million yen)			The number of covered executives (persons)
		Basic compensation	Bonuses	Retirement benefits	
Directors (excluding External Directors)	318	239	27	51	12
Auditors (excluding External Auditors)	27	27	—	—	3
External Directors and Auditors	24	24	—	—	4

b. The total amount, etc. of compensation, etc. for a person whose compensation totals 1 hundred million yen or more

No executive in the Company has received a total consolidated compensation, etc. of 1 hundred million yen or more, so description is omitted.

c. Significant salaries (including bonuses) for the portion of services performed by employees concurrently serving as Directors

No significant salaries (including bonuses) are paid for the portion of services performed by employees concurrently serving as Directors.

d. The details of policies regarding the determination of the amount of compensation, etc. for executives, the method for computing such amounts, and the methods for determination

The Company has not made any particular decisions on the foregoing.

7. Holding of shares

a. The number of issues and the total book value on the balance sheet of investment stock held for purposes other than pure investment

Number of issues: 37 issues

Total book value on the balance sheet: 2,156 million yen

b. Division of holding, issuer name, number of shares, book value on balance sheet, and purpose of holding, of investment stock held for purposes other than pure investment

(Previous consolidated fiscal year)

Specified Investment Stock

Issuer name	Number of shares (shares)	Book value on balance sheet (million yen)	Purpose of holding
RAITO KOGYO CO., LTD.	265,100	318	To expand business fields
OYO Corporation	98,500	138	To maintain a good relationship
SHO-BOND Holdings Co., Ltd.	23,500	114	To expand business fields
Mitsubishi UFJ Financial Group, Inc.	145,000	104	To maintain and continue stable business relations
KAWADA technologies, inc.	12,000	95	To expand business fields
OHBA CO., LTD.	186,000	85	To maintain a good relationship
NJS CO., LTD.	50,000	69	To maintain a good relationship
T&D Holdings, Inc.	38,400	59	To maintain and continue stable business relations
E・J Holdings Inc.	60,340	57	To maintain a good relationship
Wesco Holdings Inc.	180,000	54	To maintain a good relationship
ACK G Limited	57,200	53	To maintain a good relationship
CHODAI CO., LTD.	105,000	53	To maintain a good relationship
IDEA Consultants, Inc.	54,800	49	To maintain a good relationship
ASIA AIR SURVEY CO., LTD.	102,000	49	To maintain a good relationship
Ube Industries, Ltd.	190,400	46	To expand business fields
NIPPON ENGINEERING CONSULTANTS CO., LTD.	100,000	44	To maintain a good relationship
Maezawa Kasei Industries Co., Ltd.	36,000	43	To expand business fields
SYSKEN Corporation	74,000	22	To expand business fields
Kawasaki Geological Engineering Co., Ltd.	47,000	22	To maintain a good relationship
The Chiba Bank, Ltd.	30,000	21	To maintain and continue stable business relations
FUKUYAMA CONSULTANTS CO., LTD.	34,100	19	To maintain a good relationship
Mizuho Financial Group, Inc.	81,000	16	To maintain and continue stable business relations
Kuwayama Corporation	26,400	15	To smoothly perform business operations
ARIAKE JAPAN Co., Ltd.	1,829	11	To smoothly perform business operations
UCHIDA YOKO CO., LTD.	16,000	7	To smoothly perform business operations
Dai-ichi Life Holdings, Inc.	2,600	5	To maintain and continue stable business relations
ICHINEN HOLDINGS Co., Ltd.	1,844	2	To smoothly perform business operations
NIPPON KOEI CO., LTD.	1,155	0	To maintain a good relationship

(Current consolidated fiscal year)

Specified Investment Stock

Issuer name	Number of shares (shares)	Book value on balance sheet (million yen)	Purpose of holding
RAITO KOGYO CO., LTD.	265,100	341	To expand business fields
SHO-BOND Holdings Co., Ltd.	23,500	188	To expand business fields
OYO Corporation	98,500	142	To maintain a good relationship
Mitsubishi UFJ Financial Group, Inc.	145,000	119	To maintain and continue stable business relations
ACK G Limited	57,200	116	To maintain a good relationship
CHODAI CO., LTD.	105,000	98	To maintain a good relationship
OHBA CO., LTD.	186,000	95	To maintain a good relationship
E・J Holdings Inc.	60,340	89	To maintain a good relationship
NJS CO., LTD.	50,000	79	To maintain a good relationship
KAWADA technologies, inc.	12,000	76	To expand business fields
T&D Holdings, Inc.	38,400	73	To maintain and continue stable business relations
ASIA AIR SURVEY CO., LTD.	102,000	73	To maintain a good relationship
Wesco Holdings Inc.	180,000	71	To maintain a good relationship
IDEA Consultants, Inc.	54,800	63	To maintain a good relationship
Ube Industries, Ltd.	19,040	63	To expand business fields
JAPAN FOUNDATION ENGINEERING CO., LTD	134,000	55	To expand business fields
NIPPON ENGINEERING CONSULTANTS CO., LTD.	100,000	53	To maintain a good relationship
NITTO CONSTRUCTION CO., LTD.	68,200	48	To expand business fields
Maezawa Kasei Industries Co., Ltd.	36,000	44	To smoothly perform business operations
SYSKEN Corporation	14,800	31	To expand business fields
Founder's Consultants Holdings Inc.	34,100	28	To maintain a good relationship
The Chiba Bank, Ltd.	30,000	28	To maintain and continue stable business relations
Kawasaki Geological Engineering Co., Ltd.	47,000	23	To maintain a good relationship
ARIAKE JAPAN Co., Ltd.	1,829	17	To smoothly perform business operations
Kuwayama Corporation	26,400	16	To smoothly perform business operations
Mizuho Financial Group, Inc.	81,000	16	To maintain and continue stable business relations
UCHIDA YOKO CO., LTD.	3,200	10	To smoothly perform business operations
Dai-ichi Life Holdings, Inc.	2,600	6	To maintain and continue stable business relations
ICHINEN HOLDINGS Co., Ltd.	1,800	2	To smoothly perform business operations
NIPPON KOEI CO., LTD.	231	0	To maintain a good relationship

c. Investment stock held for the purpose of pure investment

Not applicable.

3) Implementation of the Company's corporate governance systems in the last year

During the fiscal year ended December 2017, 16 Board of Directors and 13 Board of Auditors Meetings were held.

To strengthen compliance systems, the Board of Directors in May 2006 resolved to implement the items set forth in Article 362, Paragraph 4, Item 6 (concerning internal control systems) of the Companies Act, performed a yearly review and amended the items as appropriate. We are always dedicated to further improving compliance through their implementation.

In addition to performing the appropriate control of insider information and holding investor meetings, the Company continues to maintain its policy of transparency in business dealings by actively disclosing information in a timely and appropriate manner through avenues such as press releases and dissemination on its website.

4) Agreements set forth in Article 427, Paragraph 1 of the Companies Act (Liability Limitation Agreements)

The Company has entered into a liability limitation agreement with each of its 2 External Directors and 2 External Auditors. The maximum liability limit under the agreement is 5,000,000 yen or the amount provided by applicable laws, whichever is greater.

5) Election and dismissal of Directors

The fixed number of Directors is 12 without necessary qualifications. The Company sets forth in its Articles of Incorporation that resolutions for the election of Directors shall be adopted by a majority vote of the shareholders present who hold one third or more of the total number of voting rights of shareholders with voting rights. The Company also sets forth in its Articles of Incorporation that resolutions for the election of Directors shall not be by cumulative voting. In addition, the Company has not amended the requirements for resolutions to dismiss Directors set forth in the Companies Act.

6) Resolutions set forth in Article 309, Paragraph 2 of the Companies Act (Special Resolutions)

The Company sets forth in its Articles of Incorporation that the resolutions set forth in Article 309, Paragraph 2 of the Companies Act may be adopted by two thirds or more of the votes of the shareholders present who hold one third or more of the total number of voting rights of shareholders with voting rights. This provision is set forth to ensure that the Company avoids any situation in which it is unable to propose resolutions at a General Shareholders Meeting because a quorum is not present.

7) Matters set forth to be resolved by a Board of Directors Meeting in lieu of resolutions at a General Shareholders Meeting, and the reason therefor

The Company sets forth in its Articles of Incorporation that the distribution of surplus set forth in Article 454, Paragraph 5 of the Companies Act shall be determined by resolution at a Board of Directors Meeting. This provision is set forth because, in order to distribute surplus as set forth in Article 454, Paragraph 5 of the Companies Act, the said article requires the Company to stipulate in its Articles of Corporation that such distribution of surplus may be made by a resolution at a Board of Directors Meeting.

(2) Auditing compensation, etc.

1) Compensation for auditing CPAs, etc.

Category	Previous consolidated fiscal year		Current consolidated fiscal year	
	Compensation for auditing services (million yen)	Compensation for non-auditing services (million yen)	Compensation for auditing services (million yen)	Compensation for non-auditing services (million yen)
The Company	31	–	47	12
Consolidated subsidiaries	–	–	–	–
Total	31	–	47	12

2) Other important compensation

Not applicable.

3) Description of non-auditing services provided by auditing CPAs, etc. to the Company

(Previous consolidated fiscal year)

Not applicable.

(Current consolidated fiscal year)

The Company entrusted the Accounting Auditor with guidance and advice on the early implementation of accounting settlement of overseas subsidiaries and internal control over financial reporting, services other than those set forth in Article 2, Paragraph 1 of the Certified Public Accountant Act.

4) Policy for decisions regarding auditing compensation

Determined by the Company in consideration of the number of days for the audit.

## CHAPTER 5: STATUS OF ACCOUNTING

### 1. Preparation of the Consolidated Financial Statements and Non-consolidated Financial Statements

(1) The Company's consolidated financial statements are prepared in accordance with the "Regulations on the terminology, forms and method of preparation of consolidated financial statements" (Ordinance of Ministry of Finance No. 28 of 1976).

(2) The Company's non-consolidated financial statements are prepared in accordance with the "Regulations on the terminology, forms and method of preparation of financial statements" (Ordinance of Ministry of Finance No. 59, 1963).

The non-consolidated financial statements have been prepared pursuant to the provisions of Article 127 of the Regulations for Non-consolidated Financial Statements because the Company is a company submitting financial statements that have been prepared in accordance with special provision.

### 2. Audit Report

In accordance with the provisions of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act, the consolidated financial statements for the current consolidated fiscal year (from January 1, 2017 to December 31, 2017) and the non-consolidated financial statements for the current fiscal year (from January 1, 2017 to December 31, 2017) of the Company were audited by Deloitte Touche Tohmatsu LLC.

[The abovementioned audit reports, which are inserted at the end of the Japanese original, are omitted from the English translation.]

### 3. Special Approach to Ensure the Propriety of Consolidated Financial Statements, etc.

The Company has taken a special approach to ensure the propriety of consolidated financial statements, etc. Specifically, in order to develop a system to enable the Company to appropriately understand the details of accounting standards, and precisely cope with changes, etc. in accounting standards, etc., the Company has joined the Financial Accounting Standards Foundation and endeavors to collect information aggressively.

# 1. Consolidated Financial Statements and Other Materials

## (1) Consolidated Financial Statements

### (i) Consolidated Balance Sheet

(million yen)

	Previous Consolidated Fiscal Year (as of December 31, 2016)	Current Consolidated Fiscal Year (as of December 31, 2017)
<b>Assets</b>		
Current assets		
Cash and bank deposits	11,244	6,618
Notes receivable and completed work receivables	3,313	6,051
Prepaid expenses for uncompleted services	13,957	15,792
Deferred tax assets	428	413
Other	473	1,217
Allowance for doubtful accounts	-	-397
Total current assets	29,416	29,695
Fixed assets		
Tangible fixed assets		
Buildings and structures	4,587	4,802
Accumulated depreciation	-2,947	-3,061
Buildings and structures, net	1,640	1,740
Machinery and transportation equipment	246	1,372
Accumulated depreciation	-237	-1,192
Machinery and transportation equipment, net	9	179
Land	4,706	4,816
Lease assets	293	233
Accumulated depreciation	-175	-136
Lease assets, net	117	96
Construction in progress	-	384
Other	1,067	1,602
Accumulated depreciation	-858	-1,249
Other, net	209	352
Total tangible fixed assets	6,684	7,570
Intangible fixed assets		
Lease assets	21	14
Goodwill	45	5,182
Other	422	499
Total intangible fixed assets	489	5,697
Investments and other assets		
Investment securities	*1 3,264	*1 3,739
Long-term loans receivable from subsidiaries and affiliates	515	511
Deferred tax assets	140	307
Net defined benefit asset	1,013	724
Other	*1 1,137	*1 1,216
Allowance for doubtful accounts	-17	-17
Total investments and other assets	6,054	6,481
Total fixed assets	13,227	19,748
Total assets	42,644	49,444



(million yen)

	Previous Consolidated Fiscal Year (as of December 31, 2016)	Current Consolidated Fiscal Year (as of December 31, 2017)
<b>Liabilities</b>		
Current liabilities		
Accounts payable	1,683	2,158
Short-term borrowings	700	487
Lease obligations	62	54
Accrued income taxes	586	626
Advances received from uncompleted services	9,869	12,442
Reserve for bonuses	888	874
Reserve for bonuses to directors	32	97
Allowance for losses in operations	93	82
Other	2,475	4,091
Total current liabilities	16,392	20,917
Fixed liabilities		
Long-term borrowings	-	6
Long-term accounts payable	72	20
Lease obligations	81	61
Provision for warranties for completed operation	-	301
Deferred tax liabilities	77	78
Net defined benefit liability	1,027	976
Asset retirement obligations	147	145
Other	52	50
Total fixed liabilities	1,459	1,641
Total liabilities	17,851	22,558
<b>Net assets</b>		
Shareholders' equity		
Capital	3,025	3,025
Capital surplus	4,122	4,122
Profit surplus	17,735	19,068
Treasury stock	-12	-12
Total shareholders' equity	24,871	26,203
Accumulated other comprehensive income		
Other valuation difference on available-for-sale securities	664	943
Foreign currency translation adjustment	-	344
Remeasurements of defined benefit plans	-842	-893
Total accumulated other comprehensive income	-177	394
Non-controlling interests	99	287
Total net assets	24,793	26,885
Total liabilities and net assets	42,644	49,444

(ii) Consolidated Profit and Loss Account and Consolidated Statements of Comprehensive Income  
Consolidated Profit and Loss Account

(million yen)

	Previous Consolidated Fiscal Year (from January 1, 2016 to December 31, 2016)	Current Consolidated Fiscal Year (from January 1, 2017 to December 31, 2017)
Sales	42,033	49,301
Cost of sales	30,989	35,992
Gross profit	11,044	13,309
Selling, general and administrative expenses	*1 *2 8,665	*1 *2 10,888
Operating income	2,378	2,420
Non-operating revenues		
Interest earned	14	15
Dividend earned	42	44
House rent earned	35	34
Insurance dividends earned	7	13
Other	29	22
Total non-operating revenues	129	131
Non-operating expenses		
Interest expense	3	8
Commission paid	5	8
Foreign exchange losses	64	29
Other	0	4
Total non-operating expenses	74	51
Ordinary profit	2,433	2,500
Extraordinary gain		
Gain on sales of investment securities	5	0
Total extraordinary gain	5	0
Extraordinary loss		
Loss from fixed assets disposal	*3 20	*3 1
Loss on cancel of lease contracts	0	-
Unrealized loss on investment securities	35	20
Loss on valuation of golf club membership	0	0
Amortization of goodwill	-	*4 34
Total extraordinary loss	56	55
Net income before income tax	2,382	2,444
Corporation tax, inhabitants taxes and enterprise tax	888	870
Deferred income taxes etc.	70	-84
Total income taxes	958	786
Net income	1,424	1,658
Net income (loss) attributable to non-controlling interests	-23	43
Net income attributable to owners of the parent	1,447	1,615

## Consolidated Statements of Comprehensive Income

(million yen)

	Previous Consolidated Fiscal Year (from January 1, 2016 to December 31, 2016)	Current Consolidated Fiscal Year (from January 1, 2017 to December 31, 2017)
Net income	1,424	1,658
Other comprehensive income		
Other valuation difference on available-for-sale securities	53	278
Foreign currency translation adjustment	-	343
Remeasurements of defined benefit plans, net of tax	-217	-42
Total other comprehensive income	* 1 -164	* 1 579
Comprehensive Income	1,259	2,237
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of the parent	1,285	2,187
Comprehensive income attributable to non-controlling interests	-25	50

(iii) Statement of Fluctuations in Consolidated Shareholders' Equity  
Previous Consolidated Fiscal Year (from January 1, 2016 to December 31, 2016)

(million yen)

	Shareholders' equity				
	Capital	Capital surplus	Profit surplus	Treasury stock	Total shareholders' equity
Balance at the beginning of current period	3,025	4,122	16,571	-12	23,707
Changes of items during the period					
Dividends from surplus			-282		-282
Net income attributable to owners of the parent			1,447		1,447
Acquisition of treasury stock				-0	-0
Fluctuations during this fiscal year for items other than shareholders' equity (Net amount)					
Total changes of items during the period	—	—	1,164	-0	1,164
Balance at the end of current period	3,025	4,122	17,735	-12	24,871

(million yen)

	Accumulated other comprehensive income			Non-controlling interests	Total net assets
	Other valuation difference on available-for-sale securities	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at the beginning of current period	611	-627	-15	125	23,816
Changes of items during the period					
Dividends from surplus					-282
Net income attributable to owners of the parent					1,447
Acquisition of treasury stock					-0
Fluctuations during this fiscal year for items other than shareholders' equity (Net amount)	53	-215	-162	-25	-187
Total changes of items during the period	53	-215	-162	-25	976
Balance at the end of current period	664	-842	-177	99	24,793

Current Consolidated Fiscal Year (from January 1, 2017 to December 31, 2017)

(million yen)

	Shareholders' equity				
	Capital	Capital surplus	Profit surplus	Treasury stock	Total shareholders' equity
Balance at the beginning of current period	3,025	4,122	17,735	-12	24,871
Changes of items during the period					
Dividends from surplus			-282		-282
Net income attributable to owners of the parent			1,615		1,615
Acquisition of treasury stock				-0	-0
Fluctuations during this fiscal year for items other than shareholders' equity (Net amount)					
Total changes of items during the period	—	—	1,332	-0	1,332
Balance at the end of current period	3,025	4,122	19,068	-12	26,203

(million yen)

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Other valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at the beginning of current period	664	—	-842	-177	99	24,793
Changes of items during the period						
Dividends from surplus						-282
Net income attributable to owners of the parent						1,615
Acquisition of treasury stock						-0
Fluctuations during this fiscal year for items other than shareholders' equity (Net amount)	278	344	-50	572	188	760
Total changes of items during the period	278	344	-50	572	188	2,092
Balance at the end of current period	943	344	-893	394	287	26,885

## (iv) Consolidated Cash Flow Statement

(million yen)

	Previous Consolidated Fiscal Year (from January 1, 2016 to December 31, 2016)	Current Consolidated Fiscal Year (from January 1, 2017 to December 31, 2017)
Cash flow from operating activities		
Net income before income tax	2,382	2,444
Depreciation and amortization	394	464
Amortization of goodwill	11	174
Increase (decrease) in allowance for doubtful accounts	0	29
Increase (decrease) in net defined benefit liability	94	102
Decrease (increase) in net defined benefit asset	-51	76
Increase (decrease) in reserve for bonuses	-73	-63
Increase (decrease) in reserve for bonuses to directors	5	-42
Increase (decrease) in allowance for losses in operations	28	-10
Increase (decrease) in provision for warranties for completed operation	-	25
Increase (decrease) in long-term accounts payable	-	-51
Interest and dividend earned	-56	-60
Interest payable	3	8
Foreign exchange loss (gain)	18	1
Unrealized loss (gain) on investment securities	35	20
Loss (gain) on sales of investment securities	-5	-0
Loss (gain) from fixed assets disposal	20	1
Loss on cancel of lease contracts	0	-
Loss on valuation of golf club membership	0	0
Decrease (increase) in sales account	-759	610
Decrease (increase) in prepaid expenses for uncompleted services	292	-619
Decrease (increase) in other current assets	9	-316
Increase (decrease) in account payable	-108	87
Increase (decrease) in advances received from uncompleted services	-1,478	852
Increase (decrease) in other current liabilities	-175	-57
Increase (decrease) in other fixed liabilities	-1	-1
Other	2	4
Subtotal	589	3,680
Received interest and dividend	51	72
Interest payment	-3	-7
Payment of corporation income tax etc.	-838	-910
Cash flow provided by (used for) operating activities	-201	2,834

(million yen)

	Previous Consolidated Fiscal Year (from January 1, 2016 to December 31, 2016)	Current Consolidated Fiscal Year (from January 1, 2017 to December 31, 2017)
Cash flow from investment activities		
Payments for acquisition of tangible fixed assets	-233	-775
Payments for acquisition of intangible fixed assets	-215	-141
Payments for acquisition of investment securities	-500	-100
Proceeds from sales of investment securities	7	0
Repayments for loans	-80	-198
Income from loan collection	94	131
Purchase of shares in subsidiaries resulting in change in scope of consolidation	-	-5,675
Proceeds from withdrawal of long-term deposits	800	-
Other payments	-40	-141
Other proceeds	4	45
Cash flow used for investment activities	-163	-6,857
Cash flow from financial activities		
Net increase (decrease) in short-term borrowings	-300	-371
Acquisition of treasury stock	-0	-0
Repayments of lease obligations	-80	-66
Dividend payments	-282	-282
Dividends paid to non-controlling interests	-	-19
Purchase of shares in subsidiaries not resulting in change in scope of consolidation	-19	-
Cash flow used for financial activity	-683	-739
Effect in fluctuation of exchange rate for cash and cash equivalents	-18	34
Increase (decrease) in cash and cash equivalents	-1,066	-4,728
Opening balance of cash and cash equivalents	12,310	11,244
Closing balance of cash and cash equivalents	*1 11,244	*1 6,515

Notes:

Basic Important Matters for Preparation of Consolidated Financial Statement

1. Consolidation range

(1) Number of consolidated subsidiaries: 27

Names of the major consolidated subsidiaries:

CTI Engineering International Co., Ltd.

Waterman Group Plc

Waterman AHW (Victoria) Pty Limited

Japan Urban Engineering Co., Ltd.

Chi-ken Sogo Consultants Co., Ltd.

NISSOKEN ARCHITECTS & ENGINEERS Co., Ltd.

(Waterman Group Plc and its consolidated subsidiaries (Waterman AHW (Victoria) Pty Limited and other 21 subsidiaries) became consolidated subsidiaries of the Company effective from the current consolidated fiscal year through an acquisition of shares as of June 22, 2017. As the deemed acquisition date was set to June 30, 2017, results for the current consolidated fiscal year include those of Waterman Group Plc and its consolidated subsidiaries for the period of July 1, 2017 through December 31, 2017.)

(2) Number of non-consolidated subsidiaries: 11

Names of the non-consolidated subsidiaries:

Environmental Research & Solutions CO., LTD.

CTI Frontier Co., Ltd.

Management Techno Co., Ltd

Kamaishi Solar Power Generation Co., Ltd.

Kamaishi Naranokidaira Solar Power Generation Co., Ltd.

CTI AURA Co., Ltd.

CTI Shin Doboku Co., Ltd.

CTI Wing Co., Ltd

CTI Ground Planning Co., Ltd.

Wuhan CTI-CRSRI Engineering & Environment Co., Ltd.

CTI Myanmar Co., Ltd.

(3) Reason why the non-consolidated subsidiaries are excluded from consolidation range

All of these non-consolidated subsidiaries are small and their total assets, sales, net income or loss, surplus and other of the current term do not largely influence the consolidated financial statements.

2. Application of equity method

(1) Number of non-consolidated subsidiaries and affiliates to which the equity method is applied

The equity method is not applied to any non-consolidated subsidiary.

(2) Non-consolidated subsidiaries and affiliates to which the equity method is not applied

Environmental Research & Solutions CO., LTD., CTI Frontier Co., Ltd., Management Techno Co., Ltd., Kamaishi Solar Power Generation Co., Ltd., Kamaishi Naranokidaira Solar Power Generation Co., Ltd., CTI AURA Co., Ltd., CTI Shin Doboku Co., Ltd., CTI Wing Co., Ltd., CTI Ground Planning Co., Ltd., Wuhan CTI-CRSRI Engineering & Environment Co., Ltd., CTI Myanmar Co., Ltd., Sogo Setsubi Consulting Co., Ltd., and SAPPORO NISSOKEN ARCHITECTS & ENGINEERS Co., Ltd. have only a slight influence on the consolidated net income or loss and the profit surplus respectively, and do not have much importance as a whole. Therefore, they are excluded from the application range of the equity method.

(Sogo Setsubi Consulting Co., Ltd. and SAPPORO NISSOKEN ARCHITECTS & ENGINEERS Co., Ltd. are affiliates of NISSOKEN ARCHITECTS & ENGINEERS Co., Ltd.)



3. Fiscal year of the consolidated subsidiary

The fiscal year of Waterman Group Plc and its consolidated subsidiaries ends on either March 31 or June 30. In preparing the consolidated financial statements, the financial statements of the above-mentioned consolidated subsidiaries based on the provisional settlement of accounts implemented as of December 31, the consolidated closing date, have been used.

The fiscal year of the other consolidated subsidiaries ends on the consolidated closing date.

4. Accounting standard for application of accounting policies to foreign subsidiaries

The Revised Practical Solution on Accounting for Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements (ASBJ PITF No. 18 issued on March 26, 2015) has been applied, and necessary adjustment has been made to the overseas subsidiaries upon the settlement of consolidated accounts.

5. Accounting policy

(1) Valuation base and valuation method of important assets

1) Securities

Held-to-maturity securities

Amortized cost method.

Available-for-sale securities

- With fair value

Calculated on the market value method based upon stock market prices as of the fiscal year-end. (Unrealized gains or losses have been dealt with according to the direct capital imputation method, while value of products sold has been calculated according to the moving average method.)

- With no fair value

Cost method by moving average method.

2) Inventories

Prepaid expenses for uncompleted services -- Cost method by job cost system

(2) Depreciation and amortization method of important depreciable assets

1) Tangible fixed assets (excluding lease assets) -- Declining balance method.

However, the straight-line method is adopted for the buildings (excluding the facilities attached to them) acquired on and after April 1, 1998 and the facilities attached to buildings and structures acquired on and after April 1, 2016.

Further, the average life expectancy is as set forth below.

Buildings: 17 – 50 years

2) Intangible fixed assets (excluding lease assets) -- Straight-line method.

For software for internal use, the straight-line method based on the usable period in the Company (5 years) is adopted.

3) Lease assets

Straight-line method using the lease period as the service life and considering the residual value to be zero.

(3) Standards for translation of assets and liabilities denominated in foreign currencies into yen

Monetary debts and credits denominated in foreign currencies are translated into yen based on the spot exchange rate in the foreign exchange market on the consolidated balance sheet date, and the foreign exchange gains and losses resulting from the translation are recognized in the consolidated profit and loss account.

Assets and liabilities of overseas consolidated subsidiaries are translated into yen based on the spot exchange rate in the foreign exchange market on the consolidated balance sheet date, while revenue and expenses are translated into yen based on the average exchange rate for the consolidated fiscal year. The differences resulting

from the translation are included in foreign currency translation adjustment and non-controlling interests under net assets.

(4) Entry standard of important reserves and allowances

1) Allowance for doubtful accounts

To prepare for any loss by bad debts, in respect of ordinary credit, for the loan loss ratio as regards credit designated as being in danger of becoming irrecoverable, the possibility of each item being recovered is considered and the amount deemed irrecoverable is recorded.

2) Reserve for bonuses

To prepare for bonus payment to employees, the Company enters the reserve for bonuses according to the estimated payment amount standard.

3) Reserve for bonuses to directors

Calculated on forecasted payment amount to prepare for bonus payments to Directors.

4) Allowance for losses in operations

Calculated according to the forecasted losses due to uncompleted services at the end of current consolidated fiscal year in preparation for future losses related to ordered works.

5) Allowance for compensation for completed work

Calculated according to the forecasted compensation for completed work at the end of current consolidated fiscal year in preparation for future payment of compensation related to completed work.

(5) Accounting treatment of retirement benefits obligations

1) Periodic allocation of retirement benefits forecast

When computing retirement benefits obligations, the benefit formula standard is applied for allocation of the retirement benefits forecast to the periods until the end of current consolidated fiscal year.

2) Expense disposal of accounting disparity

As regards the accounting disparity, expenses shall be disposed of from the next consolidated fiscal year by the fixed amount method that shall use a predetermined number of years (5 years) within the average remaining employment period for those employees that were employed at the time of its occurrence.

3) Adoption of the simplified method in SMEs

When computing net defined benefit liability and retirement benefit costs, some consolidated subsidiaries adopt the simplified method wherein retirement benefits obligations are forecasted payment amount, assuming that all employees terminate their services as of the balance sheet date for their own convenience.

(6) Entry standard of important revenues and expenses

Sales are recognized by the completed-contract method. However, the revenues and expenses of construction contracts whose percentages of completion up to the end of this consolidated fiscal year can be reliably estimated are recognized by the percentage-of-completion method (the percentage of completion is computed at the cost incurred as a percentage of the estimated total expenses).

(7) Method and period for amortization of goodwill

Goodwill is amortized equally over a certain number of years within a maximum period of 20 years based on an estimation of the duration of the effect of goodwill.

(8) Range of fund in the consolidated cash flow statement

The fund (cash and cash equivalents) in the consolidated cash flow statement comprises cash in hand, bank deposit which can be withdrawn at any time and short-term investment which can be easily realized and takes only a low risk about value fluctuation and for which the refund date comes within 3 months from the acquisition date, and overdrafts (negative cash equivalents) used in a similar way to cash equivalents in fund management.

(9) Other important matters for preparation of the consolidated financial statements

Accounting treatment of consumption tax

Tax exclusion method is adopted.

(Accounting Standards Issued but Not Yet Applied)

Major accounting standards issued but not yet applied after their establishment or amendment up to December 31, 2017 are as follows.

The effect of the application of these accounting standards is under examination at the time of preparation of the consolidated financial statements for the current consolidated fiscal year.

Overseas consolidated subsidiaries

Name of Accounting Standard	Outline	Planned date for application
Revenue from Contracts with Customers (IFRS 15)	Amendment of accounting treatment related to revenue recognition	Consolidated fiscal year ending December 31, 2019
Financial Instruments (IFRS 9)	Amendment in relation to classification, measurement, and impairment, etc. of financial instruments	Consolidated fiscal year ending December 31, 2019
Lease (IFRS 16)	Amendment of accounting treatment with respect to lease accounting	Consolidated fiscal year ending December 31, 2019

(Additional Information)

(Application of the Revised Implementation Guidance on Recoverability of Deferred Tax Assets)

The Revised Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26 issued on March 28, 2016) has been applied, effective from the current consolidated fiscal year.

(Notes on Consolidated Balance Sheet)

\*1 For non-consolidated subsidiaries and affiliates:

	Previous Consolidated Fiscal Year (as of December 31, 2016)	Current Consolidated Fiscal Year (as of December 31, 2017)
Investment securities (stock)	864 million yen	843 million yen
“Other” in investments and other assets	50	50

\*2 Warranty for liabilities

Warranty for liabilities of the Company’s employees and overseas subsidiary borrowed from financial institutions:

	Previous Consolidated Fiscal Year (as of December 31, 2016)	Current Consolidated Fiscal Year (as of December 31, 2017)
Employees	33 million yen	31 million yen
Overseas subsidiary	38 million yen	51 million yen
Total	72 million yen	82 million yen

(Notes on Consolidated Profit and Loss Account)

\*1 Major items and amounts among selling, general and administrative expenses are as follows:

	Previous Consolidated Fiscal Year (from January 1, 2016 to December 31, 2016)	Current Consolidated Fiscal Year (from January 1, 2017 to December 31, 2017)
Wages and allowances	3,279 million yen	3,779 million yen
Bonuses	581	591
Transferred reserve for bonuses	239	228
Reserve for bonuses to directors	32	68
Retirement benefits expenses	191	201
Research and investigation expenses	923	1,052
Allowance for doubtful accounts	0	36

\*2 The research and investigation expenses included in selling, general and administrative expenses are as follows:

	Previous Consolidated Fiscal Year (from January 1, 2016 to December 31, 2016)	Current Consolidated Fiscal Year (from January 1, 2017 to December 31, 2017)
	923 million yen	1,052 million yen

\*3 Loss from fixed assets disposal can be broken down as follows:

	Previous Consolidated Fiscal Year (from January 1, 2016 to December 31, 2016)	Current Consolidated Fiscal Year (from January 1, 2017 to December 31, 2017)
Buildings and structures in tangible fixed assets	18 million yen	0 million yen
Other tangible fixed assets	2	1
Other intangible fixed assets	-	0
Total	20	1

\*4 Details of the amortization of goodwill included in extraordinary loss are as follows:

Current consolidated fiscal year (from January 1, 2017 to December 31, 2017)

Goodwill was amortized in a lump sum pursuant to the provisions of Paragraph 32 of the Practical Guidelines on Capital Consolidation Procedures in Consolidated Financial Statements (JICPA Accounting Systems Committee Report No.7 issued on November 28, 2014).

## (Notes on Consolidated Statements of Comprehensive Income)

## \*1 Reclassification adjustments to net income and related tax effect of other comprehensive income

	Previous Consolidated Fiscal Year (from January 1, 2016 to December 31, 2016)	Current Consolidated Fiscal Year (from January 1, 2017 to December 31, 2017)
Other valuation difference on available- for-sale securities		
Amount recognized in the period	65 million yen	396 million yen
Reclassification adjustments to net income	-	0
Before tax-effect adjustment	65	396
Amount of tax effects	-12	-117
Other valuation difference on available- for-sale securities	53	278
Foreign currency translation adjustment		
Amount recognized in the period	-	343
Before tax-effect adjustment	-	343
Foreign currency translation adjustment	-	343
Remeasurements of defined benefit plans, net of tax		
Amount recognized in the period	-579	-387
Reclassification adjustments to net income	286	327
Before tax-effect adjustment	-293	-59
Amount of tax effects	75	16
Remeasurements of defined benefit plans, net of tax	-217	-42
Total other comprehensive income	-164	579

## (Statement of Fluctuations in Consolidated Shareholders' Equity)

Previous Consolidated Fiscal Year (From January 1, 2016 to December 31, 2016)

## 1. Issued shares

Type of Share	As of the beginning of the consolidated fiscal year	Increase	Decrease	As of the end of the consolidated fiscal year
Common stock	14,159,086	—	—	14,159,086

## 2. Treasury stock

Type of Share	As of the beginning of the consolidated fiscal year	Increase	Decrease	As of the end of the consolidated fiscal year
Common stock	18,276	180	—	18,456

Note: The increase in the amount of treasury stock of 180 shares was due to acquisition of shares constituting less than one transaction unit.

## 3. New share subscription acquisition rights

Not applicable.

## 4. Dividends

## (1) Dividend payment amount

Resolution	Type of Share	Total Dividend Amount (million yen)	Dividend Per Share (Yen)	Record Date	Effective Date
Ordinary General Meeting of Shareholders March 24, 2016	Common stock	282	20	December 31, 2015	March 25, 2016

(2) Within shares held on the record date of this consolidated fiscal year, the “effective date” will fall on the next consolidated fiscal year.

Resolution	Type of Share	Source of Dividends	Total Dividend Amount (million yen)	Dividend Per Share (Yen)	Record Date	Effective Date
Ordinary General Meeting of Shareholders March 24, 2017	Common stock	Profit surplus	282	20	December 31, 2016	March 27, 2017

Current Consolidated Fiscal Year (From January 1, 2017 to December 31, 2017)

## 1. Issued shares

Type of Share	As of the beginning of the consolidated fiscal year	Increase	Decrease	As of the end of the consolidated fiscal year
Common stock	14,159,086	—	—	14,159,086

## 2. Treasury stock

Type of Share	As of the beginning of the consolidated fiscal year	Increase	Decrease	As of the end of the consolidated fiscal year
Common stock	18,456	110	—	18,566

Note: The increase in the amount of treasury stock of 110 shares was due to acquisition of shares constituting less than one transaction unit.

3. New share subscription acquisition rights  
Not applicable.

4. Dividends

(1) Dividend payment amount

Resolution	Type of Share	Total Dividend Amount (million yen)	Dividend Per Share (Yen)	Record Date	Effective Date
Ordinary General Meeting of Shareholders March 24, 2017	Common stock	282	20	December 31, 2016	March 27, 2017

(2) Within shares held on the record date of this consolidated fiscal year, the “effective date” will fall on the next consolidated fiscal year.

Resolution	Type of Share	Source of Dividends	Total Dividend Amount (million yen)	Dividend Per Share (Yen)	Record Date	Effective Date
Ordinary General Meeting of Shareholders March 27, 2018	Common stock	Profit surplus	311	22	December 31, 2017	March 28, 2018

(Notes on Consolidated Cash Flow Statement)

- \*1 Relation between the closing balance of the cash and cash equivalents and the amounts for items described on the Consolidated Balance Sheet

	Previous Consolidated Fiscal Year (from January 1, 2016 to December 31, 2016)	Current Consolidated Fiscal Year (from January 1, 2017 to December 31, 2017)
Cash and bank deposit account	11,244 million yen	6,618 million yen
Overdrafts as negative cash equivalents	—	-103
Total	11,244	6,515

- \*2 Major breakdown of assets and liabilities of a subsidiary newly consolidated by way of an acquisition of shares during the current consolidated fiscal year

Breakdown of assets and liabilities at the commencement of consolidation resulting from the new consolidation of Waterman Group Plc by way of the acquisition of shares and the relationship between the acquisition price of the shares of Waterman Group Plc and payment for the acquisition (net increase) are as follows:

Current assets	5,439 million yen
Fixed assets	533
Goodwill	5,100
Current liabilities	-3,830
Fixed liabilities	-290
Non-controlling interests	-156
Foreign currency translation adjustment	-48
Acquisition price of shares	6,748
Cash and cash equivalents	-1,072
Balance: Payment for the acquisition	5,675

(Notes on Lease Arrangements)

1. Financial lease transactions (Lessee side)

Finance lease transactions of which ownership is not transferred to the lessee

(1) Lease assets

1) Tangible fixed assets

Mainly office appliances (other)

2) Intangible fixed assets

Software (other)

(2) Depreciation and amortization method for lease assets

The method is outlined in “(2) Depreciation and amortization method of important depreciable assets of 5. Accounting policy” in Basic Important Matters for Preparation of Consolidated Financial Statement.



(Notes on Financial Instruments)

1. Items Related to Financial Instruments

(1) Policy of financial instruments

With regard to fund management, the Group's policy is to invest temporary surplus funds in highly secure financial assets only and does not engage in speculative transactions such as derivative financial instruments.

(2) Details and risks of financial instruments and the risk management system

Notes receivable and completed work receivables as trade receivables are exposed to customer credit risks. If, with regard to those risks, the Group receives no payment after a due date has passed, it will investigate the reasons and make the results known to related persons in-house, and the relevant department will then handle the matter appropriately, in accordance with the Rules on Management of Contract Duties and the Outline of the Handling of Contracts.

Marketable securities and investment securities that mainly consist of investment trusts and shares are exposed to the risk of volatility in market prices. In the case of securities with fair value, the Group assesses their fair value on a regular basis.

(3) Supplementary explanation on matters related to the fair value, etc. of financial instruments

The fair value of financial instruments includes the value based on market prices or a reasonably calculated value for those without market prices. Because the calculation of the value entails variable factors, the value may fluctuate if different preconditions, etc. are applied.

2. Items Related to the Fair Value, etc. of Financial Instruments

The book value on the consolidated balance sheet, the fair value, and the difference between them are stated as follows. The table below does not include any financial instrument whose fair value is deemed to be considerably difficult to recognize.

Previous Consolidated Fiscal Year (from January 1, 2016 to December 31, 2016)

	Book value on the consolidated balance sheet (million yen)	Fair value (million yen)	Difference (million yen)
(1) Cash and bank deposits	11,244	11,244	—
(2) Notes receivable and completed work receivables	3,313	3,313	—
(3) Investment securities			
1) Held-to-maturity securities			
2) Available-for-sale securities	725	696	-29
	1,581	1,581	—
Total	16,864	16,834	-29

Current Consolidated Fiscal Year (from January 1, 2017 to December 31, 2017)

	Book value on the consolidated balance sheet (million yen)	Fair value (million yen)	Difference (million yen)
(1) Cash and bank deposits	6,618	6,618	—
(2) Notes receivable and completed work receivables	6,051	6,051	—
(3) Investment securities			
1) Held-to-maturity securities			
2) Available-for-sale securities	722	709	-12
	2,077	2,077	—
Total	15,470	15,457	-12

Note 1. Items related to the methods for calculating the fair value of financial instruments and securities

Assets

(1) Cash and bank deposits

Cash and bank deposits are reported in book value because the fair value is almost equal to the book value due to the relatively short period of accounts settlement.

(2) Notes receivable and completed work receivables

Notes receivable and completed work receivables are reported in book value because the fair value is almost equal to the book value due to the relatively short period of accounts settlement.

(3) Investment securities

With regard to the fair value of investment securities, shares are recorded according to prices on stock exchanges, and bonds and notes are recorded according to prices on exchanges or prices quoted by financial institutions. With regard to items related to securities classified by purposes of holding, please see the Notes on Marketable Securities.

Liabilities

Not applicable.

Note 2. Book value on the consolidated balance sheet of financial instruments whose fair value is deemed to be considerably difficult to recognize

(million yen)

Account title	Previous Consolidated Fiscal Year As of December 31, 2016	Current Consolidated Fiscal Year As of December 31, 2017
Non-listed shares	957	938

Because non-listed shares have no market prices and their future cash flows cannot be estimated, their fair value is deemed to be considerably difficult to recognize. Accordingly, non-listed shares are not included in (3) Investment securities.

Note 3. Predicted redemption value after the settlement date of the consolidated accounts for monetary credits and securities that have reached maturity

Previous Consolidated Fiscal Year (as of December 31, 2016)

	Within 1 year (million yen)	Over 1 year but within 5 years (million yen)	Over 5 years but within 10 years (million yen)	Over 10 years (million yen)
Cash and bank deposits	11,244	—	—	—
Notes receivable and completed work receivables	3,313	—	—	—
Investment securities				
Held-to-maturity securities				
Corporate bonds	—	—	225	500
Total	14,557	—	225	500

Current Consolidated Fiscal Year (as of December 31, 2017)

	Within 1 year (million yen)	Over 1 year but within 5 years (million yen)	Over 5 years but within 10 years (million yen)	Over 10 years (million yen)
Cash and bank deposits	6,618	—	—	—
Notes receivable and completed work receivables	6,051	—	—	—
Investment securities				
Held-to-maturity securities				
Corporate bonds	—	—	222	500
Total	12,669	—	222	500

(Notes on Marketable Securities)

1. Held-to-maturity securities

Previous Consolidated Fiscal Year (as of December 31, 2016)

Classification	Type	Book value on the consolidated balance sheet (million yen)	Fair value (million yen)	Difference (million yen)
Those whose fair value exceeds the amount recorded on the consolidated balance sheet	(1) Government bonds	—	—	—
	(2) Corporate bonds	225	226	1
	(3) Other	—	—	—
	Subtotal	225	226	1
Those whose fair value does not exceed the amount recorded on the consolidated balance sheet	(1) Government bonds	—	—	—
	(2) Corporate bonds	500	469	-30
	(3) Other	—	—	—
	Subtotal	500	469	-30
Total		725	696	-29

Current Consolidated Fiscal Year (as of December 31, 2017)

Classification	Type	Book value on the consolidated balance sheet (million yen)	Fair value (million yen)	Difference (million yen)
Those whose fair value exceeds the amount recorded on the consolidated balance sheet	(1) Government bonds	—	—	—
	(2) Corporate bonds	222	225	2
	(3) Other	—	—	—
	Subtotal	222	225	2
Those whose fair value does not exceed the amount recorded on the consolidated balance sheet	(1) Government bonds	—	—	—
	(2) Corporate bonds	500	484	-15
	(3) Other	—	—	—
	Subtotal	500	484	-15
Total		722	709	-12

## 2. Available-for-sale securities

Previous Consolidated Fiscal Year (as of December 31, 2016)

Classification	Type	Book value on the consolidated balance sheet (million yen)	Acquisition Cost (million yen)	Difference (million yen)
Those whose amount recorded on the consolidated balance sheet exceeds the acquisition cost	(1) Shares	1,531	654	877
	(2) Bonds and Notes	—	—	—
	(3) Other	—	—	—
	Subtotal	1,531	654	877
Those whose amount recorded on the consolidated balance sheet does not exceed the acquisition cost	(1) Shares	49	54	-5
	(2) Bonds and Notes	—	—	—
	(3) Other	—	—	—
	Subtotal	49	54	-5
Total		1,581	709	871

Current Consolidated Fiscal Year (as of December 31, 2017)

Classification	Type	Book value on the consolidated balance sheet (million yen)	Acquisition Cost (million yen)	Difference (million yen)
Those whose amount recorded on the consolidated balance sheet exceeds the acquisition cost	(1) Shares	2,028	759	1,269
	(2) Bonds and Notes	—	—	—
	(3) Other	—	—	—
	Subtotal	2,028	759	1,269
Those whose amount recorded on the consolidated balance sheet does not exceed the acquisition cost	(1) Shares	48	50	-1
	(2) Bonds and Notes	—	—	—
	(3) Other	—	—	—
	Subtotal	48	50	-1
Total		2,077	809	1,268

3. Held-to-maturity securities sold during the consolidated fiscal year

Previous Consolidated Fiscal Year (from January 1, 2016 to December 31, 2016)

Not applicable.

Current Consolidated Fiscal Year (from January 1, 2017 to December 31, 2017)

Not applicable.

4. Available-for-sale securities sold during the consolidated fiscal year

Previous Consolidated Fiscal Year (from January 1, 2016 to December 31, 2016)

Not applicable.

Current Consolidated Fiscal Year (from January 1, 2017 to December 31, 2017)

	Sales amount (million yen)	Total gain on sales (million yen)	Total loss on sales (million yen)
Shares	0	0	—

5. Securities written down

Previous Consolidated Fiscal Year (from January 1, 2016 to December 31, 2016)

In the current consolidated fiscal year, the Group wrote down 35 million yen in investment securities.

Current Consolidated Fiscal Year (from January 1, 2017 to December 31, 2017)

In the current consolidated fiscal year, the Group wrote down 20 million yen in investment securities.

(Notes on Derivatives Transactions)

The Group did not use any derivative transactions, and therefore, there is no applicable information.

(Notes on Retirement Benefits)

1. Outline of the current retirement benefits system

The Company and its consolidated subsidiaries adopted funded and unfunded defined benefit systems in order to appropriate them for employees' retirement benefits. Waterman Group Plc, a subsidiary that newly joined the Group from the second quarter of the current consolidated fiscal year, adopted a defined contribution system.

The Company and CTI Engineering International Co., Ltd. joined the former Japan Civil Engineering Consultants Pension Fund (jointly established) in 1971. The former Japan Civil Engineering Consultants Pension Fund (jointly established) received approval from the Minister of Health, Labour and Welfare for the return of past obligations for a part of an employees' pension fund administered on behalf of the government on July 1, 2016 and has been subsequently transferred to the Civil Engineering Consultants Corporate Pension Fund (jointly established).

Japan Urban Engineering Co., Ltd. joined the former All Japan Surveying Enterprises Multi Employers Pension Fund (jointly established) in 1972. The former All Japan Surveying Enterprises Multi Employers Pension Fund received exemption from future payment obligations for a part of an employees' pension fund administered on behalf of the government from the Minister of Health, Labour and Welfare on November 1, 2015 and was transferred to the Surveying & Desing Enterprises Multi Employers Pension Fund (jointly established) on April 1, 2017.

For both pension funds, an additional amount to be borne resulting from the return of a part of an employees' pension fund administered on behalf of the government is not expected to accrue.

All of the pension fund systems the employees join are multi-employer systems, and because an amount of pension assets corresponding to the Company's contribution cannot be reasonably computed, the Company carries out the accounting treatment in the same manner used for the defined contribution system.

A lump sum retirement benefits system held by some consolidated subsidiaries computes net defined benefit liability and retirement benefits costs using the simplified method.

In the case of the retirement of present employees, there are cases where a retirement amount is paid even if the calculations performed in accordance with the retirement benefits accounting show no financial obligation to pay retirement benefits.

The Company also has a retirement benefits trust.

2. Defined Benefit System (excluding the systems using the Simplified Method)

(1) Reconciliation of opening and closing balance of retirement benefits obligations

	(million yen)	
	Previous Consolidated Fiscal Year (from January 1, 2016 to December 31, 2016)	Current Consolidated Fiscal Year (from January 1, 2017 to December 31, 2017)
Balance of retirement benefit obligations at the beginning of year	11,559	12,420
Labor costs	814	882
Interest costs	70	38
Accounting disparity	596	523
Retirement benefits paid	-620	-597
Balance of the retirement benefit obligations at the end of year	12,420	13,267

## (2) Reconciliation of opening and closing balance of pension assets

	(million yen)	
	Previous Consolidated Fiscal Year (from January 1, 2016 to December 31, 2016)	Current Consolidated Fiscal Year (from January 1, 2017 to December 31, 2017)
Balance of pension assets at the beginning of year	12,288	12,723
Expected operating profit	245	254
Accounting disparity	16	136
Contribution from employer	720	659
Retirement benefits paid	-548	-519
Balance of the pension assets at the end of year	12,723	13,253

## (3) Reconciliation of the ending balance of retirement benefits obligations and pension assets, and the net defined benefit liability and the net defined benefit asset included in the consolidated balance sheets

	(million yen)	
	Previous Consolidated Fiscal Year (as of December 31, 2016)	Current Consolidated Fiscal Year (as of December 31, 2017)
Funded retirement benefits obligations	11,723	12,538
Pension assets	-12,723	-13,253
	-999	-715
Unfunded retirement benefits obligations	696	729
Net amount of relevant liabilities and assets on the consolidated balance sheets	-303	13
Net defined benefit liability	696	729
Net defined benefit asset	-999	-715
Net amount of relevant liabilities and assets on the consolidated balance sheets	-303	13

## (4) Retirement benefits costs and related accounting items

	(million yen)	
	Previous Consolidated Fiscal Year (from January 1, 2016 to December 31, 2016)	Current Consolidated Fiscal Year (from January 1, 2017 to December 31, 2017)
Labor costs	814	882
Interest costs	70	38
Expected operating profit	-245	-254
Cost disposal amount arising from accounting disparity	286	327
Retirement benefits costs under the defined benefit system	925	994

## (5) Remeasurements of defined benefit plans, net of tax

The breakdown of items (before tax effect adjustment) included in remeasurements of defined benefit plans, net of tax is as follows:

	(million yen)	
	Previous Consolidated Fiscal Year (from January 1, 2016 to December 31, 2016)	Current Consolidated Fiscal Year (from January 1, 2017 to December 31, 2017)
Accounting disparities	-293	-59
Total	-293	-59

(6) Remeasurements of defined benefit plans

The breakdown of items (before tax effect adjustment) included in remeasurements of defined benefit plans is as follows:

	(million yen)	
	Previous Consolidated Fiscal Year (as of December 31, 2016)	Current Consolidated Fiscal Year (as of December 31, 2017)
Previously unrecognized accounting disparities	-1,244	-1,303
Total	-1,244	-1,303

(7) Matters regarding pension assets

1) Major breakdown of pension assets

The percentages of major asset types that account for the total pension assets are as follows:

	Previous Consolidated Fiscal Year (as of December 31, 2016)	Current Consolidated Fiscal Year (as of December 31, 2017)
Domestic bonds	12 %	11 %
Domestic stocks	1	1
Foreign bonds	1	1
Foreign stocks	1	1
Life insurance general accounts	53	54
Other	32	32
Total	100	100

Note: Total pension assets include a retirement benefit trust established for the corporate pension system (11% for the previous consolidated fiscal year and 10% for the current consolidated fiscal year).

2) Method for setting the long-term expected operating profit percentage

To determine the long-term expected operating profit percentage on pension assets, the current and projected distribution of pension assets, as well as the current and anticipated long-term yield rates of various assets that constitute the pension assets, are taken into account.

(8) Matters regarding the assumptions for actuarial calculations

Key assumptions for actuarial calculations

	Previous Consolidated Fiscal Year (from January 1, 2016 to December 31, 2016)	Current Consolidated Fiscal Year (from January 1, 2017 to December 31, 2017)
Discount percentage	Primarily 0.3%	Primarily 0.3%
Long-term expected operating profit percentage	2.0%	2.0%

3. Defined Benefit System using the Simplified Method

(1) Reconciliation of opening and closing balance of net defined benefit liability using the Simplified Method

	(million yen)	
	Previous Consolidated Fiscal Year (from January 1, 2016 to December 31, 2016)	Current Consolidated Fiscal Year (from January 1, 2017 to December 31, 2017)
Balance of net defined benefit liability at the beginning of year	407	316
Retirement benefits costs	97	63
Retirement benefits paid	-20	-14
Contribution to systems	-166	-127
Net amount of relevant benefit liability and asset	316	238
Net defined benefit liability	330	247
Net defined benefit asset	-13	-9
Net amount of relevant benefit liability and asset	316	238



(2) Reconciliation of the ending balance of retirement benefits obligations and pension assets, and the net defined benefit liability and the net defined benefit asset included in the consolidated balance sheets

	(million yen)	
	Previous Consolidated Fiscal Year (as of December 31, 2016)	Current Consolidated Fiscal Year (as of December 31, 2017)
Funded retirement benefits obligations	847	862
Pension assets	-530	-624
	316	238
Unfunded retirement benefits obligations	—	—
Net amount of relevant liabilities and assets on the consolidated balance sheets	316	238
Net defined benefit liability	330	247
Net defined benefit asset	-13	-9
Net amount of relevant liabilities and assets on the consolidated balance sheets	316	238

(3) Retirement benefit costs

Retirement benefit costs calculated using the simplified method

Previous Consolidated Fiscal Year	97 million yen
Current Consolidated Fiscal Year	63 million yen

4. Defined Contribution System

The required amounts of contribution to the defined contribution system of consolidated subsidiaries

Previous Consolidated Fiscal Year	— million yen
Current Consolidated Fiscal Year	51 million yen

5. Multi-employer System

The required amounts of contribution to the employees' pension fund under the multi-employer system, a system whose accounting treatment is carried out in the same manner as the defined contribution system, were 306 million yen for the previous consolidated fiscal year and 307 million yen for the current consolidated fiscal year.

(1) The latest savings in the multi-employer system

1) Japan Civil Engineering Consultants Pension Fund

	(million yen)	
	Previous Consolidated Fiscal Year (as of March 31, 2016)	Current Consolidated Fiscal Year (as of March 31, 2017)
Pension assets	193,485	75,025
Sum of the actuarial obligations and minimum actuarial reserve based on pension finance computation	190,067	62,371
Balance	3,417	12,654

2) Surveying & Desing Enterprises Multi Employers Pension Fund

	(million yen)	
	Previous Consolidated Fiscal Year (as of March 31, 2016)	Current Consolidated Fiscal Year (as of March 31, 2017)
Pension assets	196,912	188,590
Sum of the actuarial obligations and minimum actuarial reserve based on pension finance computation	185,654	176,831
Balance	11,258	11,759

(2) Percentage of total salaries of the Group to the overall system under the multi-employer system

1) Japan Civil Engineering Consultants Pension Fund

Previous Consolidated Fiscal Year 7.97% (from April 1, 2015 to March 31, 2016)

Current Consolidated Fiscal Year 7.93% (from April 1, 2016 to March 31, 2017)

2) Surveying & Desing Enterprises Multi Employers Pension Fund

Previous Consolidated Fiscal Year 0.43% (from April 1, 2015 to March 31, 2016)

Current Consolidated Fiscal Year 0.44% (from April 1, 2016 to March 31, 2017)

(3) Supplementary explanation

1) Japan Civil Engineering Consultants Pension Fund

The major reasons for the balance described in (1) above were the balance of pre-existing employment obligations based on the calculation of pension finance (19,253 million yen for the previous consolidated fiscal year and 10,222 million yen for the current consolidated fiscal year), surplus, and shortage (-22,670 million yen for the previous consolidated fiscal year and -22,877 million yen for the current consolidated fiscal year).

The pre-existing employment obligations under this system are amortized by the annuity repayment method over 15 years, and a special premium (217 million yen for the previous consolidated fiscal year and 214 million yen for the current consolidated fiscal year) was amortized in the consolidated financial statements.

Additionally, the percentage described in (2) above was not identical to the Group's actual percentage.

2) Surveying & Desing Enterprises Multi Employers Pension Fund

Major reasons for the balance described in (1) above were the balance of pre-existing employment obligations based on the calculation of pension finance (7,752 million yen for the previous consolidated fiscal year and 7,490 million yen for the current consolidated fiscal year), surplus, and shortage (-19,010 million yen for the previous consolidated fiscal year and -19,249 million yen for the current consolidated fiscal year).

The pre-existing employment obligations under this system are amortized by the annuity repayment method over 20 years, and a special premium (3 million yen for the previous consolidated fiscal year and 0 million yen for the current consolidated fiscal year) was amortized in the consolidated financial statements.

Additionally, the percentage described in (2) above was not identical to the Group's actual percentage.

(Stock Options)

Not applicable.

(Tax Effect Accounting)

1. Breakdown by major cause of deferred tax assets and deferred tax liabilities generation

	Previous Consolidated Fiscal Year (as of December 31, 2016)		Current Consolidated Fiscal Year (as of December 31, 2017)	
Deferred tax assets				
Accrued enterprise tax	64	million yen	57	million yen
Allowance for losses in operations	31		26	
Reserve for bonuses	275		264	
Social insurance premiums for bonuses	40		38	
Net defined benefit liability	320		430	
Long-term accounts payable	22		6	
Unrealized loss on securities	63		63	
Asset retirement obligations	47		51	
Loss brought forward	109		351	
Other	74		206	
Subtotal	1,050		1,497	
Allowance account	-246		-416	
Total deferred tax assets	804		1,081	
Deferred tax liabilities				
Net defined benefit asset	19	million yen	40	million yen
Tangible fixed assets	28		29	
Other valuation difference on available-for-sale securities	207		324	
Liability adjustment account	59		44	
Other	—		0	
Total	313		439	
Net of deferred tax assets	490	million yen	641	million yen

(Changes in presentation method)

Each item of deferred tax assets and deferred tax liabilities was presented separately in the current portion and fixed portion in the previous consolidated fiscal year. In order to enhance the clarity of the “Breakdown by major cause of deferred tax assets and deferred tax liabilities generation,” this method has been changed to a method whereby a total amount for both the current and fixed portion are presented, effective from the current consolidated fiscal year.

To reflect this change in the presentation method, the “Breakdown by major cause of deferred tax assets and deferred tax liabilities generation” for the previous consolidated fiscal year has been reclassified.

Note: Net deferred tax assets for the previous consolidated fiscal year and the current consolidated fiscal year are included in the following items on the consolidated balance sheets.

	Previous Consolidated Fiscal Year (as of December 31, 2016)		Current Consolidated Fiscal Year (as of December 31, 2017)	
Current assets - Deferred tax assets	428	million yen	413	million yen
Fixed assets - Deferred tax assets	140		307	
Fixed liabilities - Deferred tax liabilities	77		78	

2. Breakdown by major item of causes leading to any material difference between the legal effective tax rate and the bearing rate of corporation tax or the like after application of tax effect accounting

	Previous Consolidated Fiscal Year (as of December 31, 2016)		Current Consolidated Fiscal Year (as of December 31, 2017)	
Legal effective tax rate	33.06	%	30.86	%
(Adjustment)				
No entry of loss from entertainment expense etc.	0.44		0.61	
Per capita inhabitant tax	3.99		3.88	
No entry of profit from dividends earned, etc.	-0.27		-0.14	
Revision due to a change in tax rate	0.66		—	
Special tax credit of experiment and research expenses	—		-0.89	
Tax credit under the Income Growth Promotion Tax System	-2.35		-2.55	
No entry of loss from bonuses to directors	0.38		0.42	
Amortization of goodwill	0.16		2.20	
Acquisition cost of shares of consolidated subsidiaries	—		2.70	
Allowance account	4.07		-2.83	
Other	0.08		-2.10	
Bearing rate of corporation tax or the like after application of tax effect accounting	40.22		32.16	

(Changes in presentation method)

“Amortization of goodwill,” an item included in “Other” in the previous consolidated fiscal year, is presented separately effective from the current consolidated fiscal year due to an increase in materiality. To reflect this change in the presentation method, notes for the previous consolidated fiscal year have been reclassified.

As a result, 0.24% presented in “Other” in the notes for the previous consolidated fiscal year has been reclassified to 0.16% in “Amortization of goodwill” and 0.08% presented in “Other.”

(Segment Information)

Segment Information

1. Outline of reportable segments

The reportable segments of the Group are defined as operating segments within the Group whose discrete financial information is available and is reviewed by the Board of Directors regularly in order to decide the allocation of management resources and assess results.

The Group assesses results by each company constituting the Group, and the Group companies are classified into those that mainly engage in operations in Japan and those that mainly engage in operations overseas.

Accordingly, the two reportable segments of the Group are “Domestic consulting engineering business” and “Overseas consulting engineering business.”

(Matters regarding changes in reportable segments)

Because the Group previously engaged in a single business of engineering consulting and incidental services mainly in Japan, a description of the segment information was omitted. As the Group acquired shares of Waterman Group Plc in the current consolidated fiscal year and included the subsidiary in the scope of consolidation, the Group decided to classify its reportable segments into “Domestic consulting engineering business” operated in Japan and “Overseas consulting engineering business” operated outside of Japan.

Segment information for the previous consolidated fiscal year is prepared and disclosed based on the reportable segments after the change.

2. Method for computing the amounts of sales, profit (loss), assets and other items by reportable segments

The accounting method for the reported business segments conforms to the accounting policies applied for preparation of the consolidated financial statements.

Income by reportable segment is based on operating income. Inter-segment revenue and transfers are based on prevailing market prices.

3. Information on the amounts of sales, profit (loss), assets and other items by reportable segments

Previous consolidated fiscal year (from January 1, 2016 to December 31, 2016)

	(million yen)				
	Domestic consulting engineering business	Overseas consulting engineering business	Total	Adjustments (Note 1)	Book value on the consolidated financial statements (Note 2)
Sales					
Sales to outside customers	38,788	3,244	42,033	—	42,033
Inter-segment sales or transfers	37	2	39	-39	—
Total	38,825	3,247	42,072	-39	42,033
Segment income	2,321	56	2,377	0	2,378
Segment assets	40,163	3,127	43,291	-646	42,644
Other items					
Depreciation	379	14	394	—	394
Amortization of goodwill	11	—	11	—	11

Notes: 1. Adjustments to inter-segment sales or transfers (-39 million yen), adjustments to segment income (0 million yen), and adjustments to segment assets (-646 million yen) are attributable to inter-segment eliminations.

2. Segment income is reconciled with operating income in the consolidated profit and loss account.

Current consolidated fiscal year (from January 1, 2017 to December 31, 2017)

(million yen)

	Domestic consulting engineering business	Overseas consulting engineering business	Total	Adjustments (Note 1)	Book value on the consolidated financial statements (Note 2)
Sales					
Sales to outside customers	39,603	9,697	49,301	—	49,301
Inter-segment sales or transfers	61	30	92	-92	—
Total	39,665	9,728	49,394	-92	49,301
Segment income	2,505	134	2,640	-219	2,420
Segment assets	35,566	14,508	50,074	-630	49,444
Other items					
Depreciation	380	80	461	—	461
Amortization of goodwill	45	129	174	—	174

- Notes: 1. Adjustments to inter-segment sales or transfers (-92 million yen) are attributable to inter-segment eliminations. Adjustments to segment income (-219 million yen) are attributable to costs related to the acquisition of shares of subsidiaries (-214 million yen) and inter-segment eliminations (-5 million yen). Adjustments to segment assets (-630 million yen) are attributable to inter-segment eliminations.
2. Segment income is reconciled with operating income in the consolidated profit and loss account.
3. Amortization of goodwill for domestic consulting engineering business includes amortization of goodwill (34 million yen) included in extraordinary loss.
4. The amounts of sales and segment income of overseas consulting engineering business for the current consolidated fiscal year include the results of Waterman Group Plc, a subsidiary newly included in the scope of consolidation for the period of July 1, 2017 through December 31, 2017.

## Relevant Information

Previous consolidated fiscal year (from January 1, 2016 to December 31, 2016)

### 1. Information by products and services

The same information is disclosed in Segment Information, and is omitted here.

### 2. Information by areas

#### (1) Sales

Sales to outside customers in Japan make up over 90% of the amount of sales in the Consolidated Profit and Loss Account, and are omitted here.

#### (2) Tangible Fixed Assets

The Group has no tangible fixed assets located outside of Japan. The Company has nothing to be described here.

### 3. Information by major customers

(million yen)

Name of customer	Sales	Name of the relevant segment
National government of Japan	18,485	Domestic consulting engineering business

Current consolidated fiscal year (from January 1, 2017 to December 31, 2017)

### 1. Information by products and services

The same information is disclosed in Segment Information, and is omitted here.

### 2. Information by areas

#### (1) Sales

(million yen)

Japan	Asia	Europe		Other	Total
		UK	Other than UK		
39,543	2,047	5,701	610	1,398	49,301

- Notes: 1. Sales are classified based on areas in which the Group renders its services.
2. Method of classification of country or region, and major countries or regions that belong to each region
- 1) Method of classification of country or region: based on geographic proximity
- 2) Countries or regions that belong to classifications other than Japan
- Asia: Philippines, China, Myanmar, etc.
- Europe other than UK: Ireland, etc.
- Other: Australia, etc.

#### (2) Tangible Fixed Assets

The amounts of tangible fixed assets located in Japan make up over 90% of the amount of tangible fixed assets in the Consolidated Balance Sheet, and are omitted here.

### 3. Information by major customers

(million yen)

Name of customer	Sales	Name of the relevant segment
National government of Japan	20,516	Domestic consulting engineering business

Impairment losses on fixed assets by reportable segments

Previous consolidated fiscal year (from January 1, 2016 to December 31, 2016) and current consolidated fiscal year (from January 1, 2017 to December 31, 2017)

Not applicable.

Amortized amount and unamortized balance of goodwill by reportable segments

Previous consolidated fiscal year (from January 1, 2016 to December 31, 2016)

(million yen)

	Domestic consulting engineering business	Overseas consulting engineering business	Corporate/elimination	Total
Amortization of goodwill in the current period	11	—	—	11
Balance at the end of the current period	45	—	—	45

Current consolidated fiscal year (from January 1, 2017 to December 31, 2017)

(million yen)

	Domestic consulting engineering business	Overseas consulting engineering business	Corporate/elimination	Total
Amortization of goodwill in the current period	45	129	—	174
Balance at the end of the current period	—	5,182	—	5,182

Note: Amortization of goodwill in the current period for domestic consulting engineering business includes amortization of goodwill (34 million yen) under extraordinary loss.

Gain on negative goodwill by reportable segments

Previous consolidated fiscal year (from January 1, 2016 to December 31, 2016) and current consolidated fiscal year (from January 1, 2017 to December 31, 2017)

Not applicable.

Information on related parties

Previous consolidated fiscal year (from January 1, 2016 to December 31, 2016)

(1) Transaction between the company submitting consolidated financial statements and the related parties

(a) Non-consolidated subsidiary and affiliates, etc. of the company submitting consolidated financial statements

Type	Name of company, etc.	Location	Paid-in capital or investment in capital (million yen)	Business outline	Ratio of voting rights holding (held) (%)	Relationship with related party	Summary of transactions	Amount of transaction (million yen)	Item	Balance at end of fiscal year (million yen)
Non-consolidated subsidiary	Kamaishi Naranokidaira Solar Power Generation Co., Ltd.	Kamaishi-shi, Iwate	5	Solar power generation	100	Outsourcing of a part of the Company's services	Loan of funds	—	Short-term loans	52
									Long-term loans	497

Note: The terms and conditions of transactions are as follows:

\* Loan transactions: The loan interest rate is determined in consideration of the prevailing market rates.



Current consolidated fiscal year (from January 1, 2017 to December 31, 2017)

(1) Transaction between the company submitting consolidated financial statements and the related parties

(a) Non-consolidated subsidiary and affiliates, etc. of the company submitting consolidated financial statements

Type	Name of company, etc.	Location	Paid-in capital or investment in capital (million yen)	Business outline	Ratio of voting rights holding (held) (%)	Relationship with related party	Summary of transactions	Amount of transaction (million yen)	Item	Balance at end of fiscal year (million yen)
Non-consolidated subsidiary	Kamaishi Naranokidaira Solar Power Generation Co., Ltd.	Kamaishi-shi, Iwate	5	Solar power generation	100	Outsourcing of a part of the Company's services	Loan of funds	—	Short-term loans	24
							Collection of loans	48	Long-term loans	477

Note: The terms and conditions of transactions are as follows:

\* Loan transactions: The loan interest rate is determined in consideration of the prevailing market rates.

(Business Combination)

Current consolidated fiscal year (from January 1, 2017 to December 31, 2017)

1. Outline of Business Combination

(1) Name of acquired company and description of its business

Name of the acquired company	Waterman Group Plc
Description of business	Engineering consultant (structures, building services, environment, civil engineering, traffic and transportation, and client support)

(2) Major reason for the business combination

Waterman Group Plc, a second-tier consulting company in the UK, has the advantages in building-related operations including structural design and facilities and equipment design, while involving in a wide range of infrastructure works such as road traffic and environment projects. It possesses local subsidiaries in Australia, Ireland, etc.

The Group plans to establish a structure oriented toward globalization and multi-infrastructure earlier by acquiring Waterman Group Plc as a subsidiary and desires to leverage the acquisition to further promote business development in the global engineering consulting market, especially in the major three markets of “traffic,” “energy,” and “buildings.”

(3) Date of business combination

June 22, 2017 (June 30, 2017 as the deemed acquisition date)

(4) Legal form of business combination

Share acquisition in consideration of cash

(5) Name of the company after the combination

Unchanged

(6) Ratio of voting rights acquired

100%

(7) Major grounds for determining an acquiring company

The Company acquired shares in consideration of cash.

2. The period for which the results of the acquired company are included in the consolidated financial statements

From July 1, 2017 to December 31, 2017

3. Acquisition cost of the acquired company and related details for each consideration for acquisition

Consideration for acquisition (cash)	6,748	million yen
Acquisition cost	6,748	

4. Details and amounts of major acquisition-related expenses

Compensation and fees paid to advisors, etc.	127	million yen
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5. Amount of goodwill incurred, reasons for the goodwill incurred, and the method and period of amortization

(1) Amount of goodwill incurred

5,100 million yen

(2) Reasons for the goodwill incurred

Goodwill incurred from expected excess earnings power in the future arising from further business development.

(3) Method and period of amortization

Goodwill is amortized equally over 20 years.

6. Amounts of assets received and liabilities undertaken on the date of the business combination, and the breakdown thereof

Current assets	5,439	million yen
Fixed assets	533	
Total assets	5,973	
Current liabilities	3,830	
Fixed liabilities	290	
Total liabilities	4,120	

7. The estimated amounts of the impact of the business combination on the consolidated profit and loss account for the current consolidated fiscal year when the business combination is assumed to have been completed as of the first day of the current consolidated fiscal year, and the method for calculation thereof

Sales	6,244	million yen
Operating loss (-)	-181	
Ordinary loss (-)	-176	
Net loss before income tax (-)	-177	
Net loss attributable to owners of the parent (-)	-284	
Net loss per share (-)	-20.15	yen

(Method for calculating the estimated amounts)

The estimated amounts of the impact are defined as differences between sales and profit/loss information calculated based on the assumption that the business combination was completed as of the first day of the current consolidated fiscal year and sales and profit/loss information in the consolidated profit and loss account of the acquiring company.

The above-mentioned information does not always indicate events that could occur in the future. In addition, it does not show business performance in the event that the business combination was in fact completed on the first day of the current consolidated fiscal year.

The estimated amounts of the impact in these notes have not received audit certification.

(Notes on Investment and Rental Property)

Previous consolidated fiscal year (from January 1, 2016 to December 31, 2016) and current consolidated fiscal year (from January 1, 2017 to December 31, 2017)

There are no significant investment or rental properties to be stated, so the statement is omitted.

(Information per Share)

	Previous Consolidated Fiscal Year (from January 1, 2016 to December 31, 2016)	Current Consolidated Fiscal Year (from January 1, 2017 to December 31, 2017)
Net assets per share	1,746.31 yen	1,881.01 yen
Net income per share	102.37 yen	114.22 yen

Notes: 1. Net income per share after adjustment of potential shares is not stated because the Company has issued no potential shares.

2. Basis of calculation of net income per share:

Item	Previous Consolidated Fiscal Year (from January 1, 2016 to December 31, 2016)	Current Consolidated Fiscal Year (from January 1, 2017 to December 31, 2017)
Net income attributable to owners of the parent in the consolidated profit and loss account (million yen)	1,447	1,615
Net income attributable to owners of the parent related to common shares (million yen)	1,447	1,615
Amounts not belonging to ordinary shareholders (million yen)	—	—
Average number of common shares for the entire fiscal year (shares)	14,140,683	14,140,591

(Significant Subsequent Event)

Not applicable.

(v) Supplemental Specifications for Consolidated Financial Statements

Corporate bonds specification

Not applicable.

Specifications about borrowings

Category	Current term opening balance (million yen)	Current term closing balance (million yen)	Average rate (%)	Repayment deadline
Short-term borrowings	700	453	1.1	—
Long-term borrowings to be repaid within 1 year	—	34	5.5	—
Lease obligations to be repaid within 1 year	62	54	—	—
Long-term borrowings except those to be repaid within 1 year	—	6	5.5	March 18, 2019
Lease obligations except those to be repaid within 1 year	81	61	—	2019 to 2022
Other Interest-bearing Liabilities	—	—	—	—
Total	843	609	—	—

Notes: 1. In respect of the average interest ratio, balance at the end of the term such as outstanding borrowings are set forth at a weighted average percentage.

2. Because lease obligations are reported in the consolidated balance sheet in the amount before deducting assumed interest payments included in total lease payments, the average interest ratio of the lease obligations is not set forth.

3. The amount scheduled to be repaid for lease obligations (except those to be repaid within one year) within 5 years after the consolidated closing date is as follows.

Category	Over 1 year but within 2 years (million yen)	Over 2 years but within 3 years (million yen)	Over 3 years but within 4 years (million yen)	Over 4 years but within 5 years (million yen)
Lease obligations	35	17	7	1

Specifications about asset retirement obligations

The amount of asset retirement obligations at the beginning and end of the current consolidated fiscal year is no more than one hundredth of the total amount of liabilities and net assets at the beginning and end of the current consolidated fiscal year, respectively. The Company has nothing to be described here.

(2) Other

Quarterly financial information for the current consolidated fiscal year

(Cumulative period)	Three months ended March 31, 2017	First half ended June 30, 2017	Nine months ended September 30, 2017	Current consolidated fiscal year
Sales (million yen)	7,586	22,678	34,840	49,301
Net income before income tax (million yen)	5	1,426	1,538	2,444
Net income attributable to owners of the parent (million yen)	5	904	930	1,615
Net income per share (yen)	0.42	63.96	65.82	114.22

(Fiscal period)	First quarter from January 1, 2017 to March 31, 2017	Second quarter from April 1, 2017 to June 30, 2017	Third quarter from July 1, 2017 to September 30, 2017	Fourth quarter from October 1, 2017 to December 31, 2017
Net income per share (yen)	0.42	63.54	1.86	48.39

Note: Accounting for the business combination with Waterman Group Plc on June 22, 2017 was provisionally computed in the third quarter of the current consolidated fiscal year and was finalized at the end of the current consolidated fiscal year, but there was no impact on the related figures for the third quarter.

## 2. Non-consolidated Financial Statements and Other Materials

### (1) Non-consolidated Financial Statements

#### (i) Non-consolidated Balance Sheet

(million yen)

	Previous Fiscal Year (as of December 31, 2016)	Current Fiscal Year (as of December 31, 2017)
<b>Assets</b>		
Current assets		
Cash and bank deposits	10,281	4,330
Completed work receivables	1,631	1,597
Prepaid expenses for uncompleted services	11,048	11,558
Advance payment	139	143
Deferred tax assets	385	349
Short-term loans	*1 1,533	*1 1,755
Other	120	174
Total current assets	25,139	19,909
Fixed assets		
Tangible fixed assets		
Buildings	3,727	3,794
Accumulated depreciation	-2,322	-2,393
Buildings, net	1,404	1,400
Structures	717	717
Accumulated depreciation	-573	-582
Structures, net	144	135
Machinery and equipment	238	238
Accumulated depreciation	-229	-231
Machinery and equipment, net	9	7
Furniture and fixtures	1,001	1,037
Accumulated depreciation	-809	-807
Furniture and fixtures, net	191	230
Land	4,678	4,787
Lease assets	192	130
Accumulated depreciation	-118	-78
Lease assets, net	73	52
Construction in progress	-	409
Total tangible fixed assets	6,502	7,024
Intangible fixed assets		
Leasehold	16	16
Software	341	411
Telephone rights	22	22
Right of using special facilities	0	0
Lease assets	3	2
Other	0	0
Total intangible fixed assets	384	452
Investments and other assets		
Investment securities	2,385	2,878
Shares in subsidiaries and affiliates	1,179	7,922
Investments in capital of subsidiaries and affiliates	50	50
Investments	43	68
Long-term loans	*1 515	*1 511
Long-term prepaid expenses	17	19
Lease and guarantee deposit	714	813
Membership	51	6
Prepaid pension cost	1,778	1,728
Other	0	0
Allowance for doubtful accounts	-0	-0
Total investments and other assets	6,735	13,999
Total fixed assets	13,622	21,477
Total assets	38,762	41,386

(million yen)

	Previous Fiscal Year (as of December 31, 2016)	Current Fiscal Year (as of December 31, 2017)
<b>Liabilities</b>		
Current liabilities		
Accounts payable for services	*1 1,472	*1 1,684
Lease obligations	36	30
Accounts payable	212	419
Accrued income taxes	538	581
Accrued consumption taxes	401	304
Accrued expenses	826	861
Advances received from uncompleted services	8,042	8,539
Deposits received	600	648
Revenue received in advance	7	7
Reserve for bonuses	854	769
Reserve for bonuses to directors	32	27
Allowance for losses in operations	25	11
Asset retirement obligations	-	16
Other	1	0
Total current liabilities	13,053	13,903
Fixed liabilities		
Long-term accounts payable	56	12
Lease obligations	43	26
Deferred tax liabilities	213	272
Reserve for retirement benefits	322	498
Asset retirement obligations	96	93
Other	52	50
Total fixed liabilities	785	954
Total liabilities	13,838	14,858
<b>Net assets</b>		
Shareholders' equity		
Capital	3,025	3,025
Capital surplus		
Capital reserve	4,122	4,122
Total capital surplus	4,122	4,122
Profit surplus		
Profit reserve	176	176
Other profit surplus		
General reserve	8,700	8,700
Profit surplus brought forward	8,245	9,572
Total profit surplus	17,122	18,449
Treasury stock	-12	-12
Total shareholders' equity	24,258	25,585
Valuation and translation differences		
Other valuation difference on available-for-sale securities	664	943
Total valuation and translation adjustment	664	943
Total net assets	24,923	26,528
Total liabilities and net assets	38,762	41,386

## (ii) Non-consolidated Profit and Loss Account

(million yen)

	Previous Fiscal Year (from January 1, 2016 to December 31, 2016)	Current Fiscal Year (from January 1, 2017 to December 31, 2017)
Sales	34,256	35,440
Cost of sales	24,609	25,178
Gross profit	9,646	10,261
Selling, general and administrative expenses	*2 7,317	*2 7,750
Operating income	2,328	2,511
Non-operating revenues		
Interest earned	*1 16	*1 18
Dividend earned	*1 47	*1 50
Interest from securities	3	4
Rent earned	*1 35	*1 34
Insurance dividends earned	7	13
Other	31	22
Total non-operating revenues	142	142
Non-operating expenses		
Commissions paid	5	8
Other	0	2
Total non-operating expenses	5	10
Ordinary profit	2,465	2,643
Extraordinary gain		
Gain on sales of investment securities	-	0
Total extraordinary gain	-	0
Extraordinary loss		
Loss from fixed assets disposal	*3 18	*3 1
Unrealized loss on shares in subsidiaries and affiliates	35	219
Loss on cancel of lease contracts	0	-
Loss on valuation of golf club membership	0	0
Total extraordinary loss	54	220
Net income before income tax	2,411	2,422
Corporation tax, inhabitants tax and enterprise tax	841	835
Deferred income taxes etc.	25	-21
Total income taxes	866	813
Net income	1,545	1,609



# Cost Specifications for Completed Services

		Previous Fiscal Year (from January 1, 2016 to December 31, 2016)			Current Fiscal Year (from January 1, 2017 to December 31, 2017)		
Category	Note No.	Amount (million yen)		Ratio (%)	Amount (million yen)		Ratio (%)
I Labor cost							
1. Salaries		8,189			8,381		
2. Bonuses		1,519			1,596		
3. Provision of reserve for bonuses		591			526		
4. Retirement benefits expense		686			735		
5. Other		1,884	12,871	51.9	1,961	13,201	51.4
II Amount paid to subcontractors			8,191	33.0		8,576	33.4
III Expenses							
1. Traveling expenses		1,018			1,043		
2. Printing and copying expenses		373			362		
3. Expendables cost		259			295		
4. Rents		1,160			1,151		
5. Depreciation		134			133		
6. Provision of allowance for losses in operations		-2			-13		
7. Other		790	3,733	15.1	938	3,910	15.2
Current general business expenses			24,796	100.0		25,688	100.0
Opening prepaid expenses for uncompleted services			10,861			11,048	
Total			35,658			36,736	
Closing prepaid expenses for uncompleted services			11,048			11,558	
Current cost of completed services			24,609			25,178	

(Footnote) Cost accounting is according to the job order costing method.

(iii) Statement of Fluctuations in Shareholders' Equity  
Previous Fiscal Year (from January 1, 2016 to December 31, 2016)

(million yen)

	Shareholders' equity						
	Capital	Capital surplus		Profit reserve	Profit surplus		
		Capital reserve	Total capital surplus		Other profit surplus	Profit surplus brought forward	Total profit surplus
Balance at the beginning of current period	3,025	4,122	4,122	176	8,700	6,983	15,860
Changes of items during the period							
Dividends from surplus						-282	-282
Net income						1,545	1,545
Acquisition of treasury stock							
Fluctuations during this fiscal year for items other than shareholders' equity (Net amount)							
Total changes of items during the period	—	—	—	—	—	1,262	1,262
Balance at the end of current period	3,025	4,122	4,122	176	8,700	8,245	17,122

(million yen)

	Shareholders' equity		Valuation and translation differences		Total net assets
	Treasury stock	Total shareholders' equity	Other valuation differences on available-for-sale securities	Total of valuation and translation differences	
Balance at the beginning of current period	-12	22,996	611	611	23,608
Changes of items during the period					
Dividends from surplus		-282			-282
Net income		1,545			1,545
Acquisition of treasury stock	-0	-0			-0
Fluctuations during this fiscal year for items other than shareholders' equity (Net amount)			53	53	53
Total changes of items during the period	-0	1,262	53	53	1,315
Balance at the end of current period	-12	24,258	664	664	24,923

Current Fiscal Year (from January 1, 2017 to December 31, 2017)

(million yen)

	Shareholders' equity						
	Capital	Capital surplus		Profit surplus			
		Capital reserve	Total capital surplus	Profit reserve	Other profit surplus		Total profit surplus
					General reserve	Profit surplus brought forward	
Balance at the beginning of current period	3,025	4,122	4,122	176	8,700	8,245	17,122
Changes of items during the period							
Dividends from surplus						-282	-282
Net income						1,609	1,609
Acquisition of treasury stock							
Fluctuations during this fiscal year for items other than shareholders' equity (Net amount)							
Total changes of items during the period	—	—	—	—	—	1,326	1,326
Balance at the end of current period	3,025	4,122	4,122	176	8,700	9,572	18,449

(million yen)

	Shareholders' equity		Valuation and translation differences		Total net assets
	Treasury stock	Total shareholders' equity	Other valuation differences on available-for-sale securities	Total of valuation and translation differences	
Balance at the beginning of current period	-12	24,258	664	664	24,923
Changes of items during the period					
Dividends from surplus		-282			-282
Net income		1,609			1,609
Acquisition of treasury stock	-0	-0			-0
Fluctuations during this fiscal year for items other than shareholders' equity (Net amount)			278	278	278
Total changes of items during the period	-0	1,326	278	278	1,604
Balance at the end of current period	-12	25,585	943	943	26,528

Notes:

Important Accounting Policy

1. Valuation base and method for securities

(1) Held-to-maturity securities

Amortized cost method.

(2) Shares in subsidiaries and affiliates

Cost method according to moving average method.

(3) Available-for-sale securities

\* With fair value

Calculated on the market value method based upon stock market prices as of the fiscal year-end. (Unrealized gains or losses have been dealt with according to the direct net assets imputation method, while value of products sold has been calculated according to the moving average method.)

\* With no fair value

Cost method according to moving average method.

2. Valuation base and method for inventories

Prepaid expenses for uncompleted services -- Cost method by job cost system

3. Depreciation of fixed assets

(1) Tangible fixed assets (excluding lease assets) -- Declining balance method

However, straight-line method is applied to the buildings (excluding the facilities attached to them) acquired on and after April 1, 1998 and the facilities attached to buildings and structures acquired on and after April 1, 2016. Further, the average life expectancy is as set forth below.

Buildings: 17 – 50 years

(2) Intangible fixed assets (excluding lease assets) -- Straight-line method

For software for internal use, the straight-line method based on the usable period in the Company (5 years) is adopted.

(3) Lease assets

Straight-line method using the lease period as the service life and considering the residual value to be zero.

4. Standards for translation of assets and liabilities denominated in foreign currencies into yen

Monetary debts and credits denominated in foreign currencies are translated into yen based on the spot exchange rate in the foreign exchange market on the balance sheet date, and the foreign exchange gains and losses resulting from the translation are recognized in the profit and loss account.

5. Accounting for allowances and reserves

(1) Allowance for doubtful accounts

In respect of ordinary credit, for the loan loss ratio as regards credit designated as being in danger of becoming irrecoverable, the possibility of each item being recovered is considered and the amount deemed irrecoverable is recorded to prepare for possible loss caused by bad debts.

(2) Reserve for bonuses

To prepare for bonus payment to employees, the Company enters the reserve for bonuses according to the estimated payment amount standard.

(3) Reserve for bonus to directors

Calculated on forecast payment amount to prepare for bonus payments to Directors.

(4) Allowance for losses in operations

Calculated according to the forecasted losses due to uncompleted services at the end of fiscal year in

preparation for future losses related to ordered works.

(5) Reserve for retirement benefits

To prepare retirement benefits for employees, these were recorded based upon the obligations to pay retirement benefits and the forecast amount of pension assets as at the end of this consolidated accounting year.

1) Periodic allocation of retirement benefits forecast

When computing retirement benefits obligations, the benefit formula standard is applied for allocation of retirement benefits forecast to the periods until the end of current fiscal year.

2) Expense disposal of accounting disparity

As regards the accounting disparity, expenses shall be disposed of from the next fiscal year by the fixed amount method that shall use a predetermined number of years (5 years) within the average remaining employment period for those employees that were employed at the time of its occurrence.

6. Entry standard of important revenues and expenses

Sales are recognized by the completed-contract method. However, revenues and expenses of construction contracts whose percentages of completion up to the end of this fiscal year can be reliably estimated are recognized by the percentage-of-completion method (the percentage of completion is computed at the cost incurred as a percentage of the estimated total expenses).

7. Other important accounting policies as bases for the preparation of financial statements

(1) Accounting treatment of consumption taxes

Tax exclusion method is adopted.

(2) Accounting treatment of retirement benefits

The accounting treatment of unrecognized accounting disparities relating to retirement benefits is different from the accounting treatment of unrecognized accounting disparities relating to retirement benefits in the consolidated financial statements.

(Additional information)

(Application of the Revised Implementation Guidance on Recoverability of Deferred Tax Assets)

The Revised Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26 issued on March 28, 2016) has been applied, effective from the current fiscal year.

(Notes on Balance Sheet)

\*1 Assets and liabilities for subsidiaries and affiliates

The amount of monetary claims and monetary debts for subsidiaries and affiliates other than those presented separately is as follows:

	Previous Fiscal Year (as of December 31, 2016)		Current Fiscal Year (as of December 31, 2017)	
Shot-term monetary claims	1,587	million yen	1,771	million yen
Shot-term monetary debts	272		221	
Long-term monetary claims	515		512	
Long-term monetary debts	46		44	

2 Warranty for liabilities

Warranty for liabilities of the following employees and overseas subsidiary borrowed from financial institutions:

	Previous Fiscal Year (as of December 31, 2016)		Current Fiscal Year (as of December 31, 2017)	
Employees of the Company	32	million yen	30	million yen
Employees of CTI Engineering International Co., Ltd.	1		1	
Wuhan CTI-CRSRI Engineering & Environment Co., Ltd	38		51	

(Notes on Profit and Loss Account)

\*1 Total amount of turnover of operating transactions and transactions other than operating transactions, with subsidiaries and affiliates

	Previous Fiscal Year (from January 1, 2016 to December 31, 2016)		Current Fiscal Year (from January 1, 2017 to December 31, 2017)	
Turnover of operating transactions				
Sales	45	million yen	15	million yen
Subcontractor cost	1,498		1,552	
Other operating transactions	118		129	
Turnover of transactions other than operating transactions	62		60	

\*2 The percentage of expenses included in selling expenses is approximately 34% for the previous fiscal year and 33% for the current fiscal year, and the percentage of expenses included in general and administrative expenses is 66% for the previous fiscal year and 67% for the current fiscal year.

Major items and amounts among selling, general and administrative expenses are as follows:

	Previous Fiscal Year (from January 1, 2016 to December 31, 2016)		Current Fiscal Year (from January 1, 2017 to December 31, 2017)	
Wages and allowances	2,684	million yen	2,745	million yen
Transferred reserve for bonuses	230		205	
Reserve for bonuses to directors	32		27	
Retirement benefits expenses	161		173	
Allowance for doubtful accounts	0		—	
Depreciation and amortization	81		95	
Research and investigation expenses	923		1,038	

\*3 Loss from fixed assets disposal can be broken down as follows:

	Previous Fiscal Year (from January 1, 2016 to December 31, 2016)		Current Fiscal Year (from January 1, 2017 to December 31, 2017)	
Buildings	16	million yen	0	million yen
Furniture and fixtures	1		0	
Software	—		0	
Total	18		1	

(Notes on Securities)

The fair value of shares in subsidiaries and affiliates is not stated, as these shares have no market value and their fair value is considered difficult to recognize.

The book value on the balance sheet for shares in subsidiaries and affiliates whose fair value is deemed to be considerably difficult to recognize is as follows.

	(million yen)	
	Previous Fiscal Year (as of December 31, 2016)	Current Fiscal Year (as of December 31, 2017)
Shares in subsidiaries	1,179 million yen	7,922 million yen
Total	1,179	7,922

(Notes on Tax Effect Accounting)

1. Breakdown by major cause of deferred tax assets and deferred tax liabilities generation

	Previous Fiscal Year (as of December 31, 2016)	Current Fiscal Year (as of December 31, 2017)
Deferred tax assets		
Accrued enterprise tax	61 million yen	57 million yen
Allowance for losses in operations	7	3
Reserve for bonuses	263	237
Social insurance premiums for bonuses	38	34
Reserve for retirement benefits	99	152
Long-term accounts payable	17	3
Unrealized loss of securities	63	63
Asset retirement obligations	29	33
Other	39	105
Subtotal	620	692
Allowance account	-81	-149
Total	538	543
Deferred tax liabilities		
Prepaid pension cost	140	121
Tangible fixed assets	18	20
Other valuation difference on available-for-sale securities	207	324
Total	366	466
Net of deferred tax assets	172 million yen	76 million yen

2. Breakdown by major item of causes leading to any material difference between the legal effective tax rate and the bearing rate of corporation tax or the like after adoption of tax effect accounting

	Previous Fiscal Year (as of December 31, 2016)		Current Fiscal Year (as of December 31, 2017)	
Legal effective tax rate	33.06	%	30.86	%
(Adjustment)				
No entry of loss from entertainment expense etc.	0.37		0.25	
Per capita inhabitant tax	3.42		3.40	
No entry of profit from dividend earned etc.	-0.25		-0.21	
Revision due to a change in tax rate	0.71		—	
Special tax credit of experiment and research expenses	—		-0.90	
Tax credit under the Income Growth Promotion Tax System	-2.33		-2.58	
No entry of loss from bonuses to directors	0.38		0.42	
Allowance account	0.49		2.80	
Other	0.07		-0.47	
Bearing rate of corporation tax or the like after application of tax effect accounting	35.92		33.57	

(Significant Subsequent Event)

Not applicable.



## (iv) Supplemental specifications

## Specifications of tangible fixed assets and other

Type of assets	Opening balance (million yen)	Increase during the year (million yen)	Decrease during the year (million yen)	Depreciation or amortization in the current term (million yen)	Closing balance (million yen)	Accumulated depreciation or amortization (million yen)
Tangible fixed assets						
Buildings	1,404	66	0	70	1,400	2,393
Structures	144	—	—	9	135	582
Machinery and equipment	9	—	—	1	7	231
Furniture and fixtures	191	135	0	95	230	807
Land	4,678	109	—	—	4,787	—
Lease assets	73	15	—	36	52	78
Construction in progress	—	409	—	—	409	—
Total tangible fixed assets	6,502	737	0	214	7,024	4,092
Intangible fixed assets						
Leasehold	16	—	—	—	16	—
Software	341	181	1	109	411	—
Telephone rights	22	—	—	—	22	—
Right of using special facilities	0	—	—	0	0	—
Lease assets	3	—	—	1	2	—
Other	0	—	—	0	0	—
Total intangible fixed assets	384	181	1	111	452	—

## Specifications of allowances and reserves

Category	Opening balance (million yen)	Increase during the year (million yen)	Decrease during the year (million yen)	Closing balance (million yen)
Allowance for doubtful accounts	0	—	—	0
Reserve for bonuses	854	769	854	769
Reserve for bonuses to directors	32	27	32	27
Allowance for losses in operations	25	11	25	11
Reserve for retirement benefits	322	252	77	498

## (2) Details of major assets/liabilities

The Company prepares consolidated financial statements, so the description is omitted here.

## (3) Other

Not applicable.

## CHAPTER 6: SHAREHOLDER RELATED INFORMATION

Fiscal year	January 1 to December 31
Ordinary general meeting of shareholders	In March
Record date	December 31
Record date of dividends from surplus	June 30, December 31
Unit of shares	100 shares
Purchase of shares below one unit of shares	
Place of purchase	(Special Account) Stock Transfer Agency Division Mitsubishi UFJ Trust and Banking Corporation 4-5 Marunouchi 1-chome, Chiyoda-ku, Tokyo
Transfer agent	(Special Account) Mitsubishi UFJ Trust and Banking Corporation 4-5 Marunouchi 1-chome, Chiyoda-ku, Tokyo
Service office	—
Service charge for purchase	Free of charge
Media of public notice	The Company's notices are published on its website. However, where due to unforeseen circumstances website publication is not possible, notices will be published in the Nihon Keizai Shimbun. The Company's website for public notices is as follows: <a href="http://www.ctie.co.jp/">http://www.ctie.co.jp/</a>
Privilege to shareholders	None

## CHAPTER 7: REFERENCE MATERIAL

### 1. Parent Company Information

The Company has no parent company.

### 2. Other References

The Company submitted the following documents in the period from the beginning of the current fiscal year to the submission date of this Securities Report.

#### (1) Securities Report, its accompanying documents, and confirmation note

Fiscal year (54th fiscal year) (from January 1, 2016 to December 31, 2016)	Submitted to the director of the Kanto Local Finance Bureau on March 27, 2017.
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#### (2) Internal Control Report

Submitted to the director of the Kanto Local Finance Bureau on March 27, 2017.

#### (3) Quarterly Report and confirmation note

(First quarter of 55th fiscal year) (from January 1, 2017 to March 31, 2017)	Submitted to the director of the Kanto Local Finance Bureau on May 12, 2017.
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(Second quarter of 55th fiscal year) (from April 1, 2017 to June 30, 2017)	Submitted to the director of the Kanto Local Finance Bureau on August 10, 2017.
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(Third quarter of 55th fiscal year) (from July 1, 2017 to September 30, 2017)	Submitted to the director of the Kanto Local Finance Bureau on November 14, 2017.
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#### (4) Extraordinary Report

The Extraordinary Report subject to the provisions of Article 19, Paragraph 2, Items 3 and 8-2 of the Cabinet Office Ordinance on Disclosure of Corporate Information, etc.	Submitted to the director of the Kanto Local Finance Bureau on December 22, 2017.
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The Extraordinary Report subject to the provisions of Article 19, Paragraph 2, Item 9-2 of the Cabinet Office Ordinance on Disclosure of Corporate Information, etc.	Submitted to the director of the Kanto Local Finance Bureau on March 28, 2018.
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## Part 2: SURETY COMPANY INFORMATION

Not applicable.



