奥村組
OKUMURA CORPORATION

# Okumura Corporation

# Annual Report 2014

奥村組
OKUMURA CORPORATION

Okumura was established in 1907 based on two key principles enshrined in the corporate mottos "steadfast management" and "sincere operation." The steady growth achieved over the years has been made possible through the unflagging support of our customers.

Okumura's main business activities include civil engineering projects for railways, roads, power station facilities, sewage and water works, and others. In the area of construction are projects such as houses, public facilities, medical facilities, and office buildings. The Company has developed technology at the highest level, with achievements including the seismic isolation system used to construct Japan's first earthquake-absorbing building. In the area of environment-related technology, Okumura has developed techniques for 100% recycling of demolished concrete, and natural greening of concrete surfaces on buildings.

Okumura understands what an important mission it is to provide a better environment for the future. Accordingly, the Company is dedicated to contributing to meaningful social infrastructure investment and to always being a corporation regarded highly by society. It will achieve this by continuing to develop as an all-around construction company based on steadfast business management.

**Contents**

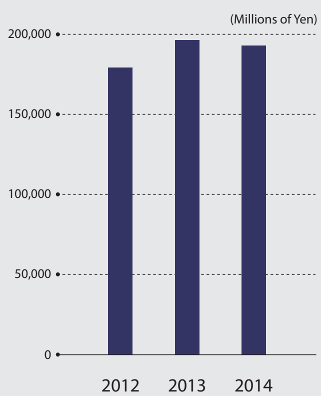
# Financial Highlights



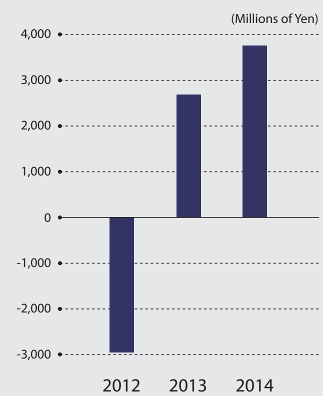
| For the years ended March 31 | 2012 | 2013 | **2014** | **2014** |
|---|---|---|---|---|
| **Consolidated:** | | Millions of yen | | Thousands of U.S. dollars |
| Net sales | ¥179,285 | ¥196,554 | **¥193,025** | **$1,875,484** |
| Operating income (loss) | (3,940) | 1,339 | **2,318** | **22,520** |
| Net income (loss) | (2,958) | 2,684 | **3,755** | **36,485** |
| Total assets | 216,856 | 234,034 | **239,663** | **2,328,637** |
| Total equity | 111,714 | 121,924 | **128,792** | **1,251,382** |
| Per Share: | | Yen | | U.S. dollars |
| Basic net income (loss) | ¥(14.80) | ¥13.43 | **¥18.80** | **$0.18** |
| Cash dividends applicable to the year | 9.00 | 9.00 | **9.00** | **0.09** |

Note: The U.S. dollar amounts included herein are presented solely for convenience of the reader. Such dollar amounts have been translated from yen at the approximate exchange rate in Tokyo on March 31, 2014, of ¥102.92=U.S.$1.

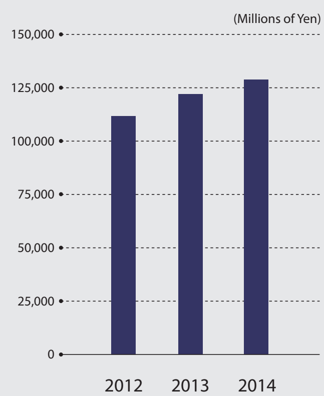
Net Sales




Net Income




Total Equity




**Disclaimer Regarding Forecasts and Projections**

This Annual Report includes forecasts, projections and other predictive statements that represent Okumura's assumptions and expectations in light of currently available information. These forecasts, etc., are based on industry trends, circumstances involving clients and other factors, and involve risks, variables and uncertainties. The Okumura Group's actual performance results may differ from those projected in this Annual Report. Consequently, no guarantee is presented or implied as to the accuracy of specific forecasts, projections or predictive statements contained herein.

# To Our Shareholders



We would like to thank our shareholders for their continuing support and encouragement, and wish each of them the greatest success in their endeavors.

A general overview of business performance for the period to March 2014 (April 1, 2013 to March 31, 2014) is provided in the following sections.

## Fiscal 2014 Results

During the period under review, the Japanese economy continued on its path toward moderate recovery back by effects of the government's economic measures as well as last-minute demand in anticipation of the consumption tax hike. In the construction industry, the climate for receipt of orders was healthy on the back of steady public investments and a partial recovery in private-sector capital investments. However, in terms of cost, the situation remained unpredictable due to various factors including rising material costs and the chronic shortage in skilled construction workers.

In these circumstances, while the Company's consolidated net sales fell 1.8% year on year to ¥193,025 million, consolidated gross profit increased 7.0% year on year to ¥15,883 million and operating income increased 73.0% year on year to ¥2,318 million, as a result of reporting sales for construction work with relatively high profitability in the civil engineering segment. Net income surpassed the levels of the previous period by 39.9% to ¥3,755 million due to the reporting of gain on sales of investment securities, despite a decrease in the reversal of allowance for doubtful accounts.

The Company decided to pay a dividend of ¥9.00 per share for the period ended March 31, 2014 based on its basic policy regarding profit sharing.

## Looking Ahead and Key Strategies

The Japanese economy, despite the downward pressure due to the backlash from the last-minute demand, is expected to return to its recovery trajectory, propped up by the effects of the government's economic measures, as well as the contributions made by foreign demand. In the construction industry, while investments in construction are expected to remain more or less on the same level, the situation is expected to remain difficult for generating stable profit, with the basic trend of rising materials prices and no solution in sight for the shortage of skilled construction workers.



Under these circumstances, the Okumura Group, based on its Three-Year Medium-Term Business Plan which was formulated to start in fiscal 2013, has been engaged in initiatives that aim at securing stable profits through reinforcement of the Company's customer-handling capabilities, technological strengths, and price-competitiveness, and strengthening the management base that ensures sustainable growth.

Specifically, in building operations, the Company considers the establishment of a business structure that will generate stable profits even amid rising construction costs as its highest priority, and accordingly, has been thoroughly enforcing selective receipt of orders based on competitive advantage in profitability and technological aspects, organizing and enhancing approaches in dealing with comprehensive evaluation biddings and private sector projects, reinforcing planning and proposal capabilities aimed at increasing special orders and integrated orders from design to construction, avoiding cutthroat price competition through business cooperation from the upstream stage, and developing technology that will lead to the enhancement of added value as well as to energy-saving and cost-cutting.

In real estate operations, the Company is carefully selecting properties which can yield high returns, and aims to secure a long-term and stable source of income.

For the future, Okumura will apply all of its resources with the aim of responding quickly and flexibly to the changing operating environment, and thereby secure stable profits in accordance with its corporate philosophy, which has endured through the many years since the Company's founding. This will enable Okumura to maintain the trust and confidence of its shareholders.

In all its efforts, the Company looks forward to the continued support of its shareholders.

June 2014

T. Okumura

Takanori Okumura
President and Representative Director

# Review of Operations



## Major Projects Completed

CIVIL ENGINEERING

**Kakogawa Chuo Junction Ramp Improvement Work**

Work period: January 2011 to November 2013
Construction length: 1,180m
7 reverse T-shaped abutments
9 overhang piers
6 box culverts

**Cable Tunnel Construction in Iikura Shiba Park**

Work period: April 2010 to October 2013
Tunnel length: 440m

**2nd Restoration Work in Sakamoto District of Nakahama Site, Southern Sendai Bay Coast**

Work period: June 2012 to August 2013
Length of embankment: 570m
Tetrapod length: 102m

**Onohama Pumping Station Construction**

Work period: August 2011 to August 2013
Construction of pumping station, construction of drain pipe system, etc.

BUILDINGS

**Nitori Mall Sagamihara**

Work period: October 2012 to September 2013
Structure: Steel
Total floor space: 52,162.35m$^2$

**Sanctus Yono Tower Residence, Sanctus Yono South Residence**

Work period: December 2011 to February 2014
Structure: RC
Total floor space: 20,637.52m$^2$

**Kyushu Welfare Annuity Hospital Annex and Parking Lot**

Work period: March 2012 to July 2013
Structure: SRC and Steel
Total floor space: 19,466.45m$^2$

**Meiji Co., Ltd. Kansai Nutritionals Plant**

Work period: December 2012 to February 2014
Structure: Steel
Total floor space: 13,939.58m$^2$

## Orders Received

### CIVIL ENGINEERING

**Trans-Chubu Expressway Moriyama Tunnel Work**

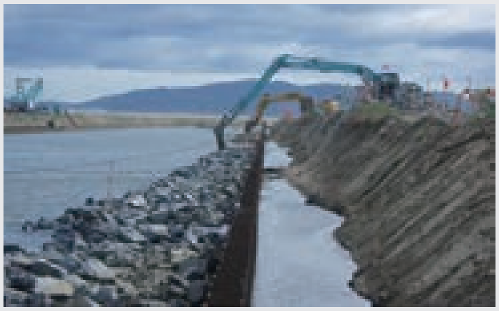
Work period: December 2013 to September 2017
Construction length: 2,183m
Tunnel length: 1,734m
5 abutments

**Ai River Dam Construction**

Work period: March 2014 to July 2020
Rock-fill dam
Dam height: 76.5m
Dam crest length: 337.5m
Volume of dam: 2,225,000m$^3$
Total reservoir capacity:18,000,000m$^3$

**Obayashi Drainage Facility Construction in Ichinoseki Flood Control Basin**

Work period: October 2013 to February 2017
Floodgate construction, bank protection work, etc.



**Kitakami Canal Disaster Restoration Work (Part 2)**

Work period: October 2013 to March 2016
Length of embankment (restoration): 4,310.9m

### BUILDINGS

**Geo Senri Chuo**

Work period: February 2013 to April 2015
Structure: RC
Total floor space: 53,580.86m$^2$

**Ikoma Municipal Hospital**

Work period: August 2013 to April 2015
Structure: Steel
Total floor space: 28,088.24m$^2$

**Aisai City Hall**

Work period: September 2013 to January 2016
Structure: Steel
Total floor space: 10,479.72m$^2$

**Kinokawa City Gymnasium**

Work period: September 2013 to March 2015
Structure: RC, Steel and SRC
Total floor space: 7,032.63m$^2$

# Topics




❶ Vehiclemounted measurement system in operation

❷ Development of RC Columns

❸ Inside the seminar hall

❸ Panel discussion

### ❶ Development and Practical Application of a Mobile Underground Automatic Displacement Measurement System

To improve the safety and enhance the efficiency of mountain tunnel construction, we developed the "Mobile Underground Automatic Displacement Measurement System" that monitors the displacement of tunnel walls in real time, and applied it to actual construction work.

This system automatically measures wall displacement using a measurement device that has been mounted on a dedicated vehicle, and transmits the measurement data to the surface using a relay device. While the previous system, which had a measurement equipment installed directly against the tunnel wall, required at least half a day to move the measurement equipment as the tunneling progressed, the new vehicle-mounted system has shortened the moving process to about 15 minutes, and has thus dramatically increased the frequency of wall displacement measurement, which, in turn, has made possible a surveillance system that can immediately recognize any abnormalities. Furthermore, as the new system minimizes the impact of moving the equipment on other processes, it enhances the efficiency of the construction cycle.

### ❷ Development of RC Columns Using Ultrahigh Strength Concrete

As column members that support super high-rise condominium of 50 stories or more, we developed reinforced concrete (RC) columns that will further contribute to the habitability of the building.

By surrounding the RC column made of ultrahigh strength concrete (Fc = 150N/mm$^2$) with steel plates or reinforcing the RC column by mixing steel fiber into the concrete, this technology ensures high seismic and fire resistant capabilities while making it possible to reduce the number of columns and streamline the cross-sections, and enables provision of residential structures with highly flexible designs meeting diversified needs.

### ❸ Hosting of a Technical Seminar

On December 2, 2013, Okumura hosted the 25th Technical Seminar at the Tokyo International Forum in Tokyo's Chiyoda Ward. The seminar was attended by approximately 200 participants from various fields, including clients of Okumura.

Okumura began hosting the seminar in 1988 as part of the collaboration among the industrial, governmental and academic sectors related to the construction industry. This year's theme was "To Hand Down a Better Land to the Next Generation: How Social Infrastructure Should Be Improved, Maintained and Renewed." Mr. Hisakazu Oishi, Director of Policy Research Institute for Country-ology, the Japan Institute of Country-ology and Engineering, delivered the keynote speech. In addition, a panel discussion was held on the topic of how to improve, maintain and renew social infrastructure, which has been drawing increasing attention in the wake of the tunnel ceiling collapse of the Sasago Tunnel on the Chuo Expressway in December 2012 and repeated natural disasters.

### ❹ Okumura Receives the Japan Society of Seismic Isolation (JSSI) Award for Hotel Kintetsu Kyoto Station

Hotel Kintetsu Kyoto Station, which was built by Okumura, was selected for the 14th JSSI Project Award, and the award was presented to Okumura during the society's general meeting on June 4, 2013.

❹ Hotel Kintetsu Kyoto Station

❻ West Japan Branch (HARUKAS Office)

❻ ABENO HARUKAS (Completed March 2014)

This award is given to "outstanding buildings that reflect the qualities of seismic isolation techniques, etc." and this marked the third time the Company has won this award following the Technology Award, which was awarded to Okumura's seismic isolation device for lighthouse lenses, and the Project Award (in recognition of its contribution toward promoting seismic isolation technologies) for the Okumura Commemorative Museum.

This award was given in recognition of Okumura's various structural innovations in constructing hotels on the upper part of a new platform in a small space (13m x 200m) nestled between existing railway tracks, and superior workmanship in completing a difficult construction adjacent to operating railway lines.

Hotel Kintetsu Kyoto Station was also given an honorable mention at the Association of Railway Architects Award on October 26, 2012.

### ❺ Recipients of the Okumura Environmental Construction Technology Foundation Grant for the Fiscal Year Ended March 31, 2014 Are Announced

In 2007, the Company established a charitable trust fund, the Okumura Environmental Construction Technology Foundation Grant, whose objective is to further promote the preservation and improvement of Japan's environment by providing funds to various research projects on construction technologies that reduce the environmental load.

The steering committee – comprising experts such as university professors – met on July 11, 2013 to select the recipients and determine the amount of the grant awarded for the fiscal year ended March 31, 2014. The foundation has ensured that all those chosen for the fiscal year have received the grant.

Research themes of the recipients are as follows:

- Hydraulic model experiments and numerical simulation relating to breakwaters that take into account the environment of semi-enclosed bays
- Free-standing and distributed systems based on bio-energy generated from combined processing facilities of raw sludge and raw garbage
- Study of landscaping technology based on integration of breakwaters and green areas in the areas stricken by the Great East Japan Earthquake
- Establishment of a method of environmental safety assessment of recycled materials in earthmoving work

### ❻ West Japan Branch (HARUKAS Office) and Nara Office Are Established

On May 18, 2014, the Kansai Branch of the West Japan Branch and the Building Design & Planning Department relocated to ABENO HARUKAS (height: 300m), the super high-rise complex which was built by a consortium including Okumura, and commenced operations as the West Japan Branch (HARUKAS Office).

The Nara Local Office also changed its name to Nara Office on the same date.

Okumura will take this opportunity to further enhance its business and, together with its directors and employees, make a concerted effort to serve the needs of everyone.

# Consolidated Balance Sheet

Okumura Corporation and Consolidated Subsidiaries
March 31, 2014



| ASSETS | Millions of yen 2014 | Millions of yen 2013 | Thousands of U.S. dollars (Note 1) 2014 |
|---|---|---|---|
| **Current assets:** | | | |
| Cash and cash equivalents (Note 12) | **¥ 26,245** | ¥ 28,344 | **$ 255,005** |
| Time deposits (Notes 12 and 14) | **47** | 105 | **458** |
| Receivables: | | | |
| Trade notes (Note 12) | **2,462** | 5,263 | **23,923** |
| Trade accounts (Notes 12 and 13) | **91,585** | 92,165 | **889,864** |
| Unconsolidated subsidiaries and associated companies (Note 12) | **3,209** | 815 | **31,177** |
| Other | **8,100** | 6,463 | **78,699** |
| Allowance for doubtful receivables | **(4,262)** | (4,393) | **(41,408)** |
| Inventories (Note 4) | **11,856** | 12,458 | **115,199** |
| Deferred tax assets (Note 9) | **61** | 44 | **588** |
| Prepaid expenses and other | **561** | 432 | **5,453** |
| Total current assets | **139,864** | 141,696 | **1,358,958** |
| **Property, plant and equipment** (Notes 5 and 6)**:** | | | |
| Land (Note 14) | **27,670** | 26,362 | **268,846** |
| Buildings and structures | **19,966** | 19,383 | **193,999** |
| Machinery and equipment | **2,700** | 2,831 | **26,230** |
| Furniture and fixtures | **2,017** | 2,089 | **19,596** |
| Lease assets (Note 11) | **147** | 126 | **1,430** |
| Construction in progress | **133** | 210 | **1,295** |
| Total | **52,633** | 51,001 | **511,396** |
| Accumulated depreciation | **(15,159)** | (15,161) | **(147,290)** |
| Net property, plant and equipment | **37,474** | 35,840 | **364,106** |
| **Investments and other assets:** | | | |
| Investment securities (Notes 3, 6, 12 and 14) | **60,761** | 55,396 | **590,373** |
| Investments in and advances to unconsolidated subsidiaries and associated companies (Notes 12 and 14) | **272** | 259 | **2,641** |
| Long-term loans receivable (Note 12) | **125** | 160 | **1,214** |
| Asset for retirement benefits (Note 7) | **435** | — | **4,233** |
| Deferred tax assets (Note 9) | **1** | — | **9** |
| Other assets | **3,499** | 3,591 | **33,998** |
| Allowance for doubtful receivables | **(2,768)** | (2,908) | **(26,895)** |
| Total investments and other assets | **62,325** | 56,498 | **605,573** |
| Total | **¥239,663** | ¥234,034 | **$2,328,637** |

See notes to consolidated financial statements.

| LIABILITIES AND EQUITY | Millions of yen 2014 | 2013 | Thousands of U.S. dollars (Note 1) 2014 |
|---|---|---|---|
| **Current liabilities:** | | | |
| Short-term bank loans including current portion of long-term debt (Notes 6, 11 and 12) | **¥ 7,561** | ¥ 16,448 | **$ 73,462** |
| Payables: | | | |
| Trade notes (Note 12) | **7,152** | 5,415 | **69,490** |
| Trade accounts (Note 12) | **48,396** | 42,074 | **470,234** |
| Other | **197** | 182 | **1,915** |
| Advances received on construction projects in progress | **10,610** | 9,145 | **103,090** |
| Income taxes payable | **291** | 227 | **2,831** |
| Allowance for warranty work on construction projects | **796** | 510 | **7,731** |
| Allowance for losses on construction contracts | **1,877** | 1,856 | **18,232** |
| Other (Note 14) | **16,365** | 19,567 | **159,007** |
| Total current liabilities | **93,245** | 95,424 | **905,992** |
| **Long-term liabilities:** | | | |
| Long-term debt (Notes 6, 11, 12 and 13) | **5,276** | 4,202 | **51,259** |
| Liability for retirement benefits (Note 7) | **—** | 2,023 | **—** |
| Deferred tax liabilities (Note 9) | **12,235** | 10,334 | **118,880** |
| Other | **115** | 127 | **1,124** |
| Total long-term liabilities | **17,626** | 16,686 | **171,263** |
| Total liabilities | **110,871** | 112,110 | **1,077,255** |
| **Commitments and contingent liabilities** (Notes 11 and 14) | | | |
| **Equity** (Notes 8, 15 and 16)**:** | | | |
| Common stock | | | |
| authorized, 480,376,000 shares; issued, 228,326,133 shares | **19,839** | 19,839 | **192,761** |
| Capital surplus | **25,326** | 25,327 | **246,077** |
| Retained earnings | **72,094** | 70,136 | **700,487** |
| Treasury stock—at cost | | | |
| 28,667,535 shares in 2014 and 28,609,201 shares in 2013 | **(12,390)** | (12,366) | **(120,388)** |
| Accumulated other comprehensive income: | | | |
| Unrealized gain on available-for-sale securities | **22,754** | 18,988 | **221,082** |
| Defined retirement benefit plans | **1,169** | — | **11,363** |
| Total | **23,923** | 18,988 | **232,445** |
| Total equity | **128,792** | 121,924 | **1,251,382** |
| Total | **¥239,663** | ¥234,034 | **$2,328,637** |

# Consolidated Statement of Income

Okumura Corporation and Consolidated Subsidiaries
Year ended March 31, 2014



| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | **2014** | 2013 | **2014** |
| **Net sales** | **¥193,025** | ¥196,554 | **$1,875,484** |
| **Cost of sales** | **177,142** | 181,714 | **1,721,156** |
| Gross profit | **15,883** | 14,840 | **154,328** |
| **Selling, general and administrative expenses** (Note 10) | **13,565** | 13,501 | **131,808** |
| Operating income | **2,318** | 1,339 | **22,520** |
| **Other income (expenses):** | | | |
| Interest and dividend income | **1,000** | 1,031 | **9,718** |
| Interest expense | **(187)** | (180) | **(1,817)** |
| Amortization of negative goodwill | **—** | 284 | **—** |
| Reversal of allowance for doubtful accounts | **233** | 522 | **2,270** |
| Gain on sales of investment securities | **433** | 2 | **4,204** |
| Loss on construction contracts | **—** | (407) | **—** |
| Other—net | **218** | 245 | **2,118** |
| Other income —net | **1,697** | 1,497 | **16,493** |
| Income before income taxes and minority interests | **4,015** | 2,836 | **39,013** |
| **Income taxes** (Note 9)**:** | | | |
| Current | **307** | 164 | **2,983** |
| Deferred | **(47)** | (12) | **(455)** |
| Total income taxes | **260** | 152 | **2,528** |
| **Net income before minority interests** | **3,755** | 2,684 | **36,485** |
| **Net income** | **¥ 3,755** | ¥ 2,684 | **$ 36,485** |

| | Yen | | U.S. dollars (Note 1) |
|---|---|---|---|
| **Per share of common stock** (Notes 2.o and 16)**:** | | | |
| Basic net income | **¥ 18.80** | ¥ 13.43 | **$ 0.18** |
| Cash dividends applicable to the year | **9.00** | 9.00 | **0.09** |

See notes to consolidated financial statements.

# Consolidated Statement of Comprehensive Income

Okumura Corporation and Consolidated Subsidiaries
Year ended March 31, 2014



| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | **2014** | 2013 | **2014** |
| **Net income before minority interests** | **¥ 3,755** | ¥ 2,684 | **$ 36,485** |
| **Other comprehensive income** (Note 15)**:** | | | |
| Unrealized gain on available-for-sale securities | **3,766** | 9,332 | **36,595** |
| Total other comprehensive income | **3,766** | 9,332 | **36,595** |
| **Comprehensive income** | **¥ 7,521** | ¥12,016 | **$ 73,080** |
| **Total comprehensive income attributable to:** | | | |
| Owners of the parent | **¥ 7,521** | ¥12,016 | **$ 73,080** |
| Minority interests | **—** | — | **—** |

See notes to consolidated financial statements.

# Consolidated Statement of Changes in Equity

Okumura Corporation and Consolidated Subsidiaries
Year ended March 31, 2014



| | Thousands | Millions of yen | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | Accumulated other comprehensive income | | |
| | Outstanding number of shares of common stock | Common stock | Capital surplus | Retained earnings | Treasury stock | Unrealized gain on available-for-sale securities | Defined retirement benefit plans | Total equity |
| **BALANCE, APRIL 1, 2012** | 199,746 | ¥19,839 | ¥25,327 | ¥69,250 | ¥(12,358) | ¥9,656 | ¥ — | ¥111,714 |
| Net income | — | — | — | 2,684 | — | — | — | 2,684 |
| Cash dividends, ¥9 per share | — | — | — | (1,798) | — | — | — | (1,798) |
| Purchase of treasury stock | (29) | — | — | — | (9) | — | — | (9) |
| Disposal of treasury stock | 0 | — | (0) | — | 1 | — | — | 1 |
| Net change in the year | — | — | — | — | — | 9,332 | — | 9,332 |
| **BALANCE, MARCH 31, 2013** | 199,717 | 19,839 | 25,327 | 70,136 | (12,366) | 18,988 | — | 121,924 |
| Net income | **—** | **—** | **—** | **3,755** | **—** | **—** | **—** | **3,755** |
| Cash dividends, ¥9 per share | **—** | **—** | **—** | **(1,797)** | **—** | **—** | **—** | **(1,797)** |
| Purchase of treasury stock | **(59)** | **—** | **—** | **—** | **(25)** | **—** | **—** | **(25)** |
| Disposal of treasury stock | **1** | **—** | **(1)** | **—** | **1** | **—** | **—** | **0** |
| Net change in the year | **—** | **—** | **—** | **—** | **—** | **3,766** | **1,169** | **4,935** |
| **BALANCE, MARCH 31, 2014** | **199,659** | **¥19,839** | **¥25,326** | **¥72,094** | **¥(12,390)** | **¥22,754** | **¥1,169** | **¥128,792** |

| | Thousands of U.S. dollars (Note 1) | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | | Accumulated other comprehensive income | | |
| | Common stock | Capital surplus | Retained earnings | Treasury stock | Unrealized gain on available-for-sale securities | Defined retirement benefit plans | Total equity |
| **BALANCE, MARCH 31, 2013** | $192,761 | $246,077 | $681,467 | $(120,147) | $184,487 | $ — | $1,184,645 |
| Net income | **—** | **—** | **36,485** | **—** | **—** | **—** | **36,485** |
| Cash dividends, $0.09 per share | **—** | **—** | **(17,465)** | **—** | **—** | **—** | **(17,465)** |
| Purchase of treasury stock | **—** | **—** | **—** | **(247)** | **—** | **—** | **(247)** |
| Disposal of treasury stock | **—** | **(0)** | **—** | **6** | **—** | **—** | **6** |
| Net change in the year | **—** | **—** | **—** | **—** | **36,595** | **11,363** | **47,958** |
| **BALANCE, MARCH 31, 2014** | **$192,761** | **$246,077** | **$700,487** | **$(120,388)** | **$221,082** | **$11,363** | **$1,251,382** |

See notes to consolidated financial statements.

# Consolidated Statement of Cash Flows

Okumura Corporation and Consolidated Subsidiaries
Year ended March 31, 2014





| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | **2014** | 2013 | **2014** |
| **Cash flows from operating activities:** | | | |
| Income before income taxes and minority interests | **¥ 4,015** | ¥ 2,836 | **$ 39,013** |
| Adjustments for: | | | |
| Income taxes—paid | **(121)** | (218) | **(1,180)** |
| Depreciation and amortization | **824** | 810 | **8,005** |
| Amortization of negative goodwill | **—** | (284) | **—** |
| Reversal of doubtful receivables | **(234)** | (522) | **(2,270)** |
| Gain on sales of short-term and long-term investment securities | **(433)** | (2) | **(4,204)** |
| Loss on construction contracts | **—** | 407 | **—** |
| Changes in assets and liabilities: | | | |
| Decrease (increase) in trade notes and accounts receivable | **987** | (9,764) | **9,591** |
| Decrease in accumulated costs of construction projects in progress | **766** | 12,744 | **7,443** |
| Decrease (increase) in other inventories | **(23)** | 2,456 | **(226)** |
| Increase in trade notes and accounts payable | **7,259** | 880 | **70,532** |
| Increase (decrease) in advances received on construction projects in progress | **1,465** | (8,685) | **14,230** |
| Decrease in liability for retirement benefits | **(1,135)** | (1,265) | **(11,025)** |
| Other—net | **(3,175)** | 3,380 | **(30,851)** |
| Total adjustments | **6,180** | (63) | **60,045** |
| Net cash provided by operating activities | **10,195** | 2,773 | **99,058** |
| **Cash flows from investing activities:** | | | |
| Net decrease in time deposits | **59** | 1,000 | **573** |
| Payments for purchases of securities | **(1,163)** | (1,015) | **(11,294)** |
| Proceeds from sales of securities | **1,336** | 2,006 | **12,978** |
| Purchases of property, plant and equipment | **(2,579)** | (8,503) | **(25,059)** |
| Proceeds from sales of property, plant and equipment | **12** | 5 | **119** |
| Investment in loans receivable | **(308)** | (39) | **(2,992)** |
| Collection of loans receivable | **129** | 126 | **1,255** |
| Other—net | **(158)** | 33 | **(1,537)** |
| Net cash used in investing activities | **(2,672)** | (6,387) | **(25,957)** |
| **Cash flows from financing activities:** | | | |
| Increase (decrease) in short-term bank loans—net | **(8,889)** | 5,241 | **(86,370)** |
| Proceeds from long-term debt | **1,100** | 4,000 | **10,688** |
| Repayments of long-term debt | **(22)** | (26) | **(217)** |
| Purchase of treasury stock | **(25)** | (9) | **(247)** |
| Disposal of treasury stock | **0** | 1 | **6** |
| Dividends paid | **(1,796)** | (1,805) | **(17,451)** |
| Other | **(35)** | (23) | **(334)** |
| Net cash provided by (used in) financing activities | **(9,667)** | 7,379 | **(93,925)** |
| **Foreign currency translation adjustments on cash and cash equivalents** | **45** | 58 | **433** |
| **Net increase (decrease) in cash and cash equivalents** | **(2,099)** | 3,823 | **(20,391)** |
| **Cash and cash equivalents, beginning of year** | **28,344** | 24,521 | **275,396** |
| **Cash and cash equivalents, end of year** | **¥26,245** | ¥ 28,344 | **$255,005** |

See notes to consolidated financial statements.

**1. Basis of Presentation of Consolidated Financial Statements**

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2013 consolidated financial statements to conform to the classifications used in 2014.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Okumura Corporation (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥102.92 to $1, the rate of exchange at March 31, 2014. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

**2. Summary of Significant Accounting Policies**

**a. Consolidation** — The consolidated financial statements as of March 31, 2014 and 2013 include the accounts of the Company and its 2 significant subsidiaries (together, the "Group").

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in 9 (8 in 2013) unconsolidated subsidiaries and 1 (1 in 2013) associated company are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is also eliminated.

**b. Cash Equivalents** — Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits and certificate of deposits, all of which mature or become due within 3 months of the date of acquisition.

**c. Inventories** — Construction projects in progress are stated at cost determined by the specific identification method.

Real estate held for sale and development projects in progress are stated at the lower of cost determined by the specific identification method or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses.

**d. Marketable and Investment Securities** — Marketable and investment securities are classified and accounted for, depending on management's intent, as follows:
(1) held-to-maturity debt securities, for which there is a positive intent and ability to hold to maturity, are reported at amortized cost and
(2) available-for-sale securities, which are not classified as the held-to-maturity, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method. For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

**e. Property, Plant and Equipment** — Property, plant and equipment are stated at cost. Depreciation, except for lease assets, is computed by the declining-balance method based on the estimated useful lives of the assets, while the straight-line method is applied to buildings acquired on or after April 1, 1998, and lease assets. The range of useful lives is principally from 3 to 60 years for buildings and structures, from 4 to 17 years for machinery and equipment, and from 2 to 20 years for furniture and fixtures. Lease assets under finance lease arrangements are depreciated using the straight-line method over the terms of the respective leases without any salvage value.

**f. Long-Lived Assets** — The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

**g. Allowance for Doubtful Receivables** — The allowance for doubtful receivables is stated in amounts considered to be appropriate based on the Group's past credit loss experience and an evaluation of estimated losses in the receivables outstanding.

**h. Allowance for Warranty Work on Construction Projects** — The allowance for warranty costs for completed work is provided at the amount of warranty costs based on past loss experience.

**i. Allowance for Losses on Construction Contracts** — Allowance for losses on construction contracts is provided with respect to construction projects for which eventual losses are reasonably expected and estimated.

**j. Employees' Retirement Benefits** — The Company has a contributory funded pension plan covering substantially all of its employees.

Liability for employees' retirement benefits is recorded based on the estimated present value of projected benefit obligations and the fair value of the plan assets at the end of the fiscal year.

The unrecognized transition amount, which arose from adopting the new standard during the year ended March 31, 2001, has been amortized on a straight-line basis over 15 years, and unrecognized actuarial gains and losses are amortized subsequent to the year in which they arise on a straight-line basis over the period of 10 years, which is within the employees' average remaining service years. Unrecognized prior service costs have been amortized on a straight-line basis over the period of 10 years, which is within the employees' average remaining service years.

In May 2012, the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the accounting standard for retirement benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000 and other related practical guidance, and were followed by partial amendments from time to time through 2009.

(a) Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus is recognized as liability (liability for retirement benefits) or asset (asset for retirement benefits).

(b) The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts are recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss are included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments (see Note 2.q).

(c) The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases.

This accounting standard and the guidance for (a) and (b) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (c) above are effective for the beginning of annual periods beginning on or after April 1, 2014, or for the beginning of annual periods beginning on or after April 1, 2015, subject to certain disclosure in March 2015, both with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company applied the revised accounting standard and guidance for retirement benefits for (a) and (b) above, effective March 31, 2014. As a result, asset for retirement benefits of ¥435 million ($4,233 thousand) was recorded as of March 31, 2014, and accumulated other comprehensive income for the year ended March 31, 2014 increased by ¥1,169 million ($11,363 thousand).

**k. Asset Retirement Obligations** — In March 2008, the ASBJ issued ASBJ Statement No. 18, "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No. 21 "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

**l. Construction Contracts** — In December 2007, the ASBJ issued ASBJ Statement No. 15, "Accounting Standard for Construction Contracts" and ASBJ Guidance No. 18, "Guidance on Accounting Standard for Construction Contracts." Under this accounting standard, construction revenue and construction costs should be recognized by the percentage-of-completion method, if the outcome of a construction contract can be estimated reliably. When total construction revenue, total construction costs and the stage of completion of the contract at the balance sheet date can be reliably measured, the outcome of a construction contract is deemed to be estimated reliably. If the outcome of a construction contract cannot be reliably estimated, the completed-contract method should be applied. When it is probable that the total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for a loss on construction contracts.

The revenues recognized by the percentage-of-completion method for the years ended March 31, 2014 and 2013, were ¥173,010 million ($1,681,016 thousand) and ¥161,602 million, respectively.

**m. Income Taxes** — The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

**n. Derivatives and Hedging Activities** — The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rates. Currency and interest rate swaps are utilized by the Group to reduce foreign currency exchange and interest rate risks. The Group does not enter into derivatives for trading or speculative purposes.

Currency and interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income, and hedge items denominated in a foreign currency are translated at the contracted rates.

**o. Per Share Information** — Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share is not disclosed because there are no securities with a dilutive effect upon exercise or conversion into common stock.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective fiscal years, including dividends to be paid after the end of the year.

**p. Accounting Changes and Error Corrections** — In December 2009, the ASBJ issued ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections" and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Accounting treatments under this standard and guidance are as follows:
(1) Changes in Accounting Policies:
When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standards include specific transitional provisions, in which case the entity shall comply with the specific transitional provisions.
(2) Changes in Presentations:
When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation.
(3) Changes in Accounting Estimates:
A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.
(4) Corrections of Prior-Period Errors:
When an error in prior-period financial statements is discovered, those statements are restated.

**q. New Accounting Pronouncements**
**Accounting Standard for Retirement Benefits** — On May 17, 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with effective date of April 1, 2000, and other related practical guidance, and were followed by partial amendments from time to time through 2009.

Major changes are as follows:
(a) Treatment in the consolidated balance sheet
Under the current requirements, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are not recognized in the balance sheet, and the difference between retirement benefit obligations and plan assets (hereinafter, "deficit or surplus"), adjusted by such unrecognized amounts, is recognized as a liability or asset.

Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss shall be recognized within equity (accumulated other comprehensive income) after adjusting for tax effects, and any resulting deficit or surplus shall be recognized as liability (liability for retirement benefits) or asset (asset for retirement benefits).
(b) Treatment in the consolidated statement of income and the consolidated statement of comprehensive income
The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in

profit or loss. Those amounts would be recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss shall be included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments.

(c) Amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases

The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases.

This accounting standard and the guidance for (a) and (b) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (c) above are effective for the beginning of annual periods beginning on or after April 1, 2014, or for the beginning of annual periods beginning on or after April 1, 2015, subject to certain disclosure in March 2015, both with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company applied the revised accounting standard for (a) and (b) above effective March 31, 2014, and expects to apply (c) above from April 1, 2014, and is in the process of measuring the effects of applying the revised accounting standard for (c) above in future applicable periods. The effects of adopting the revised accounting standard will be to decrease retained earnings at April 1, 2014, by ¥1,207 million ($19,382 thousand), but the effects on operating income and income before income taxes and minority interest for the year ending March 31, 2015, are expected to be immaterial.

### 3. Marketable and Investment Securities

Marketable and investment securities as of March 31, 2014 and 2013, consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2014** | 2013 | **2014** |
| Non-current: | | | |
| Marketable equity securities | **¥58,515** | ¥53,186 | **$568,553** |
| Government and corporate bonds | **117** | 116 | **1,136** |
| Non-marketable equity securities and other | **2,129** | 2,094 | **20,684** |
| Total | **¥60,761** | ¥55,396 | **$590,373** |

The costs and aggregate fair values of marketable and investment securities at March 31, 2014 and 2013, were as follows:

| | Millions of yen | | | |
|---|---|---|---|---|
| **March 31, 2014** | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Securities classified as: | | | | |
| Available-for-sale: | | | | |
| Equity securities | ¥25,409 | ¥33,334 | ¥228 | ¥58,515 |
| Debt securities | 1,000 | — | 162 | 838 |
| Held-to-maturity: | | | | |
| Debt securities | 117 | 5 | — | 122 |
| **March 31, 2013** | | | | |
| Securities classified as: | | | | |
| Available-for-sale: | | | | |
| Equity securities | ¥25,595 | ¥27,803 | ¥212 | ¥53,186 |
| Debt securities | 1,000 | — | 189 | 811 |
| Held-to-maturity: | | | | |
| Debt securities | 116 | 5 | — | 121 |

| March 31, 2014 | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
|---|---|---|---|---|
| | | | | Thousands of U.S. dollars |
| Securities classified as: | | | | |
| Available-for-sale: | | | | |
| Equity securities | $246,885 | $323,881 | $2,213 | $568,553 |
| Debt securities | 9,716 | — | 1,577 | 8,139 |
| Held-to-maturity: | | | | |
| Debt securities | 1,136 | 45 | — | 1,181 |

The information for available-for-sale securities which were sold during the years ended March 31, 2014 and 2013, is as follows:

| March 31, 2014 | Proceeds | Realized Gains | Realized Losses |
|---|---|---|---|
| | | | Millions of yen |
| Available-for-sale: | | | |
| Equity securities | ¥755 | ¥433 | ¥— |

| March 31, 2013 | Proceeds | Realized Gains | Realized Losses |
|---|---|---|---|
| | | | Millions of yen |
| Available-for-sale: | | | |
| Equity securities | ¥2 | ¥2 | ¥— |

| March 31, 2014 | Proceeds | Realized Gains | Realized Losses |
|---|---|---|---|
| | | | Thousands of U.S. dollars |
| Available-for-sale: | | | |
| Equity securities | $7,335 | $4,204 | $— |

No impairment loss was recognized on securities for the year ended March 31, 2014.
The impairment losses on available-for-sale equity securities for the year ended March 31, 2013, were ¥220 million.

**4. Inventories**
Inventories at March 31, 2014 and 2013, consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2014** | 2013 | **2014** |
| Construction projects in progress | **¥ 7,718** | ¥ 8,485 | **$ 74,996** |
| Real estate held for sale | **1,035** | 679 | **10,056** |
| Development projects in progress | **2,340** | 2,785 | **22,737** |
| Other | **763** | 509 | **7,410** |
| Total | **¥11,856** | ¥12,458 | **$115,199** |

## 5. Investment Property

In November 2008, the ASBJ issued ASBJ Statement No. 20, "Accounting Standard for Investment Property and Related Disclosures" and issued ASBJ Guidance No. 23, "Guidance on Accounting Standard for Investment Property and Related Disclosures."

The Group owns certain rental properties such as residential buildings, warehouses, and land in Osaka and other areas. Some rental warehouses, part of which the Company uses, are classified as rental properties in part.

The net of rental income and operating expenses for those rental properties was ¥2,716 million ($26,390 thousand) and ¥2,627 million for the years ended March 31, 2014 and 2013, respectively.

The carrying amounts, changes in such balances and market prices of such properties were as follows:

Millions of yen

| | Carrying Amount | | | Fair Value |
|---|---|---|---|---|
| | April 1, 2013 | Increase/ Decrease | March 31, 2014 | March 31, 2014 |
| Rental properties | ¥27,003 | ¥1,907 | ¥28,910 | ¥43,974 |
| Rental properties in part | 1,193 | (81) | 1,112 | 7,507 |
| Total | ¥28,196 | ¥1,826 | ¥30,022 | ¥51,481 |

Millions of yen

| | Carrying Amount | | | Fair Value |
|---|---|---|---|---|
| | April 1, 2012 | Increase/ Decrease | March 31, 2013 | March 31, 2013 |
| Rental properties | ¥19,195 | ¥7,808 | ¥27,003 | ¥42,095 |
| Rental properties in part | 1,431 | (238) | 1,193 | 7,738 |
| Total | ¥20,626 | ¥7,570 | ¥28,196 | ¥49,833 |

Thousands of U.S. dollars

| | Carrying Amount | | | Fair Value |
|---|---|---|---|---|
| | April 1, 2013 | Increase/ Decrease | March 31, 2014 | March 31, 2014 |
| Rental properties | $262,372 | $18,523 | $280,895 | $427,263 |
| Rental properties in part | 11,592 | (788) | 10,804 | 72,940 |
| Total | $273,964 | $17,735 | $291,699 | $500,203 |

Notes:

(1) Carrying amount recognized in the consolidated balance sheets is net of accumulated depreciation and accumulated impairment losses, if any.

(2) Of the changes in balances and market prices of rental properties for the year ended March 31, 2014, an increase was recorded mainly in acquisition of real estate at ¥2,357 million ($22,905 thousand) and decrease in depreciation at ¥311 million ($3,020 thousand).

(3) Fair value of properties as of March 31, 2014 and 2013, is measured in accordance with real-estate appraisal by real-estate appraisers for primary properties, and the amount measured by the Group is in accordance with its Real-Estate Appraisal Standard for other properties (including those measured using indicators).

**6. Short-Term Bank Loans and Long-Term Debt**

Short-term bank loans at March 31, 2014 and 2013, consisted of notes to banks and bank overdrafts. The annual interest rate applicable to the short-term bank loans ranged from 0.609% to 1.475% and 1.050% to 1.475% at March 31, 2014 and 2013, respectively.

Long-term debt at March 31, 2014 and 2013, consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2014** | 2013 | **2014** |
| Loans from banks and other financial institutions, due serially to 2031 with interest rates ranging from 0.66% to 5.60% | | | |
| Collateralized | **¥2,014** | ¥2,023 | **$19,567** |
| Unsecured | **3,208** | 2,122 | **31,173** |
| Obligations under finance leases | **104** | 105 | **1,004** |
| Total | **5,326** | 4,250 | **51,744** |
| Less current portion | **(50)** | (48) | **(485)** |
| Long-term debt, less current portion | **¥5,276** | ¥4,202 | **$51,259** |

Annual maturities of long-term debt, excluding finance leases (see Note 11), at March 31, 2014, were as follows:

| Year Ending March 31 | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2015 | ¥ 13 | $ 129 |
| 2016 | 13 | 129 |
| 2017 | 1,113 | 10,815 |
| 2018 | 4,012 | 38,978 |
| 2019 | 10 | 101 |
| 2020 and thereafter | 61 | 588 |
| Total | ¥5,222 | $50,740 |

The carrying amount of assets pledged as collateral for short-term bank loans of ¥2,000 million ($19,433 thousand) and the above collateralized long-term debt at March 31, 2014, was as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Property, plant and equipment—net of accumulated depreciation | ¥ 121 | $ 1,171 |
| Investment securities | 5,177 | 50,303 |
| Total | ¥5,298 | $51,474 |

As is customary in Japan, the Company maintains substantial deposit balances with banks with which it has borrowings. Such deposit balances are not legally or contractually restricted as to withdrawal.

General agreements with respective banks provide, as is customary in Japan, that additional collateral must be provided under certain circumstances if requested by such banks and that certain banks have the right to offset cash deposited with them against any long-term or short-term debt or obligation that becomes due and, in case of default and certain other specified events, against all other debt payable to the banks. The Group has never been requested to provide any additional collateral.

**7. Employees' Retirement Benefits**

Most of the employees of the Company are covered by a contributory trusted pension plan.

The Company has a cash balance plan (pension plan linked to the market interest rates) based on the Defined Benefit Corporate Pension Law.

***Year Ended March 31, 2014***

(1) The changes in defined benefit obligation for the year ended March 31, 2014, were as follows:

| | Millions of yen | Thousands of U.S. Dollars |
|---|---|---|
| Balance at beginning of year | ¥25,272 | $245,545 |
| Current service cost | 870 | 8,457 |
| Interest cost | 505 | 4,909 |
| Actuarial gains | (332) | (3,225) |
| Benefits paid | (2,397) | (23,295) |
| Balance at end of year | ¥23,918 | $232,391 |

(2) The changes in plan assets for the year ended March 31, 2014, were as follows:

| | Millions of yen | Thousands of U.S. Dollars |
|---|---|---|
| Balance at beginning of year | ¥23,830 | $231,537 |
| Expected return on plan assets | 286 | 2,778 |
| Actuarial gains | 756 | 7,344 |
| Contributions from the employer | 1,879 | 18,260 |
| Benefits paid | (2,398) | (23,295) |
| Balance at end of year | ¥24,353 | $236,624 |

(3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets as of March 31, 2014

| | Millions of yen | Thousands of U.S. Dollars |
|---|---|---|
| Funded defined benefit obligation | ¥23,918 | $232,391 |
| Plan assets | (24,353) | (236,624) |
| | (435) | (4,233) |
| Unfunded defined benefit obligation | — | — |
| Net asset arising from defined benefit obligation | ¥ (435) | $ (4,233) |

| | Millions of yen | Thousands of U.S. Dollars |
|---|---|---|
| Liability for retirement benefits | ¥ — | $ — |
| Asset for retirement benefits | (435) | (4,233) |
| Net asset arising from defined benefit obligation | ¥(435) | $(4,233) |

(4) The components of net periodic benefit costs for the year ended March 31, 2014, were as follows:

| | Millions of yen | Thousands of U.S. Dollars |
|---|---|---|
| Service cost | ¥870 | $8,457 |
| Interest cost | 505 | 4,909 |
| Expected return on plan assets | (286) | (2,778) |
| Recognized actuarial gains | (268) | (2,612) |
| Amortization of prior service cost | (21) | (206) |
| Amortization of transitional obligation | (55) | (535) |
| Net periodic benefit costs | ¥745 | $7,235 |

(5) Accumulated other comprehensive income on defined retirement benefit plans as of March 31, 2014

| | Millions of yen | Thousands of U.S. Dollars |
|---|---|---|
| Unrecognized actuarial gains | ¥(1,185) | $(11,512) |
| Unrecognized prior service cost | (85) | (823) |
| Unrecognized transitional obligation | (55) | (535) |
| Total | ¥ (1,325) | $(12,870) |

(6) Plan assets as of March 31, 2014

*a. Components of plan assets*

Plan assets consisted of the following:

| | |
|---|---|
| Debt investments | 38% |
| Equity investments | 12 |
| Life insurance general account assets | 33 |
| Others | 17 |
| Total | 100% |

*b. Method of determining the expected rate of return on plan assets*

The expected rate of return on plan assets is determined considering allocation of plan assets which are expected currently and in the future and the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(7) Assumptions used for the year ended March 31, 2014, were set forth as follows:

| | |
|---|---|
| Discount rate | 2.0% |
| Expected rate of return on plan assets | 1.2% |

***Year Ended March 31, 2013***

The liability for retirement benefits at March 31, 2013, consisted of the following:

| | Millions of yen |
|---|---|
| Projected benefit obligation | ¥25,271 |
| Fair value of plan assets | (23,830) |
| Unrecognized transitional obligation | 110 |
| Unrecognized prior service cost | 106 |
| Unrecognized actuarial gains | 366 |
| Net liability | ¥ 2,023 |

The components of net periodic benefit costs for the year ended March 31, 2013, were as follows:

| | Millions of yen |
|---|---|
| Service cost | ¥922 |
| Interest cost | 547 |
| Expected return on plan assets | (335) |
| Amortization of transitional obligation | (55) |
| Amortization of prior service cost | (21) |
| Recognized actuarial gains | (401) |
| Net periodic benefit costs | ¥ 657 |

Assumptions used for the year ended March 31, 2013, were set forth as follows:

| | |
|---|---|
| Discount rate | 2.0% |
| Expected rate of return on plan assets | 1.4% |
| Amortization period of prior service cost | 10years |
| Recognition period of actuarial gain/loss | 10years |
| Amortization period of transitional obligation | 15years |

**8. Equity**

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the Company has prescribed so in its articles of incorporation. However, the Company cannot do so because it does not meet all the above criteria.

The Companies Act permits companies to distribute dividends-in-kind (noncash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the Company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.



b. Increases / Decreases and Transfer of Common Stock, Reserve and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

## 9. Income Taxes

The Group is subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 38.0% for the years ended March 31, 2014 and 2013.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2014 and 2013, were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2014** | 2013 | **2014** |
| Deferred tax assets: | | | |
| Tax loss carryforwards | **¥ 12,033** | ¥12,886 | **$ 116,913** |
| Impairment losses on securities | **2,619** | 2,644 | **25,444** |
| Allowance for doubtful accounts | **2,233** | 2,334 | **21,700** |
| Write-down of inventories | **1,525** | 1,786 | **14,814** |
| Allowance for bonuses | **759** | 717 | **7,374** |
| Allowance for losses on construction contracts | **668** | 703 | **6,491** |
| Accrued expenses | **621** | 558 | **6,032** |
| Liability for retirement benefits | **—** | 720 | **—** |
| Other | **411** | 400 | **3,994** |
| Less valuation allowances | **(20,807)** | (22,704) | **(202,165)** |
| Total | **62** | 44 | **597** |
| Deferred tax liabilities: | | | |
| Net unrealized gains on available-for-sale securities | **(10,175)** | (8,400) | **(98,867)** |
| Retained earnings appropriated for special allowance | **(1,905)** | (1,934) | **(18,506)** |
| Asset for retirement benefits | **(155)** | — | **(1,507)** |
| Total | **(12,235)** | (10,334) | **(118,880)** |
| Net deferred tax liabilities | **¥(12,173)** | ¥ (10,290) | **$(118,283)** |

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the years ended March 31, 2014 and 2013, was as follows:

| | **2014** | 2013 |
|---|---|---|
| Normal effective statutory tax rate | **38.0%** | 38.0% |
| Expenses not deductible for income tax purposes | **1.8** | 3.4 |
| Non-taxable income | **(3.9)** | (6.7) |
| Inhabitant tax per capita | **3.4** | 5.1 |
| Special income tax credits | **(1.3)** | — |
| Valuation allowance | **(34.1)** | (31.4) |
| Other—net | **2.6** | (3.0) |
| Actual effective tax rate | **6.5%** | 5.4% |

On March 31, 2014, a tax reform law was enacted in Japan which changed the normal effective statutory tax rate from approximately 38.0% to 35.6%, effective for years beginning on or after April 1, 2014. The effect of this change is immaterial.

**10. Research and Development Costs**

Research and development costs charged to income were ¥682 million ($6,627 thousand) and ¥690 million for the years ended March 31, 2014 and 2013, respectively.

**11. Leases**

(1) Finance leases

The Group leases certain machinery and equipment, office space and other assets.

Total rental expenses including lease payments under finance leases for the years ended March 31, 2014 and 2013, were ¥27 million ($264 thousand) and ¥18 million, respectively.

Obligations under finance leases were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2014** | 2013 | **2014** |
| Due within one year | **¥ 36** | ¥31 | **$ 356** |
| Due after one year | **67** | 74 | **648** |
| Total | **¥103** | ¥105 | **$1,004** |

(2) Operating leases

Future minimum lease receivables or payments under noncancelable operating leases at March 31, 2014 and 2013, were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2014** | 2013 | **2014** |
| As a lessor: | | | |
| Due within one year | **¥ 1,957** | ¥ 1,729 | **$ 19,017** |
| Due after one year | **18,335** | 17,056 | **178,149** |
| Total | **¥20,292** | ¥18,785 | **$197,166** |
| As a lessee: | | | |
| Due within one year | **¥ 101** | ¥ 31 | **$ 983** |
| Due after one year | **1,022** | 59 | **9,927** |
| Total | **¥ 1,123** | ¥ 90 | **$ 10,910** |

**12. Financial Instruments and Related Disclosures**

(1) Group policy for financial instruments

At the Group level, cash surpluses, if any, are invested in low-risk and capital-safe financial assets. Short-term bank loans are used to fund its ongoing operations. Derivatives are used, not for speculative purposes, but to manage its exposure to fluctuations in foreign currency exchange and interest rates.

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

Receivables, such as trade notes and trade accounts, are exposed to customer credit risk. Marketable and investment securities, mainly held-to-maturity securities and equity instruments of customers and suppliers of the Group, are exposed to the risk of market price fluctuations.

Payment terms of payables, such as trade notes and trade accounts, are mostly less than one year.

(3) Risk management for financial instruments

*Credit Risk Management*

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Group manages its credit risk from receivables on the basis of internal guidelines, which include continuously determining customers' circumstances from the phase of accepting orders to that of collection of the receivables, along with monitoring of payment term and balances of each transaction.

*Market risk management (foreign exchange risk and interest rate risk)*

Marketable and investment securities are managed by monitoring market values and financial position of issuers on a regular basis. Also, the Group continuously reviews its possession of those securities except for held-to-maturity securities.

Long-term debt denominated in foreign currencies is exposed to the fluctuations in the market interest rates and foreign exchange rates. The Group utilizes derivative instruments (currency and interest rate swaps contracts) as hedging instruments to manage these market risks. The hedge accounting method is described in Note 2n.

Please see Note 13 for more details about derivatives.

*Liquidity risk management*

Liquidity risk comprises the risk that the Group cannot meet its contractual obligations in full on maturity dates. The Group manages its liquidity risk by making the appropriate cash schedule on a monthly basis.



(4) Fair values of financial instruments

Fair values of financial instruments are based on quoted prices in active markets. If quoted price is not available, other rational valuation techniques are used instead.

(a) Fair values of financial instruments

| | Millions of yen | | |
|---|---|---|---|
| **March 31, 2014** | Carrying Amount | Fair Value | Unrealized Gain/Loss |
| Cash and cash equivalents and time deposits | ¥ 26,292 | ¥ 26,292 | ¥ — |
| Receivables—trade notes and accounts | 97,254 | | |
| Allowance for doubtful receivables | (3,972) | | |
| Net | 93,282 | 93,254 | (28) |
| Investment securities | 59,470 | 59,475 | 5 |
| Long-term loans receivable | 61 | | |
| Allowance for doubtful long-term loans receivable | (0) | | |
| Net | 61 | 61 | 0 |
| Total | ¥179,105 | ¥179,082 | ¥(23) |
| Short-term bank loans | ¥ 7,511 | ¥ 7,511 | ¥ — |
| Long-term bank loans | 5,100 | 5,103 | 3 |
| Payables—trade notes and accounts | 55,548 | 55,548 | — |
| Long-term debt—lease obligation including current portion | 104 | 99 | (5) |
| Total | ¥ 68,263 | ¥ 68,261 | ¥ (2) |
| Derivatives | ¥ — | ¥ — | ¥ — |

| | Millions of yen | | |
|---|---|---|---|
| **March 31, 2013** | Carrying Amount | Fair Value | Unrealized Gain/Loss |
| Cash and cash equivalents and time deposits | ¥ 28,449 | ¥ 28,449 | ¥ — |
| Receivables—trade notes and accounts | 98,240 | | |
| Allowance for doubtful receivables | (4,034) | | |
| Net | 94,206 | 94,195 | (11) |
| Investment securities | 54,113 | 54,118 | 5 |
| Long-term loans receivable | 75 | | |
| Allowance for doubtful long-term loans receivable | (1) | | |
| Net | 74 | 76 | 2 |
| Total | ¥176,842 | ¥176,838 | ¥ (4) |
| Short-term bank loans | ¥ 16,400 | ¥ 16,400 | ¥ — |
| Long-term bank loans | 4,000 | 4,010 | 10 |
| Payables—trade notes and accounts | 47,489 | 47,489 | — |
| Long-term debt—lease obligation including current portion | 106 | 101 | (5) |
| Total | ¥ 67,995 | ¥ 68,000 | ¥ 5 |
| Derivatives | ¥ — | ¥ — | ¥ — |

| March 31, 2014 | Carrying Amount (Thousands of U.S. dollars) | Fair Value (Thousands of U.S. dollars) | Unrealized Gain/Loss (Thousands of U.S. dollars) |
|---|---|---|---|
| Cash and cash equivalents and time deposits | $ 255,463 | $ 255,463 | $ — |
| Receivables—trade notes and accounts | 944,940 | | |
| Allowance for doubtful receivables | (38,581) | | |
| Net | 906,359 | 906,086 | (273) |
| Investment securities | 577,829 | 577,873 | 44 |
| Long-term loans receivable | 590 | | |
| Allowance for doubtful long-term loans receivable | (4) | | |
| Net | 586 | 593 | 7 |
| Total | $1,740,237 | $1,740,015 | $(222) |
| | | | |
| Short-term bank loans | $ 72,977 | 72,977 | $ — |
| Long-term bank loans | 49,553 | 49,579 | 26 |
| Payables—trade notes and accounts | 539,724 | 539,724 | — |
| Long-term debt—lease obligation including current portion | 1,004 | 963 | (41) |
| Total | $ 663,258 | $ 663,243 | $ (15) |
| Derivatives | $ — | $ — | $ — |

Amounts due from unconsolidated subsidiaries and associated companies are included in receivables-trade notes and accounts and long-term loans receivable.

Cash and cash equivalents and time deposits

The carrying values of cash and cash equivalents and time deposits approximate fair value because of their short maturities.

Marketable securities and investment securities

The fair values of marketable securities and investment securities are measured at the quoted market price of the stock exchange for the equity instruments and at the quoted price obtained from the financial institution for certain debt instruments. Fair value information for the marketable securities and the investment securities by classification is included in Note 3.

Receivables—trade notes and accounts and long-term loans receivable

The fair values of receivables—trade notes and accounts and long-term loans receivable are measured at the amount to be received at maturity, discounted at the Group's assumed corporate discount rate, such as the rate of national bonds to the maturity. Also, the amounts of the allowance for doubtful receivables are deducted from the fair values.

Payables—trade notes and accounts and short-term bank loans

The carrying values of payables—trade notes and accounts and short-term bank loans approximate fair value because of their short maturities.

Long-term debt—lease obligation

The fair values of long-term debt—lease obligation are determined by discounting the cash flows related to the debt at the Group's assumed corporate borrowing rate.

Long-term bank loans

The fair values of long-term bank loans are determined by the present value calculated by discounting the total amount of the principal and interest expense at the interest rate considering the remaining maturities of the loans and credit risk of the Company. The carrying values of bank loans with floating interest rates approximate fair value because they reflect market interest rates and the credit position of the Company does not change significantly after the execution.

Derivatives

Fair value information for derivatives is included in Note 13.

(b) Financial instruments whose fair value cannot be reliably determined

| | Carrying Amount | | |
|---|---|---|---|
| | Millions of yen | | Thousands of U.S. dollars |
| | **2014** | 2013 | **2014** |
| Investments in equity instruments that do not have a quoted market price in an active market | **¥1,502** | ¥1,479 | **$14,595** |

(5) Maturity Analysis for Financial Assets and Securities with Contractual Maturities

| March 31, 2014 | Due in 1 Year or Less | Due after 1 Year through 5 Years | Due after 5 Years through 10 Years | Due after 10 Years |
|---|---|---|---|---|
| | Millions of yen | | | |
| Cash and cash equivalents and time deposits | ¥ 26,292 | ¥ — | ¥ — | ¥ — |
| Receivables—trade notes and accounts | 90,556 | 6,698 | — | — |
| Investment securities | | | | |
| Available-for-sale securities with contractual maturities | — | 2 | 124 | 1,000 |
| Long-term loans receivable | — | 9 | 14 | 38 |
| Total | ¥116,848 | ¥6,709 | ¥138 | ¥1,038 |

| March 31, 2014 | Due in 1 Year or Less | Due after 1 Year through 5 Years | Due after 5 Years through 10 Years | Due after 10 Years |
|---|---|---|---|---|
| | Thousands of U.S. dollars | | | |
| Cash and cash equivalents and time deposits | $ 255,463 | $ — | $ — | $ — |
| Receivables—trade notes and accounts | 879,863 | 65,077 | — | — |
| Investment securities | | | | |
| Available-for-sale securities with contractual maturities | — | 19 | 1,206 | 9,716 |
| Long-term loans receivable | — | 91 | 128 | 371 |
| Total | $1,135,326 | $65,187 | $1,334 | $10,087 |

Please see Note 6 for annual maturities of long-term debt and Note 11 for obligations under finance leases.

**13. Derivatives**

The Group enters into derivatives, in the normal course of business, to reduce the exposure to fluctuations in foreign exchange rates and interest rates. The primary classes of derivatives used by the Group are foreign currency forward contracts, currency and interest rate swaps.

The Group does not hold or issue derivatives for trading purposes.

Because the counterparties to these derivatives are limited to major financial institutions, the Group does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Group have been made in accordance with internal policies which regulate the authorization and credit limit amount.

Derivative transactions to which hedge accounting is not applied:
There were no derivative transactions to which hedge accounting is not applied at March 31, 2014 and 2013.

Derivative transactions to which hedge accounting is applied:

| | Millions of yen | | | |
|---|---|---|---|---|
| **March 31, 2014** | Hedged item | Contract amount | Contract amount due after one year | Fair value |
| Currency and interest rate swaps<br>Floating-rate receipt, fixed-rate payment<br>Receipt in U.S. dollars, payment in yen | Long-term debt | ¥2,000 | ¥2,000 | Note 2 |

| | Millions of yen | | | |
|---|---|---|---|---|
| **March 31, 2013** | Hedged item | Contract amount | Contract amount due after one year | Fair value |
| Foreign currency forward contracts: Selling U.S. dollars | Receivables—trade notes and accounts | ¥ 384 | ¥ — | Note 1 |
| Currency and interest rate swaps<br>Floating-rate receipt, fixed-rate payment<br>Receipt in U.S. dollars, payment in yen | Long-term debt | ¥2,000 | ¥2,000 | Note 2 |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| **March 31, 2014** | Hedged item | Contract amount | Contract amount due after one year | Fair value |
| Currency and interest rate swaps<br>Floating-rate receipt, fixed-rate payment<br>Receipt in U.S. dollars, payment in yen | Long-term debt | $19,433 | $19,433 | Note 2 |

Notes:
1. Foreign currency forward contracts which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value. The fair value of such foreign currency forward contracts is included in those of the hedged items (i.e., receivables-trade notes and accounts) in Note 12.
2. Currency and interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreement is recognized and included in interest expense or income. The fair value of such currency and interest rate swaps is included in those of the hedged items (i.e., long-term debt) in Note 12.

**14. Commitments and Contingent Liabilities**

Land in the amount of ¥21 million ($202 thousand) is pledged for the deposit received from lessee related to the fixed-term land leasehold at March 31, 2014. Land in the amount of ¥803 million ($7,803 thousand) and buildings in the amount of ¥634 million ($6,156 thousand) are pledged as construction assistance funds pursuant to building lease contracts at March 31, 2014. Investments in securities in the amounts of ¥115 million ($1,117 thousand), ¥84 million ($820 thousand), and ¥1 million ($10 thousand) are pledged as collateral for the guarantee against defect of construction, the loans of an affiliate, and contract performance obligation of PFI business, respectively, at March 31, 2014, and time deposit in the amount of ¥47 million ($458 thousand) is pledged for the guarantee against defect of construction contracts at March 31, 2014.

**15. Comprehensive Income**

The components of other comprehensive income for the years ended March 31, 2014 and 2013, were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2014** | 2013 | **2014** |
| Unrealized gain on available-for-sale securities | | | |
| Gains arising during the year | **¥5,974** | ¥13,525 | **$58,045** |
| Reclassification adjustments to profit or loss | **(432)** | 16 | **(4,199)** |
| Amount before tax effect | **5,542** | 13,541 | **53,846** |
| Income tax effect | **(1,776)** | (4,209) | **(17,251)** |
| Total | **¥3,766** | ¥ 9,332 | **$36,595** |
| Total other comprehensive income | **¥3,766** | ¥ 9,332 | **$36,595** |

**16. Subsequent Event**

Appropriation of Retained Earnings

The following appropriation of retained earnings at March 31, 2014, was approved at the Company's shareholders' meeting held on June 27, 2014.

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Year-end cash dividends, ¥9 ($0.09) per share | ¥1,797 | $17,459 |

**17. Segment Information**

1. Description of Reportable Segments

   The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group. Therefore, the Group's reportable segments consist of "Civil engineering," "Architectural construction," and "Real estate."

2. Methods of measurement for the amounts of sales, profit (loss), assets, liabilities and other items for each reportable segment

   The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies."

3. Information about sales, profit (loss), assets, liabilities and other items is as follows:

Millions of yen, 2014

| | Reportable segment: Civil engineering | Reportable segment: Architectural construction | Reportable segment: Real estate | Reportable segment: Total | Other (Note 1) | Total | Reconciliations (Note 2) | Consolidated (Note 3) |
|---|---|---|---|---|---|---|---|---|
| Sales | | | | | | | | |
| Sales to external customers | ¥72,093 | ¥111,604 | ¥4,641 | ¥188,338 | ¥4,687 | ¥193,025 | ¥ — | ¥193,025 |
| Intersegment sales or transfers | — | 490 | 19 | 509 | 630 | 1,139 | (1,139) | — |
| Total | 72,093 | 112,094 | 4,660 | 188,847 | 5,317 | 194,164 | (1,139) | 193,025 |
| Segment profit (loss) | 2,617 | (2,766) | 2,422 | 2,273 | 35 | 2,308 | 10 | 2,318 |
| Other: | | | | | | | | |
| Depreciation | ¥ 199 | ¥ 246 | ¥ 377 | ¥ 822 | ¥ 9 | ¥ 831 | ¥ (7) | ¥ 824 |

Millions of yen, 2013

| | Reportable segment: Civil engineering | Reportable segment: Architectural construction | Reportable segment: Real estate | Reportable segment: Total | Other (Note 1) | Total | Reconciliations (Note 2) | Consolidated (Note 3) |
|---|---|---|---|---|---|---|---|---|
| Sales | | | | | | | | |
| Sales to external customers | ¥72,927 | ¥111,841 | ¥7,132 | ¥191,900 | ¥4,654 | ¥196,554 | ¥ — | ¥196,554 |
| Intersegment sales or transfers | — | 191 | 18 | 209 | 780 | 989 | (989) | — |
| Total | 72,927 | 112,032 | 7,150 | 192,109 | 5,434 | 197,543 | (989) | 196,554 |
| Segment profit (loss) | 599 | (3,039) | 3,696 | 1,256 | 47 | 1,303 | 36 | 1,339 |
| Other: | | | | | | | | |
| Depreciation | ¥ 206 | ¥ 262 | ¥ 344 | ¥ 812 | ¥ 5 | ¥ 817 | ¥ (7) | ¥ 810 |

Thousands of U.S. dollars, 2014

| | Reportable segment: Civil engineering | Reportable segment: Architectural construction | Reportable segment: Real estate | Reportable segment: Total | Other (Note 1) | Total | Reconciliations (Note 2) | Consolidated (Note 3) |
|---|---|---|---|---|---|---|---|---|
| Sales | | | | | | | | |
| Sales to external customers | $700,472 | $1,084,374 | $45,096 | $1,829,942 | $45,542 | $1,875,484 | $ — | $1,875,484 |
| Intersegment sales or transfers | — | 4,766 | 180 | 4,946 | 6,120 | 11,066 | (11,066) | — |
| Total | 700,472 | 1,089,140 | 45,276 | 1,834,888 | 51,662 | 1,886,550 | (11,066) | 1,875,484 |
| Segment profit (loss) | 25,424 | (26,876) | 23,538 | 22,086 | 340 | 22,426 | 94 | 22,520 |
| Other: | | | | | | | | |
| Depreciation | $ 1,934 | $ 2,388 | $ 3,662 | $ 7,984 | $ 89 | $ 8,073 | $ (68) | $ 8,005 |

Notes:

1. Other is a business segment which is not included in any reportable segment and includes business related to manufacturing and sales of construction machinery and materials.
2. Reconciliations to segment profit (loss) in the amount of ¥10 million ($94 thousand) and ¥36 million for the years ended March 31, 2014 and 2013, respectively, include eliminations of intersegment transactions.
3. Consolidated amounts of segment profit (loss) above correspond to the amounts of operating income in the consolidated statements of income.
4. Information concerning amortization of goodwill and unamortized balance of goodwill by reportable segment
   There was no matter to be reported at March 31, 2014, and for the year then ended.
   The Group recorded negative goodwill not allocated to any reportable segment. Amortization of negative goodwill was ¥284 million for the year ended March 31, 2013, and the unamortized balance was ¥0 million at March 31, 2013. The negative goodwill was incurred when the Company acquired additional shares in Okumura Machinery Corporation.

Deloitte.

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Okumura Corporation:

We have audited the accompanying consolidated balance sheet of Okumura Corporation and its consolidated subsidiaries as of March 31, 2014, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

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

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

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

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

**Opinion**
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Okumura Corporation and its consolidated subsidiaries as of March 31, 2014, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

**Convenience Translation**
Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 27, 2014

Member of
**Deloitte Touche Tohmatsu Limited**

# Breakdown of Orders (Non-Consolidated)

Okumura Corporation
Year ended March 31, 2014





**Construction Orders Awarded**

| | 2014 | | 2013 | | 2014 |
|---|---|---|---|---|---|
| | Millions of yen | Composition ratio | Millions of yen | Composition ratio | Thousands of U.S. dollars |
| Civil engineering: | | | | | |
| Domestic: | | | | | |
| Public sector | **¥ 87,401** | | ¥ 61,044 | | **$ 849,208** |
| Private sector | **14,833** | | 7,397 | | **144,125** |
| Overseas | **403** | | 634 | | **3,917** |
| Subtotal | **102,637** | **46.6%** | 69,075 | 39.7% | **997,250** |
| Architectural construction: | | | | | |
| Domestic: | | | | | |
| Public sector | **40,512** | | 40,457 | | **393,632** |
| Private sector | **76,867** | | 62,749 | | **746,858** |
| Overseas | **100** | | 1,741 | | **971** |
| Subtotal | **117,479** | **53.4** | 104,947 | 60.3 | **1,141,461** |
| Total: | | | | | |
| Domestic: | | | | | |
| Public sector | **127,913** | | 101,501 | | **1,242,840** |
| Private sector | **91,700** | | 70,146 | | **890,983** |
| Overseas | **503** | | 2,375 | | **4,888** |
| Total | **¥220,116** | **100 %** | ¥174,022 | 100 % | **$2,138,711** |

**Net Sales**

| | 2014 | | 2013 | | 2014 |
|---|---|---|---|---|---|
| | Millions of yen | Composition ratio | Millions of yen | Composition ratio | Thousands of U.S. dollars |
| Projects completed: | | | | | |
| Civil engineering: | | | | | |
| Domestic: | | | | | |
| Public sector | **¥ 54,512** | | ¥ 54,276 | | **$ 529,651** |
| Private sector | **15,594** | | 15,534 | | **151,511** |
| Overseas | **1,987** | | 3,117 | | **19,310** |
| Subtotal | **72,093** | **38.0%** | 72,927 | 37.8% | **700,472** |
| Architectural construction: | | | | | |
| Domestic: | | | | | |
| Public sector | **26,487** | | 19,788 | | **257,355** |
| Private sector | **85,251** | | 91,905 | | **828,327** |
| Overseas | **356** | | 339 | | **3,458** |
| Subtotal | **112,094** | **59.1** | 112,032 | 58.1 | **1,089,140** |
| Subtotal: | | | | | |
| Domestic: | | | | | |
| Public sector | **80,999** | | 74,064 | | **787,006** |
| Private sector | **100,845** | | 107,439 | | **979,838** |
| Overseas | **2,343** | | 3,456 | | **22,768** |
| Subtotal | **184,187** | **97.1** | 184,959 | 95.9 | **1,789,612** |
| Real estate and other | **5,551** | **2.9** | 7,982 | 4.1 | **53,933** |
| Total | **¥189,738** | **100 %** | ¥192,941 | 100 % | **$1,843,545** |

**Year-end Backlog**

| | 2014 | | 2013 | | 2014 |
|---|---|---|---|---|---|
| | Millions of yen | Composition ratio | Millions of yen | Composition ratio | Thousands of U.S. dollars |
| Civil engineering: | | | | | |
| Domestic: | | | | | |
| Public sector | **¥ 89,655** | | ¥ 56,766 | | **$ 871,114** |
| Private sector | **12,523** | | 13,283 | | **121,674** |
| Overseas | **1,761** | | 3,345 | | **17,112** |
| Subtotal | **103,939** | **46.9%** | 73,394 | 39.5% | **1,009,900** |
| Architectural construction: | | | | | |
| Domestic: | | | | | |
| Public sector | **64,899** | | 50,874 | | **630,582** |
| Private sector | **51,647** | | 60,031 | | **501,816** |
| Overseas | **1,146** | | 1,402 | | **11,132** |
| Subtotal | **117,692** | **53.1** | 112,307 | 60.5 | **1,143,530** |
| Total: | | | | | |
| Domestic: | | | | | |
| Public sector | **154,554** | | 107,640 | | **1,501,696** |
| Private sector | **64,170** | | 73,314 | | **623,490** |
| Overseas | **2,907** | | 4,747 | | **28,244** |
| Total | **¥221,631** | **100 %** | ¥185,701 | 100 % | **$2,153,430** |

## Head and Branch Offices

**Head Office**
2-2-2, Matsuzaki-cho, Abeno-ku,
Osaka 545-8555, Japan
TEL: +81-6-6621-1101 FAX: +81-6-6627-5295

**Tokyo Head Office**
5-6-1, Shiba, Minato-ku,
Tokyo 108-8381, Japan
TEL: +81-3-3454-8111 FAX: +81-3-5427-8103

**Technical Research Institute**
387, Ohsuna, Tsukuba 300-2612, Japan
TEL: +81-29-865-1521 FAX: +81-29-865-1522

**East Japan Branch**
5-6-1, Shiba, Minato-ku,
Tokyo 108-8381, Japan
TEL: +81-3-3454-8111 FAX: +81-3-5427-8111

**West Japan Branch**
2-2-2, Matsuzaki-cho, Abeno-ku,
Osaka 545-8555, Japan
TEL: +81-6-6621-1101 FAX: +81-6-6623-7692

**West Japan Branch (HARUKAS Office)**
26F ABENO HARUKAS,1-1-43 Abenosuji,
Abeno-ku, Osaka 545-6026, Japan
TEL: +81-6-6621-1101 FAX: +81-6-6621-1921

**Sapporo Branch**
2-1-18, Kita Shijo Nishi,
Chuo-ku, Sapporo 060-0004, Japan
TEL: +81-11-261-9261 FAX: +81-11-251-5345

**Tohoku Branch**
2-25, Tsutsumi dori, Amamiya-machi,
Aoba-ku, Sendai 981-8525, Japan
TEL: +81-22-274-1231 FAX: +81-22-273-9805

**Tokyo Branch**
5-6-1, Shiba, Minato-ku,
Tokyo 108-8381, Japan
TEL: +81-3-3454-8111 FAX: +81-3-5427-8116

**Kitakanto Office**
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**Higashikanto Office**
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Chiba 260-0028, Japan
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**Yokohama Office**
60, Nihon Ohdori, Naka-ku,
Yokohama 231-0021, Japan
TEL: +81-45-662-1361 FAX: +81-45-641-3502

**Hokuriku Office**
2-3-26, Higashi Ohdori, Chuo-ku,
Niigata 950-0087, Japan
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**Nagoya Branch**
29-8, Takebashi-cho, Nakamura-ku,
Nagoya 453-8555, Japan
TEL: +81-52-451-1101 FAX: +81-52-452-4331

**Kansai Branch**
26F ABENO HARUKAS,1-1-43 Abenosuji,
Abeno-ku, Osaka 545-6026, Japan
TEL: +81-6-6621-1101 FAX: +81-6-6621-1921

**Nara Office**
38-3 Takama-cho, Nara 630-8241, Japan
TEL: +81-742-22-5001 FAX: +81-742-27-0192

**Kobe Office**
2-2-16, Isobe dori, Chuo-ku,
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TEL: +81-78-221-9355 FAX: +81-78-251-3374

**Hiroshima Branch**
1-7-22, Kokutaiji-machi, Naka-ku,
Hiroshima 730-0042, Japan
TEL: +81-82-241-2246 FAX: +81-82-243-1416

**Shikoku Branch**
1-8-41, Nishiki-machi,
Takamatsu 760-0020, Japan
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**Kyushu Branch**
2-19-1, Sanno, Yahata Higashi-ku,
Kitakyushu 805-8531, Japan
TEL: +81-93-671-3131 FAX: +81-93-661-1543

**Fukuoka Office**
1-13-8, Yakuin, Chuo-ku,
Fukuoka 810-0022, Japan
TEL: +81-92-741-4431 FAX: +81-92-741-4740

**Taiwan Branch**
Rm.702, 7F., No.65, Sec.3, Nanjing E.Rd.,
Zhongshan Dist., Taipei City 104, Taiwan
(R.O.C.)
TEL: +886-2-2506-1402 FAX: +886-2-2506-1429

**Singapore Rep. Office**
175A Bencoolen Street, #07-08 Burlington
Square, Singapore 189650
TEL: +65-6884-6830 FAX: +65-6884-6831

## Consolidated Subsidiaries

**Okumura Machinery Corporation**
3-5-26, Himejima, Nishiyodogawa-ku,
Osaka 555-0033, Japan
TEL: +81-6-6472-3461 FAX: +81-6-6477-6801
Business line:Design, manufacture, sales, and repair of construction/industrial machines and devices

**Taihei Real Estate Corporation**
[Head Office]
5-6-1, Shiba, Minato-ku,
Tokyo 108-8381, Japan
TEL: +81-3-5439-5401 FAX: +81-3-5439-5402
[Osaka Branch]
2-2-2, Matsuzaki-cho, Abeno-ku,
Osaka 545-8555, Japan
TEL: +81-6-6625-3959 FAX: +81-6-6629-3938
Business line: Real estate, land and building management

# Board of Directors

(As of June 27, 2014)

## Directors and Auditors

President & Representative Director
**Takanori Okumura**

Representative Director
**Takaiku Hirako**

Directors
**Makoto Tsuchiya**
**Kazuo Takami**
**Seiichi Fujioka**
**Keiji Yamaguchi**
**Yuichi Mizuno**
**Kiyoshi Saito**
**Kenji Kotera**
**Atsushi Tanaka**

Standing Statutory Auditors
**Yuji Takemura**
**Koichi Yamauchi**

Auditors
**Yoshihiro Ban**
**Kazuo Tsuji**
**Shuji Abe**

Notes:1. Kiyoshi Saito is outside director.
2. Yoshihiro Ban, Kazuo Tsuji and Shuji Abe are outside auditors.

## Executive Officers

Executive Vice Presidents
**Takaiku Hirako***
**Makoto Tsuchiya***
**Masamichi Shirahase**

Senior Managing Officer
**Hiroomi Iida**

Managing Officers
**Kazuo Takami***
**Seiichi Fujioka***
**Keiji Yamaguchi***
**Hirokazu Oishi**
**Yuichi Mizuno***
**Toshio Kobayashi**

Executive Officers
**Takeshi Kurita**
**Yutaka Maruyama**
**Takanori Hayashi**
**Noriyuki Machida**
**Kenji Kotera***
**Osamu Harada**
**Atsushi Tanaka***

Note: Those officers marked with an asterisk (*) work as directors.

# Investor Information

(As of March 31, 2014)

## Corporate Data

**Head Office**
OKUMURA CORPORATION
2-2-2, Matsuzaki-cho, Abeno-ku, Osaka 545-8555, Japan
TEL: +81-6-6621-1101 FAX: +81-6-6627-5295

**Established**
February 22, 1907

**Capital**
¥19.8 billion

**Group Employees**
1,958

## Stock Information

**Stock Exchange Listings**
Tokyo

**Transfer Agent**
Sumitomo Mitsui Trust Bank, Limited

**Major Shareholders**

| Shareholder | Shares held (thousands) | Percentage of total |
|---|---|---|
| Okumura Corporation (Treasury stock) | 28,667 | 12.56% |
| Northern Trust Co. (AVFC) Re Silchester International Investors International Value Equity Trust | 12,918 | 5.66 |
| Northern Trust Co. (AVFC) Re U.S. Tax Exempted Pension Funds | 7,633 | 3.34 |
| Okumura Employees' Shareholding Association | 7,562 | 3.31 |
| BBH Boston Custodian For Blackrock Global Allocation Fund, Inc. 620313 | 6,202 | 2.72 |
| Resona Bank, Limited. | 6,074 | 2.66 |
| Sumitomo Realty & Development Co., Ltd. | 6,050 | 2.65 |
| Japan Trustee Services Bank, Ltd. (Trust Account) | 5,650 | 2.47 |
| Sumitomo Mitsui Banking Corporation | 5,568 | 2.44 |
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 4,489 | 1.97 |
| Northern Trust Co. (AVFC) Sub A/C Non Treaty | 4,161 | 1.82 |

奥村組
OKUMURA CORPORATION


## OKUMURA CORPORATION

2-2-2, Matsuzaki-cho, Abeno-ku, Osaka 545-8555, Japan
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