

Summary of Consolidated Financial Results For the Third Quarter of Fiscal Year Ending March 31, 2018 [Japan GAAP]

Company: Takamatsu Construction Group Co., Ltd.
 Stock exchange listing: Tokyo Stock Exchange (First Section)
 Stock code: 1762
 URL: <https://www.takamatsu-cg.co.jp/>
 Representative: Nobuhiko Yoshitake, President and Representative Director of the Board
 Contact: Hiroyuki Izutsu, Senior Director of Group Integration Division
 Contact: 06-6303-8101, ir@takamatsu-const.co.jp
 Date of filing of quarterly securities report: February 14, 2018
 Date of commencement of dividend payment: —
 Supplementary explanatory documents: Yes
 Earnings presentation: No

(Yen in millions, rounded down, figures in parentheses indicate negative amounts or percentages)

1. Financial results for the third quarter of the fiscal year ending March 2018 (April 1, 2017 – December 31, 2017)

(1) Consolidated result of operations (year-to-date) (Percentage figures represent year on year changes)

	Net sales		Operating income		Ordinary income		Net earnings attributable to controlling interest	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Third quarter ended December 2017	176,561	15.6	8,941	(7.2)	8,962	(7.2)	4,787	(7.0)
Third quarter ended December 2016	152,691	1.7	9,636	37.4	9,652	35.9	5,149	19.8

Note: Comprehensive income: Third quarter of FYMar.2018:6,171million yen (1.0%), Third quarter of FYMar.2017:6,236million yen 18.3%

	Earnings per share	Earnings per share (diluted)
	Yen	Yen
Third quarter ended December 2017	133.91	—
Third quarter ended December 2016	142.98	—

(2) Consolidated financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of December 31, 2017	177,265	112,691	55.5
As of March 31, 2017	180,927	110,555	53.2

(Reference) Shareholders' equity

As of December 31, 2017: 98,429million yen

As of March 31, 2017: 96,310 million yen

2. Dividends

	Dividend per share				
	End of 1Q	End of 2Q	End of 3Q	End of FY	Annual
	Yen	Yen	Yen	Yen	Yen
FY3/17	—	15.00	—	28.00	43.00
FY3/18	—	20.00	—		
FY3/18 (Est.)				33.00	53.00

Note: Change in the estimation of dividend from the latest announcement: No

Note: 33yen of FY3/18 year-end dividend splits into 23 yen of ordinary dividend and 10 yen of commemorative dividend.

3. Consolidated forecast for the fiscal year ending March 31, 2018 (April 1, 2017 – March 31, 2018)

(Percentage figures represent year on year changes)

	Orders received		Net sales		Operating income		Ordinary income		Net earnings attributable to controlling interest		Net earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	260,000	1.4	240,000	12.1	13,300	2.8	13,300	2.8	7,300	10.7	204.18

Note: Change in the forecast from the latest announcement: No

* **Notes**

- (1) Changes in significant subsidiaries (Changes of specific subsidiaries that accompanies scope change of consolidation): No
- (2) Use of accounting methods specifically for the preparation of the quarterly consolidated financial statements: No
- (3) Changes in accounting principles and estimates, and retrospective restatement
 - (a) Changes due to revision of accounting standards: No
 - (b) Changes other than (a): No
 - (c) Changes in accounting estimates: No
 - (d) Retrospective restatement: No
- (4) Number of shares outstanding (common stock)
 - (a) Shares outstanding (including treasury shares)
As of December 31, 2017: 38,880,000 As of March 31, 2017: 38,880,000
 - (b) Treasury shares
As of December 31, 2017: 3,461,303 As of March 31, 2017: 2,861,003
 - (c) Average number of shares (quarterly consolidated cumulative period)
Period ended December 31, 2017: 35,752,197 Period ended December 31, 2016: 36,018,997

* Auditing of financial statements is not conducted to this summary of financial results.

* Cautionary statement regarding forecasts and special notes

(Note on forward looking statements)

Forward-looking statements in these materials are based on the information available to management at the time this report was prepared. Actual results may differ significantly from these statements for number of reasons.

Index for Supplementary Information

1. Results of Operations.....	2
(1) Overview of business performance.....	2
(2) Overview of financial condition	2
(3) Forecast.....	2
2. Quarterly Consolidated Financial Statements and Major Notes.....	3
(1) Quarterly consolidated balance sheet.....	3
(2) Quarterly consolidated statements of income and consolidated statements of comprehensive income.....	5
Quarterly consolidated statements of income.....	5
Quarterly consolidated statements of comprehensive income.....	6
(3) Notes to consolidated financial statements.....	7
(Going concern assumptions).....	7
(Significant change in shareholders' equity).....	7
(Subsequent events).....	7
3. Additional information.....	8
Orders received and net sales (consolidated).....	8

1. Results of Operations

(1) Overview of business performance

During the three quarters of the current fiscal year, the Japanese economy continued moderate growth trend due to improvements such as corporate earnings and employment environment. On the other hand, although the Japanese construction market showed positive trend vs LY for the private sector, the public sector as well as the overall Japanese construction market shrunk partly due to large project orders in the previous year. However, the general outlook of the Japanese construction market for the next two to three years remains rather optimistic.

Under these circumstances, Takamatsu Construction Group announced its new Mid Term Plan "TRY! NEXT CENTURY 2020" and celebrated its centenary in October 2017 with three key words; "Challenge 268" to target revenue of 268 billion yen for the fiscal year ending March 2020, "Specialty 18 alpha" to aim for further growth and expand our 18 Group Companies through organic growth as well as aggressive M&A, and "Quality 15" to achieve an operating income of 15 billion yen in fiscal year ending March 2020 by improving the quality and the efficiency of our business.

In our Mid Term Plan, Takamatsu Corporation, one of our core companies, will drive the growth of the Group by focusing on winning real estate utilization orders in the Tokyo Metropolitan area, while Asunaro Aoki Construction, the other core company of the Group plans to grow at a moderate but steady rate to maintain its currently high level of profit. In addition, we will promote projects to maximize Group strength, HR development and Group governance and to optimize our capital policies to strengthen management basis.

As the result, our Q3 (accumulated) orders received decreased to 185,946 million yen (-0.9% vs. previous Q3 (accumulated)), but our net sales soared to 176,561 million yen (+15.6% vs. previous Q3 (accumulated)), which surpassed Q3 (accumulated) of previous years for 6 consecutive years as well as record high for 5 consecutive years. Regarding profit, operating income was 8,941 million yen (-7.2% vs. previous Q3 (accumulated)), ordinary income was 8,962 million yen (-7.2% vs. previous Q3 (accumulated)), and net earnings attributable to controlling interest was 4,787 million yen, decrease of 7.0% vs. previous Q3 (accumulated).

By-segment performance were as shown below, however concerning by-segment earnings, the numbers do not include 2,414 million yen of headquarter expenses and other adjustments to match with consolidated operating income.

(Architecture)

Orders received decreased by 12.0% to 89,077 million yen, net sales increased by 9.0% to 85,131 million yen, however the segment operating income decreased by 27.6% to 5,576 million yen due to high profitability projects of previous Q3 (accumulated).

(Civil engineering)

Orders received increased by 8.8% to 84,447 million yen, net sales increased by 20.0% to 79,007 million yen and the segment operating income increased by 41.5% to 4,960 million yen.

(Real estate)

Sales from real estate transactions, leasing and other operations increased by 42.6% to 12,422 million yen and the segment operating income was up by 20.1% to 818 million yen.

(2) Overview of financial condition

(Assets)

Assets totaled 177,265 million yen at the end of the third quarter, 3,661 million yen less than the end of the previous fiscal year. This is due mainly to decreases of cash & deposits of 8,626 million yen, accounts receivable of 1,664 million yen, and real estate for sale of 1,107 million yen, partially offset by increase of noncurrent assets 5,875million yen, and 1,808million yen increases of notes & accounts receivable.

(Liabilities)

Liabilities decreased by 5,797 million yen to 64,573 million yen. The primary reasons were decrease of 2,763 million yen of income taxes payable, decrease of 1,716 million yen of accounts payable, decrease of 1,423 million yen of provision for bonuses.

(Net assets)

Net assets increased by 2,135 million yen to 112,691 million yen. The main reasons were increase of retained earnings of 3,070 million yen due to Q3 net earnings (accumulated) of 4,787 million yen, offset by 1,716 million yen of dividend payout as well as share buyback of 1,508million yen. As the result, net assets after deducting non-controlling interests was 98,429 million yen with the equity ratio of 55.5%, 2.3 percentage point higher than the end of the previous fiscal year.

(3) Forecast

There is no change from the forecast for consolidated results of full year operations announced on May 11, 2017.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly consolidated balance sheet

(Million yen)

	Fiscal year ended March 2017 (As of March 31, 2017)	Third quarter ended December 2017 (As of December 31, 2017)
ASSETS		
Current assets		
Cash and deposits	77,396	68,770
Notes receivable, accounts receivable from completed construction contracts and other	60,255	62,063
Real estate for sale	7,177	6,069
Costs on uncompleted construction contracts	1,143	1,085
Costs on real estate business	3,327	3,063
Accounts receivable	6,242	4,578
Deferred tax assets	1,564	917
Other	1,069	2,071
Allowance for doubtful accounts	(381)	(361)
Total current assets	157,794	148,257
Noncurrent assets		
Tangible Assets		
Buildings and structures, net	2,454	3,349
Machinery, vehicles, tools, furniture and fixtures, net	821	1,204
Vessels, net	651	1,647
Land	8,961	12,372
Lease assets, net	179	162
Construction in progress	555	107
Total Tangible assets	13,623	18,844
Intangible assets	302	408
Investments and other assets		
Investment securities	5,692	6,375
Deferred tax assets	1,227	1,108
Other	3,188	3,167
Allowance for doubtful accounts	(902)	(896)
Total investments and other assets	9,206	9,754
Total noncurrent assets	23,132	29,007
Total assets	180,927	177,265

(Million yen)

	Fiscal year ended March 2017 (As of March 31, 2017)	Third quarter ended December 2017 (As of December 31, 2017)
LIABILITIES		
Current liabilities		
Accounts payable for construction contracts	29,710	27,994
Income taxes payable	3,527	764
Advances received on uncompleted construction contracts	12,961	13,657
Provision for warranties for completed construction	767	824
Provision for loss on construction contracts	58	70
Provision for bonuses	2,846	1,423
Provision for loss by disaster	385	286
Other	7,366	7,025
Total current liabilities	57,624	52,048
Noncurrent liabilities		
Deferred tax liabilities for land revaluation	256	256
Deferred tax liabilities	264	335
Provision for special repairs of vessels	91	68
Retirement allowances	10,667	10,424
Other	1,466	1,440
Total noncurrent liabilities	12,747	12,525
Total liabilities	70,371	64,573
NET ASSETS		
Shareholders' equity		
Capital stock	5,000	5,000
Capital surplus	271	362
Retained earnings	95,860	98,930
Treasury shares	(4,296)	(5,805)
Total shareholders' equity	96,835	98,488
Accumulated other comprehensive income		
Valuation differences on available-for-sales securities	1,010	1,329
Revaluation reserve for land	(1,266)	(1,266)
Remeasurements of retirement allowance plans	(267)	(122)
Total accumulated other comprehensive income	(524)	(59)
Non-controlling interests	14,245	14,262
Total net assets	110,555	112,691
Total liabilities and net assets	180,927	177,265

(2) Quarterly consolidated statements of income and consolidated statements of comprehensive income
Quarterly consolidated statements of income
For the third quarter of fiscal year ending March 31, 2018 (April 1, 2017 –December 31, 2017)

(Million yen)

	Third quarter ended December 2016 (April 1, 2016- December 31, 2016)	Third quarter ended December 2017 (April 1, 2017- December 31, 2017)
Net sales		
Net sales of completed construction contracts	143,980	164,139
Sales on real estate business	8,711	12,422
Total net sales	152,691	176,561
Cost of sales		
Cost of sales of completed construction contracts	122,140	141,686
Cost of sales on real estate business	7,790	11,273
Total cost of sales	129,931	152,960
Gross profit		
Gross profit on completed construction contracts	21,839	22,452
Gross profit-real estate business	920	1,148
Total gross profit	22,760	23,601
Selling, general and administrative expenses	13,123	14,659
Operating income	9,636	8,941
Non-operating income		
Interest income	0	1
Dividend income	90	100
Rent income	24	36
Other	52	33
Total non-operating income	168	171
Non-operating expenses		
Interest expense	119	128
Other	33	21
Total non-operating expenses	152	150
Ordinary income (loss)	9,652	8,962
Extraordinary income		
Gain on sales of fixed assets	0	18
Gain on sales of investment securities	42	5
Total extraordinary income	42	23
Extraordinary losses		
Loss on sales of fixed assets	63	4
Loss on litigation	127	52
Impairment loss	0	—
Loss on disaster	—	126
Other	3	5
Total extraordinary losses	195	189
Income before income taxes	9,500	8,796
Income taxes-current	2,804	2,513
Income taxes-deferred	650	662
Total income taxes	3,455	3,176
Net earnings	6,045	5,619
Net earnings attributable to non-controlling interests	895	831
Net earnings attributable to controlling interest	5,149	4,787

Quarterly consolidated statements of comprehensive income
 For the third quarter of fiscal year ending March 31, 2018 (April 1, 2017– December 31, 2017)

(Million yen)

	Third quarter ended December 2016 (April 1, 2016- December 31, 2016)	Third quarter ended December 2017 (April 1, 2017- December 31, 2017)
Net earnings	6,045	5,619
Other comprehensive income		
Valuation difference on available-for-sale securities	136	366
Remeasurements of retirement allowance plans	54	184
Total other comprehensive income	191	551
Comprehensive income	6,236	6,171
(This splits into...)		
Comprehensive income attributable to controlling interest	5,300	5,252
Comprehensive income attributable to non-controlling interests	935	918

(3) Notes to consolidated financial statements

(Going concern assumptions)

No

(Significant change in shareholders' equity)

Based on the resolution of the Board of Directors held on July 19, 2017, the Company has acquired 600,300 treasury shares. As the result, our treasury shares increased by 1,508 million yen during the accumulated third quarter and our treasury shares increased to 5,805 million yen at the end of Q3.

(Subsequent events)

At the Board of Directors Meeting held on January 24, Takamatsu Construction Group Co.,Ltd. resolved to conduct disclosed purchase of treasury shares in accordance with the Company Act (Law number 86 of 2005, includes later amendments. Article 165-3 and 156-1) as well as our Articles of Incorporation.

(1) Objective of the purchase

Distributing earnings to shareholders is one of our highest priorities. Our basic policy is to maintain stable and consistent dividend payments while distributing earnings in a manner that reflects the results of business operations. At the same time, we will retain earnings in order to strengthen our operations with the goals of increasing our ability to capture orders and building a sound framework for our operations.

Based on the above framework, the Company has acquired 600,300 treasury shares by conducting disclosed purchase of treasury shares in accordance with the resolution of Board of Directors Meeting held on July 19, 2017.

During late November, after the conclusion of the above purchase, we were noted that Sankosha Co.,Ltd., our main shareholder as well as our second largest shareholder (as of September 30, 2017), has the intent to sell part of our shares.

Upon receipt of the note from Sankosha Co.,Ltd., we started to consider concrete methods of how we can acquire the shares as our treasury stock, with three elements that need to be balanced; (1) Improvement of our capital efficiency as well as redistribution of profit to our shareholders (2) Impact to liquidity and price of our shares in case the share was released to the market, and (3) Financial status of the Company.

After consideration, we concluded as follows:

- (1) To acquire the share as our treasury stock will contribute to capital efficiency of the Company, such as improvement of ROE as well as EPS. This will lead into improved distribution of profits to our shareholders.
- (2) The share purchase will have no significant impact to our financial status nor to our dividend policies.
- (3) When conducting treasury stock acquisition, disclosed purchase method will be appropriate in terms of fairness among shareholders and transparency of the transaction.

(2) Contents of the resolution of the Board of Directors concerning treasury stock acquisition

- ① Type of shares to be acquired: Common stock
- ② Total number of shares to be acquired: 660,100 shares (maximum)
- ③ Total acquisition price: 1,846,299,700 yen (maximum)
- ④ Period of acquisition: From January 25, 2018 through March 30, 2018

(3) Contents of disclosed share purchase

- ① Type of shares to be acquired: Common stock
- ② Period of Acquisition: From January 25, 2018 through February 22, 2018
- ③ Purchase price: 2,797 yen per share
- ④ Total number of shares to be acquired: 660,000 shares
- ⑤ Start date of settlement: March 16, 2018

3. Additional information

Orders received and net sales (consolidated)

(Million yen, %)

		Third quarter FY3/17		Third quarter FY3/18		Changes	
		(Apr. 1, 2016-Dec. 31,2016)		(Apr. 1, 2017-Dec. 31,2017)			
		Amount	Share	Amount	Share	Amount	%
Orders received	Architecture	101,258	54.0	89,077	47.9	(12,181)	(12.0)
	Civil engineering	77,587	41.4	84,447	45.4	6,860	8.8
	Total construction	178,845	95.4	173,524	93.3	(5,320)	(3.0)
	Real estate	8,711	4.6	12,422	6.7	3,711	42.6
	Total	187,556	100.0	185,946	100.0	(1,609)	(0.9)
Net sales	Architecture	78,135	51.2	85,131	48.2	6,996	9.0
	Civil engineering	65,844	43.1	79,007	44.8	13,163	20.0
	Total construction	143,980	94.3	164,139	93.0	20,159	14.0
	Real estate	8,711	5.7	12,422	7.0	3,711	42.6
	Total	152,691	100.0	176,561	100.0	23,870	15.6