

Annual Report for the 91th Term

January 1, 2017 – December 31, 2017



To the Shareholders of Fukuda Corporation



Fukuda Corporation

Stock code: 1899

To Our Shareholders



Katsuyuki Fukuda

Chairman & Representative Director

We would like to extend our greetings to all of our shareholders, and take this opportunity to express our sincere gratitude for your continuing support.

We hereby present our business results for the 91th term ended on December 31, 2017.

By upholding the basic principle of “Creating an environment where people, nature and society can coexist” and adhering to the Fukuda Group Spirit of “Always sincere from now until the next century and beyond,” the Fukuda Group draws on its comprehensive strengths and sincerity to form strong bonds with those that we love and cherish, in order to protect their lives and livelihoods. The Company’s management philosophy is: “To value people and the environment, and aim to create inspirational value based on a corporate structure designed to face challenges.” To this end, the entire company is working together as one, with our highest priority being the satisfaction of all of our



Toyohiko Ota

President & Representative Director

stakeholders, including our customers, shareholders, business partners, local community and employees.

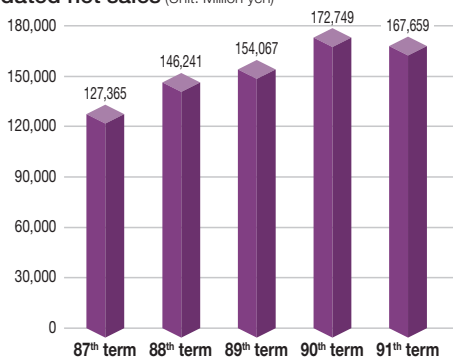
The Company’s business results for the fiscal year under review are shown below. While today’s increasingly global society is fraught with unexpected risks, we will aim to enhance our corporate value and maintain the Group’s management base as a united corporate group so that we may further continue to meet the expectations of our shareholders.

We sincerely hope you will grant us your continued support and guidance going forward.

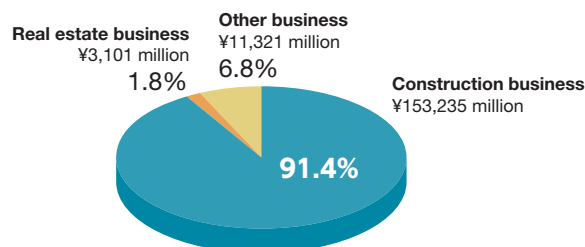
March 2018

Operating Results

Consolidated net sales (Unit: Million yen)



Ratio of net sales by consolidated business



Business environment for the fiscal year under review

During the fiscal year under review, the Japanese economy made a moderate recovery, partly thanks to steady corporate production activities and a sustained improvement in corporate earnings. Meanwhile, personal consumption appears to be stagnating due to the slow growth of real income caused by an increase in social insurance premiums and other factors, despite an unprecedented employment environment against the backdrop of labor shortages.

In the construction industry, investment in public works construction is expected to remain weak going forward due to abatement in Tokyo Olympics-related orders and a downturn in new capital expenditures. Investment in construction by the private sector remained strong amid robust investment in the construction of both lodging facilities for inbound demand and advanced logistics facilities reflecting increased distribution volume by e-commerce against a backdrop of ample corporate cash flow.

Consolidated business results for the fiscal year under review

Under these circumstances, the Fukuda Group has worked to improve the efficiency of construction works and raise productivity by utilizing information and communication technology in order to pursue greater corporate value. As a result, the consolidated business results for the fiscal year under review were as follows.

Net sales decreased 2.9% year on year to more than ¥167.6 billion, attributable to factors including delays in both the startup and progress in construction works for which orders have already been received, despite the increase in balance carried forward from last year and in orders received.

In terms of profit, gross profit decreased by 9.6% year on year to more than ¥17.9 billion due to a drop in net sales in the real estate business, and operating income fell by 17.6% year on year to over ¥7.9 billion, despite a reduction in general and administrative

expenses, including a decline in selling expenses due to a decrease in real estate projects.

Additionally, net income attributable to owners of the parent decreased 38.8% year on year to more than ¥5.1 billion due to an increase in income taxes caused by a decrease in the amount of tax deductibles for losses, despite a sharp reduction in the fiscal year under review of impairment losses recorded in the previous fiscal year.

Outlook for the next fiscal year

Going forward, the Japanese economy is expected to experience a moderate recovery trend in domestic private sector demand for the time being, despite a slowing growth rate as economic measures and improvements in corporate inventory run their course.

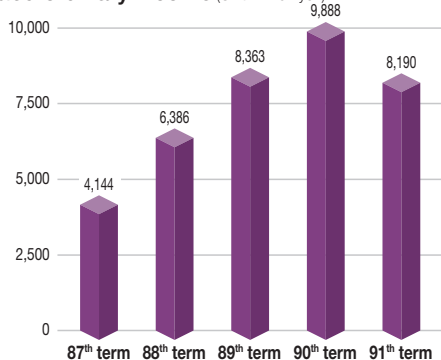
In the construction industry, the order environment is expected to remain firm, backed by continued redevelopment in urban areas and the construction of lodging facilities and logistics facilities. However, there are signs of soaring construction costs due to tightening supply and demand for both materials and labor as well as a concentration of construction in urban areas. The order environment in regional areas in particular is expected to become increasingly harsh.

In these circumstances, we will steadily implement measures in the final year of the Medium-Term Business Plan aimed at achieving a balance between improvement of productivity and work-style reforms.

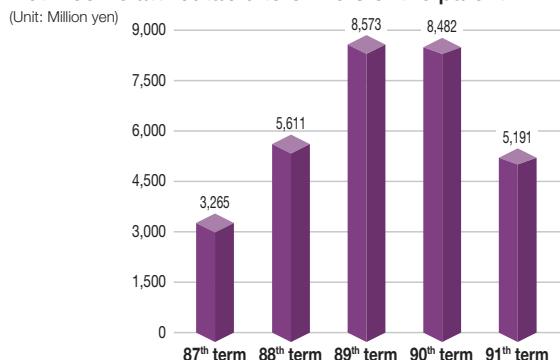
In view of these circumstances, we expect consolidated business results for the fiscal year ending December 2018 to yield net sales of ¥175.0 billion, operating income of ¥7.0 billion, ordinary income of ¥7.3 billion and net income attributable to owners of the parent of ¥4.0 billion.

In regard to the Company's non-consolidated business results for the fiscal year ending December 2018, we anticipate orders of ¥125.0 billion, net sales of ¥117.0 billion, operating income of ¥5.5 billion, ordinary income of ¥5.9 billion and net income of ¥3.3 billion.

Consolidated ordinary income (Unit: Million yen)



Net income attributable to owners of the parent



Completed Work

Main projects completed in the fiscal year under review

Construction



The Niigata Institute of Science and Technology
Niigata College of Medical Technology New School Building
Construction Project (Niigata Prefecture)



DAIWA HOUSE INDUSTRY CO., LTD.
Tentative name: Hachioji Takao Shopping Center
Construction Project (Tokyo)



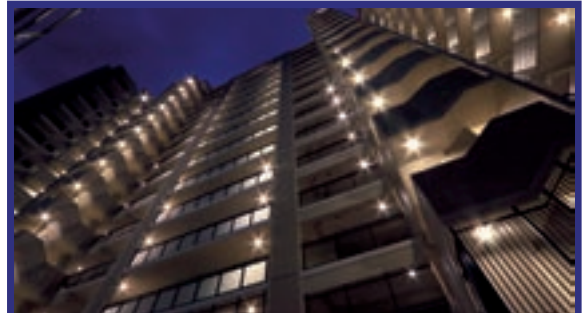
KOYO MEDIA Co., Ltd.
Tentative name: KOYO MEDIA Co., Ltd. Shonan Factory
Construction Project (Chiba Prefecture)



Miyagi Consumer's Cooperative Society
Miyagi Consumer's Cooperative Society Nishikicho Store
Construction Project (Miyagi Prefecture)



Kyoritsu Estate Co., Ltd.
Tentative name: Izumo Construction Project
(Shimane Prefecture)



LANDIC Associates Co., LTD.
Tentative name: Kuwamizu Honmachi Condominium
Construction Project (Kumamoto Prefecture)

Civil Engineering



Ministry of Agriculture, Forestry and Fisheries, Hokuiku Regional Agricultural Administration Office
Shinkawa Basin Agricultural Irrigation Project, Shinkawa Estuary Drainage Pumping Station, Sandbank Area Liquefaction Countermeasures Project Part 2 (Niigata Prefecture)



Niigata Prefecture
Surrounding Embankment (Part 1)/Sluice Gate Construction Project (Niigata Prefecture)



Ministry of Land, Information, Transport and Tourism, Chugoku Regional Bureau
Tottori West Road Fukui Mikuma Tunnel Construction (Tottori Prefecture)



Niigata Prefecture
Niigata Port (Higashi Ko-ku) Minamihama Breakwater Embankment (2) Main Structure/Upper Structure Construction Project (Niigata Prefecture)



Iwate Prefecture
Yamada Fishing Port Coastal Surge Response (Tide Embankment Part 1) Project (Iwate Prefecture)



Ministry of Land, Information, Transport and Tourism, Kyushu Regional Development Bureau
Fukutomi Tenjin Drainage Sluice Reconstruction and Embankment Construction Project (Saga Prefecture)

Main orders and completed projects for the fiscal year under review

Orders

- AEON RETAIL CO., LTD.
Tentative name: AEON Sendai Oroshimachi Construction Project
- Fuyo General Lease Co., Ltd.
Tentative name: Koami-cho 16-ban Hotel Construction Project, Nihonbashi, Chuo-ku
- West Nippon Expressway Company Limited, Kansai Branch
Yuasa Gobo Road Yanase Tunnel and One Other Tunnel Construction Project
- Nagaoka City
Nagaoka City New General Waste Final Disposal Site (Tentative name) Construction Project

Completed projects

- DAIWA HOUSE INDUSTRY CO., LTD.
Tentative name: Hachioji Takao Shopping Center Construction Project
- Kyoritsu Estate Co., Ltd.
Tentative name: Izumo Construction Project
- East Nippon Expressway Company Limited, Niigata Branch
Joshin-Etsu Expressway Kanaya Construction Project
- Ministry of Land, Information, Transport and Tourism, Chugoku Regional Development Bureau
Tottori West Road Fukui Mikuma Tunnel Construction

Consolidated Financial Statements

Consolidated Balance Sheet

(Unit: Million yen, rounded down to the nearest million yen)

	91 th term (as of December 31, 2017)	90 th term (as of December 31, 2016)
● Assets		
Current assets	90,428	86,706
Non-current assets	34,494	32,881
Total assets	124,923	119,588
● Liabilities		
Current liabilities	56,917	57,323
Non-current liabilities	8,620	7,416
Total liabilities	65,538	64,740
● Net assets		
Shareholders' equity	57,313	53,403
Accumulated other comprehensive income	1,461	883
Valuation difference on available-for-sale securities	1,389	1,165
Revaluation reserve for land	22	22
Remeasurements of defined benefit plans	49	△ 304
Non-controlling interests	610	560
Total net assets	59,385	54,848
Total liabilities and net assets	124,923	119,588

Consolidated Statement of Income

(Unit: Million yen, rounded down to the nearest million yen)

	91 th term (January 1, 2017 - December 31, 2017)	90 th term (January 1, 2016 - December 31, 2016)
Net sales	167,659	172,749
Cost of sales	149,750	152,930
Gross profit	17,908	19,819
Selling, general and administrative expenses	9,916	10,124
Operating income	7,991	9,695
Non-operating income	366	375
Non-operating expenses	168	182
Ordinary income	8,190	9,888
Extraordinary income	74	120
Extraordinary losses	186	447
Income before income taxes and minority interests	8,079	9,560
Income taxes – current	2,287	1,255
Income taxes – deferred	522	△ 248
Net income	5,269	8,553
Net income attributable to non-controlling interests	78	70
Net income attributable to owners of the parent	5,191	8,482

Consolidated Statement of Cash Flows

(Unit: Million yen, rounded down to the nearest million yen)

	91 th term (January 1, 2017 - December 31, 2017)	90 th term (January 1, 2016 - December 31, 2016)
Cash flows from operating activities	15,406	2,962
Cash flows from investing activities	△ 1,803	△ 3,160
Cash flows from financing activities	△ 975	△ 6,339
Net increase (decrease) in cash and cash equivalents	12,627	△ 6,536
Cash and cash equivalents at beginning of period	17,538	24,198
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	—	△ 123
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	135	—
Cash and cash equivalents at end of period	30,301	17,538

Consolidated Statement of Changes in Equity (January 1, 2017 – December 31, 2017)

(Unit: Million yen, rounded down to the nearest million yen)

	Shareholders' equity					Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Revaluation reserve for land	Remeasurements of defined benefit plans	Accumulated other comprehensive income		
Balance as of January 1, 2017	5,158	6,132	42,381	△ 269	53,403	1,165	22	△ 304	883	560	54,848
Changes of items during the period											
Dividends of surplus			△ 806		△ 806						△ 806
Net income attributable to owners of the parent			5,191		5,191						5,191
Purchase of treasury shares				△ 478	△ 478						△ 478
Disposal of treasury shares				3	3						3
Reversal of revaluation reserve for land			0		0						0
Net changes of items during the period other than shareholders' equity						223	△ 0	354	577	49	627
Total changes of items during the period	—	—	4,384	△ 474	3,909	223	△ 0	354	577	49	4,537
Balance as of December 31, 2017	5,158	6,132	46,766	△ 744	57,313	1,389	22	49	1,461	610	59,385

Non-Consolidated Financial Statements

Balance Sheet

(Unit: Million yen, rounded down to the nearest million yen)

	91 th term (as of December 31, 2017)	90 th term (as of December 31, 2016)
● Assets		
Current assets	60,383	57,636
Non-current assets	17,514	16,680
Property, plant and equipment	9,030	8,140
Intangible assets	61	81
Investments and other assets	8,423	8,458
Total assets	77,898	74,317
● Liabilities		
Current liabilities	38,578	39,223
Non-current liabilities	3,389	2,259
Total liabilities	41,968	41,482
● Net assets		
Shareholders' equity	34,219	31,296
Capital stock	5,158	5,158
Capital surplus	6,132	6,132
Retained earnings	23,671	20,274
Treasury shares	△ 744	△ 269
Valuation and translation adjustments	1,711	1,538
Valuation difference on available-for-sale securities	1,018	845
Revaluation reserve for land	692	692
Total net assets	35,930	32,835
Total liabilities and net assets	77,898	74,317

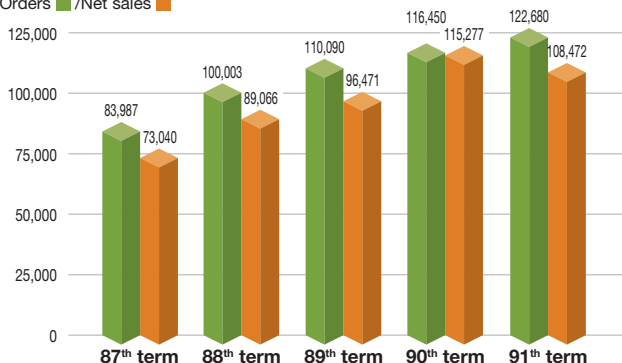
Statement of Income

(Unit: Million yen, rounded down to the nearest million yen)

	91 th term (January 1, 2017 - December 31, 2017)	90 th term (January 1, 2016 - December 31, 2016)
Net sales	108,472	115,277
Net sales of completed construction contracts	107,065	112,018
Net sales on real estate business	1,407	3,259
Cost of sales	98,468	104,068
Cost of sales on completed construction contracts	97,552	102,347
Cost of sales on real estate business	915	1,721
Gross profit	10,004	11,209
Gross profit on completed construction contracts	9,512	9,671
Gross profit on real estate business	491	1,538
Selling, general and administrative expenses	4,228	4,428
Operating income	5,776	6,780
Non-operating income	504	539
Non-operating expenses	96	87
Ordinary income	6,184	7,232
Extraordinary income	17	103
Extraordinary losses	139	560
Income before income taxes and minority interests	6,061	6,775
Income taxes – current	1,416	420
Income taxes – deferred	440	△ 196
Net income	4,203	6,551

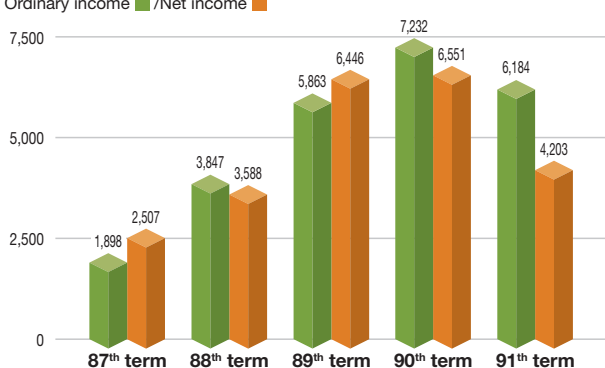
Orders/Net sales (Unit: Million yen)

Orders ■ /Net sales ■



Ordinary income/Net income (Unit: Million yen)

Ordinary income ■ /Net income ■



Medium-Term Business Strategy

This year, which is the final year of the “Medium-Term Business Plan 2018,” we will steadily implement measures aimed at achieving a balance between improvement of productivity and work-style reforms.

Five Pillars of Our Basic Policy for Fiscal Year 2018

1. Strengthen the stable revenue base
2. Look ahead to the future and enhance our corporate value
3. Enhance the nurturing of talent
4. Strengthen the safety management system
5. Strengthen the development of trusting relationships



These are not intended for a rapid expansion of our business, but for a continuation of our stable growth while building up a solid management base that is capable of responding to environmental changes. To achieve the plan, it is important to continue responding to the needs of customers with the comprehensive strengths of the Group by focusing on maintenance and renewal, which is expected to further expand going forward. For this purpose, we will gain the customers’ trust by improving our field capabilities in existing business fields, revisit our roots of making high-quality products and put it into practice.

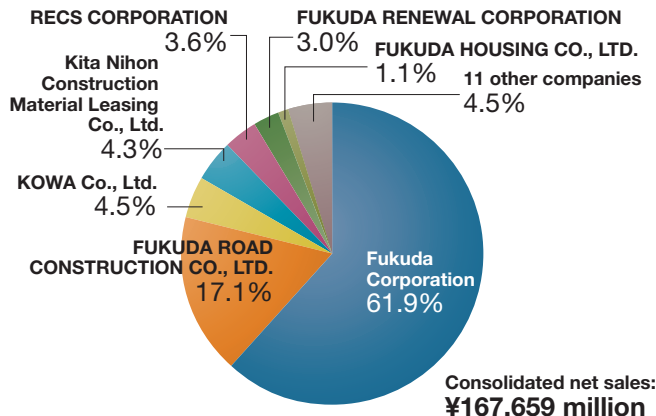
The Group will integrate the management resources for the future, and secure a new revenue base while at the same time realize its diversification. For that reason, we intend to fulfill our mission by strengthening the development of human resources, which are our most important resources, and by evolving the Group as a whole.

We sincerely hope all our shareholders will continue to give us their support going forward.

Group Information

■ Corporate Group

The Fukuda Corporate Group consists of the Company, 26 subsidiaries and six affiliates, and its mainstay businesses are the construction business and the real estate business. Other business encompasses services other than construction.



Construction business

In addition to the construction orders and projects undertaken by the Company, FUKUDA ROAD CONSTRUCTION CO., LTD. and 21 other subsidiaries, and TAKAKEN CO., LTD. and five other affiliates are also engaged in construction orders and projects, as well as the rental and manufacturing/sales of construction-related materials and equipment, some of which are ordered by the Company.

Real estate business

In addition to the business undertaken by the Company in real estate sales, leasing and development, FUKUDA ASSET & SERVICE CO., LTD. and five other subsidiaries, as well as an affiliate, TAKAKEN CO., LTD., and another affiliate are also engaged in the real estate business.

Other business

FUKUDA ROAD CONSTRUCTION CO., LTD. and four other subsidiaries are engaged in the lease, manufacture and sale of products other than those related to construction projects, and the Company purchases and leases products from those companies. Another subsidiary, Design Workshop Co., Ltd., is engaged in the management of welfare facilities.

FUKUDA HOUSING CO., LTD.

HP: <http://www.fukuda-housing.com/>

● Head office: 3-2-4 Sekishin, Chuo-ku, Niigata

● Tel: 025-266-9169

● Housing construction business, housing renovation business, commercial construction business, real estate brokerage and leasing business, building and condominium management business

Fukuda Housing's business includes new housing construction, restoration of traditional Japanese houses, housing renovations, commercial building construction, real estate brokerage and leasing, and building and condominium management business.

As a company with close ties to the local region, Fukuda Housing aims to provide the long-lasting, comfortable lifestyle of Niigata by its reliable technology with a focus on quality control.

The standard specification for new housing constructions is to be that of "long-life quality housing," and Fukuda Housing offers proposals for comfortable housing that will last long, based on the structure, insulation, materials, design, and quality control.

Fukuda Housing supports the living environment of customers throughout every stage of the lives by offering services including renovation consultations and property management in addition to post-construction inspections and after-sales maintenance services.

Let Fukuda Housing be your lifelong partner and support you.

(Fukuda Housing will exhibit a model house at the Meikekamiyama General Housing Exhibition (tentative name) from May 2018.)



Company with Excellent Record of Construction Projects Certification

Awarded "Excellent Record of Construction Projects Certification" from the Ministry of Land, Information, Transport and Tourism for the Fifth Consecutive Year

The Company received certification and an award as a Company with Excellent Record of Construction Projects for Fiscal 2017 from the Hokuriku Regional Development Bureau of the Ministry of Land, Information, Transport and Tourism. This certification system selects and certifies companies with an excellent rating in construction project completions for civil engineering projects completed within the past two years, and has recognized the Company's high level of technical capabilities in regard to construction and quality control for the fifth consecutive year.



Presentation of Donation following the Itoigawa City Station North Great Fire

Donation for the Itoigawa City Station North Great Fire

Niigata Fukujukai, which is a mutual aid association operated by the Company and partner companies, made a donation to help rebuild the lives of those affected by the Itoigawa City Station North Great Fire occurred on December 22, 2016.



義援金をお寄せいただいた皆様へ

糸魚川市長 米田 徹

平成二十九年八月

敬具

り申し上げ、御礼の言葉とさせていただきます。

末筆ながら、皆様のますますのご健康とご活躍を心よりお祈り申し上げます。

糸魚川市といましては、今後も復興に向けた新たな街づくり、市民・職員一体となって全力で取り組んでまいる所存ですので、皆様には、引き続きご支援ご協力をお願い申し上げます。

お寄せいただいた義援金は、被災された方々にお届けさせていただきます。皆様からの温かいご芳志が、被災された方々への大きな励ましとなるものと確信しております。

拝啓 時下ますますご清祥のことと存じます。

このたびの、糸魚川市駅北大火に際して、被災者支援のため心のこもった義援金をお寄せいただき、心から御礼申し上げます。

大火が発生した昨年一月二十二日は、最大瞬間風速二十七・二メートルを記録する強い南風により、火は瞬く間に中心市街地約四万平方メートルを焼き、被災者は公営住宅や民間アパートなどの仮住まいで避難生活を余儀なくされております。

Corporate Data

Company Profile

(as of December 31, 2017)

Established: January 1902
Founded: December 1927
Capital: 5,158,408,496 yen
Employees: 851
Consolidated subsidiaries: 17 (including FUKUDA ROAD CONSTRUCTION CO., LTD.)
Main offices: ● **Head office**
 3-10 Ichibanboridoricho, Chuo-ku, Niigata
 Tel: 025-266-9111 (Main line)
 ● **Main Branch & Branches**
 Niigata Main Branch (Chuo-ku, Niigata),
 Tokyo Main Branch (Chiyoda-ku, Tokyo),
 Tohoku Branch (Aoba-ku, Sendai), Nagoya
 Branch (Naka-ku, Nagoya), Osaka Branch
 (Kita-ku, Osaka), Kyushu Branch (Hakata-ku,
 Fukuoka), Chuetsu Branch (Nagaoka, Niigata
 Prefecture), Hokkaido Branch (Chuo-ku,
 Sapporo)
 ● **Sales Offices**
 Morioka, Chiba, Yokohama, Murakami,
 Jouetsu, Hiroshima and six other locations
 (Note) Shibata Sales Office opened on April 1, 2016.



Directors and Executive Officers

(as of March 28, 2018)

Chairman & Representative Director Chairman of the Board	Katsuyuki Fukuda	Senior Executive Officer	Shinichi Otsuka
President & Representative Director President of the Board	Toyohiko Ota	Senior Executive Officer	Shoichi Takakuwa
Representative Director & Senior Managing Executive Officer	Wataru Ishikawa	Executive Officer	Tsugio Yuasa
Director & Senior Executive Officer	Masanori Araaki	Executive Officer	Tsuyoshi Tamiya
Director & Executive Officer	Ryoichi Soma	Executive Officer	Kazunori Konno
Director & Executive Officer	Masahiro Masuko	Executive Officer	Katsuhiko Iwasaki
Director & Executive Officer	Takeshi Yamamoto	Full-Time Audit & Supervisory Board Member	Koichi Yakuwa
Director	Kenichi Yazawa	Audit & Supervisory Board Member	Tetsuya Sunada
Director	Yoshinao Nakata	Audit & Supervisory Board Member	Michiaki Miyajima
Senior Executive Officer	Chihiro Oiwa		

Notes:

- Messrs. Kenichi Yazawa and Yoshinao Nakata are Outside Directors pursuant to Article 2, Paragraph 15 of the Companies Act.
- Messrs. Tetsuya Sunada and Michiaki Miyajima are Outside Audit & Supervisory Board Members pursuant to Article 2, Paragraph 16 of the Companies Act

Stock Information

(as of December 31, 2017)

Total Number of Shares
 Authorized to be Issued: 20,000,000 shares
 Total Number of Shares Outstanding
 (excluding treasury shares): 8,873,092 shares
 Number of Shareholders: 4,158

Major Shareholders	Name of shareholder	Number of shares held (thousands)	Shareholding ratio (%)
	(Public Interest Incorporated Foundation) Fukuda Ikueikai	688	7.8
	THE DAISHI BANK, LTD.	439	5.0
	Naomi Fukuda	431	4.9
	Fuji Fukuda	326	3.7
	Kazuko Ozawa	321	3.6

Note: Shareholding ratio is calculated after deducting the number of treasury shares (115,019 shares). The number of treasury shares does not include the shares of the Company (37,600 shares) held by Trust & Custody Services Bank, Ltd. (trust account E) as the trust assets of the Employee Stock Ownership Plan (J-ESOP) and Board Benefit Trust (BBT).

Information for Shareholders

- **Fiscal Year:**
From January 1 to December 31
- **Ordinary General Meeting of Shareholders:**
March
- **Record Date**
Ordinary General Meeting of Shareholders: December 31
Year-End Dividend: December 31
Interim Dividend: June 30
- **Stock Transfer Agent / Account Management Institution for Special Accounts:**
Mitsubishi UFJ Trust and Banking Corporation

Contact Information
Mitsubishi UFJ Trust and Banking Corporation
Stock Transfer Agency Department
1-1 Nikkocho, Fuchu, Tokyo
Tel: 0120-232-711 (Toll-free)

Addressee
Shin-Tokyo PostOffice,Po box No.29,Tokyo 137-8081 Japan
- **Number of Shares Per Unit:**
100
- **Listed on:**
First Section of Tokyo Stock Exchange
- **Method of Public Notice:**
Public notices will be made electronically. However, when electronic public notices cannot be made due to circumstances beyond our control, we will post a notice in the *Nihon Keizai Shimbun*.
URL for Public Notices: <http://www.fkd.co.jp/>

Notes:

Procedures for matters such as change of address of shareholders and requests for purchase of shares are, in principle, accepted by the account management institution (securities company, etc.) where shareholders have their accounts. Please contact the securities company where you have your account. These procedures are not handled by the Stock Transfer Agent (Mitsubishi UFJ Trust and Banking Corporation).

Procedures related to shares recorded in special accounts are handled by Mitsubishi UFJ Trust and Banking Corporation as the account management institution. Shareholders are therefore requested to contact the account management institution (Mitsubishi UFJ Trust and Banking Corporation) for the aforementioned special accounts.

The services are also provided at nationwide branches of Mitsubishi UFJ Trust and Banking Corporation.



Shareholder Benefit Program

To express our gratitude for the constant support of our shareholders and with the aim of encouraging shareholders to maintain their shareholding over a long period, the Company has introduced a Shareholder Benefit Program.

Number of shares held	Shareholder benefit	Benefit criteria
200 shares or more	A ¥2,000 QUO card	Shareholder benefit presented in accordance with the details registered or recorded in the Shareholder Registry as of December 31 each year.
200 shares or more	A ¥5,000 QUO card	Shareholder benefit presented in accordance with the details (registered or recorded three times or more in the Shareholder Registry) for shares held for one year or more.

Presentation period: Scheduled to be sent in late March each year



URL <http://www.fkd.co.jp/>



Head office:
3-10 Ichibanboridoricho, Chuo-ku, Niigata
Tel: 025-266-9111 (Main line)