

FUKUDA REPORT



Annual Report for the 92nd Term

January 1, 2018 – December 31, 2018

To the Shareholders of Fukuda Corporation



Fukuda Corporation

Stock code: 1899

We strive first and foremost to satisfy our multiple stakeholders.



Katsuyuki Fukuda
Chairman &
Representative Director



Masanori Araaki
President &
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 92nd term ended on December 31, 2018.

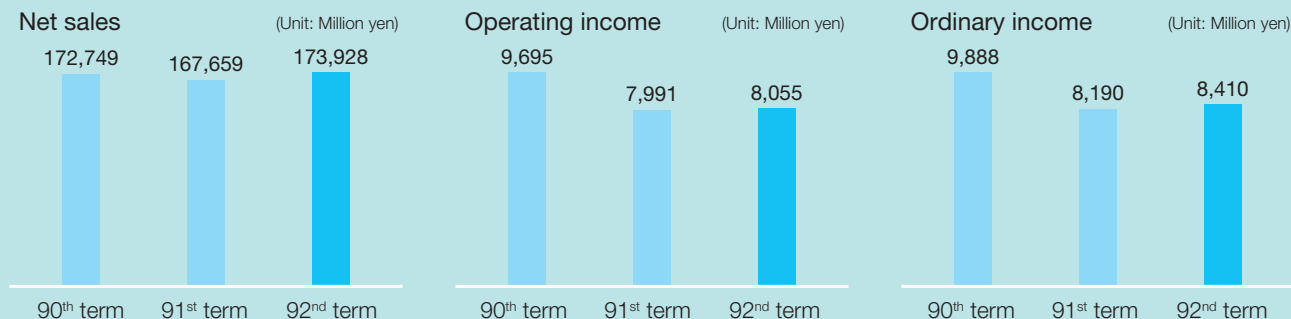
By upholding the basic principle of “Creating an environment where people, nature and society can coexist” and adhering to the Fukuda Group Spirit of “Always sincere from now until the next century and beyond,” the Fukuda Group draws on its comprehensive strengths and sincerity to form strong bonds with 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 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 2019

Financial Highlights



Business environment for the fiscal year under review

During the fiscal year under review, the Japanese economy continued to make a moderate recovery, partly thanks to steady corporate production activities and a sustained improvement in corporate earnings. Meanwhile, personal consumption is also experiencing a moderate upturn supported by a positive employment and income environment, notwithstanding a temporary slump in consumer sentiment due to a series of natural disasters.

In the construction industry, investment in public works construction was supported by an increase in demand for maintenance and renewal works on aging facilities, despite an abatement in orders related to the Tokyo Olympics and Paralympics and a decrease in new capital expenditures. Investment in construction by the private sector remained strong, against a backdrop of ample corporate cash flow, with an increasing trend towards rationalization and labor-saving investment in response to labor shortages, as well as robust investment in the construction of facilities for accepting the increasing number of visitors to Japan, reflecting rising income levels among emerging nations in Asia.

Consolidated business results for the fiscal year under review

Under these conditions, the Fukuda Group has worked to further strengthen its operating base, improve the efficiency of construction works and raise productivity in order to pursue corporate value. The Group steadily implemented measures in the Medium-Term Business Plan, of which the year under review was the final year, and generally succeeded in achieving the planned performance. As a result, the consolidated business results for the fiscal year under review were as follows.

Net sales increased 3.7% year on year to more than ¥173.9 billion, as Group companies expanded their revenue mainly from building renewals and civil engineering maintenance and renewal works.

In terms of profit, gross profit decreased by 0.8% year on year to more than ¥17.7 billion as construction project gross profit margins fell compared to the previous year, due to an increasingly competitive business environment and a drop in net sales in the real estate business. However, the Group strived to reduce selling expenses, general and administrative expenses, and operating income increased by 0.8% year on year to over ¥8.0 billion.

Net income attributable to owners of the parent increased by 8.7% year on year to over ¥5.6 billion, due to a substantial increase in the Group's share of profit of entities accounted for using equity method, as well as the receipt of compensation for expropriation.

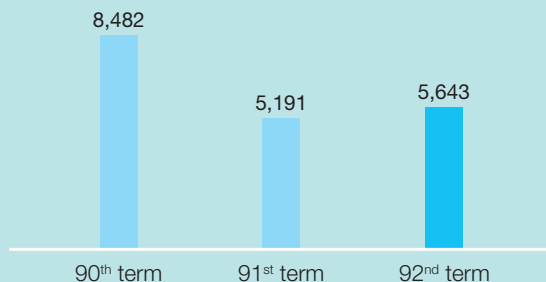
Outlook for the next fiscal year

Going forward, the Japanese economy is expected to enter a stronger phase in its recovery, with improvements in the employment and income environments, and growth in corporate earnings. However, there is a risk that a slowdown in overseas economies may impact exports, causing a downturn in corporate performance. In addition, it is predicted that consumption tax increases will weaken personal consumption.

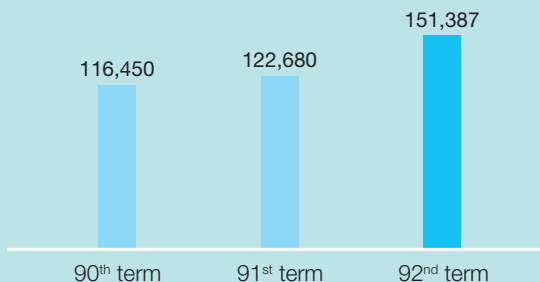
In the construction industry, investment in public works construction is predicted to increase, as work on disaster prevention and mitigation measures begins in earnest. Stable demand is expected to continue in the order environment mainly in major metropolitan areas, backed by redevelopment and the construction of new lodging facilities and logistics facilities. However, an increasingly harsh order environment is expected in regional areas, where a tight supply-demand balance for materials and labor, as well as a trend towards the concentration of construction in urban areas, have led to a steep increase in construction costs.

In response to these conditions, the Group has established the "Medium-Term Business Plan (2019-2021)" with 2019 as its first year. As construction companies adapted to meet the needs of society and customers, the Group will strive to enhance productivity and work environments, to maximize utilization of management resources, secure and nurture talent, and thus increase corporate value

Net income attributable to owners of the parent (Unit: Million yen)



Orders (non-consolidated) (Unit: Million yen)



Aiming to be the number one company for multiple stakeholder satisfaction

~ Towards sustained corporate growth ~

The Medium-Term Business Plan 2021 has been established to realize the Group's long-term vision for the next decade.



The Group's Future Ideal

Previous Medium-Term Business Plan 2018

- Bring about a recovery in performance
- Capture incoming orders
- Strengthen financial foundations

New Medium-Term Business Plan 2021

- Transform the business portfolio
- Create new revenue bases
- Secure and diversify talent

Long-term Vision 2025

A century of history and tradition;
New challenges for the next 100 years

- Develop nation-wide through strong consolidated management, to be more than just a regional construction company
- Create customer satisfaction through quality and safety
- Be a corporate group with advanced technical and proposal capabilities
- Secure superior talent and develop an environment where they can flourish
- Establish win-win relationships with all stakeholders

5 Measures

Transform the portfolio of existing businesses

- ▶ Adjust the respective weights of the construction, civil engineering and paving businesses according to social needs (transition from new construction to maintenance and renewal, from low-productivity properties to high-productivity properties and business areas)

Narrow down new revenue bases for Group companies

- ▶ Develop new businesses utilizing knowhow from construction and real estate businesses

Secure and diversify talent

- ▶ Hire and educate diverse talent for the accumulation of intellectual capital
- ▶ Enhance work-life balance to secure talent
- ▶ Engage in talent exchange between Group companies

Create worksites to provide safe, high-quality services

- ▶ Work together with partner businesses to provide customers and local communities with high-quality services
- ▶ Enhance Group brand strength through providing a high level of additional value

Be trusted as Fukuda Group

- ▶ Enhance sensitivity to legal and regulatory compliance
- ▶ Make a suitable contribution to local communities (through taxes, employment, local contributions, tackling environmental issues etc.)

Numerical Targets

- Net sales... **¥189.0** billion / Fukuda Corporation non-consolidated... **¥123.5** billion
- Operating income... **¥7.9** billion / Fukuda Corporation non-consolidated... **¥5.8** billion

Equity ratio

50.0%

Interest-bearing liabilities

¥2.0billion

Dividend payout ratio

20.0%

ROE

8.0%

Dividend on equity ratio (DOE)

1.6%

Main projects completed in the fiscal year under review

Construction



Niigata Prefecture

Niigata Commercial High School Gymnasium Construction Project (Niigata Prefecture)



Shijinkai Kenotokorozawa Hospital

Kenotokorozawa Hospital Expansion and Renovation Project (Saitama Prefecture)



Nissin Chemical Industry Co., Ltd.

Nissin Chemical Industry Co., Ltd. Factory Headquarters Office Building Construction Project (Fukui Prefecture)



Fuyo General Lease Co. Ltd.

Tentative name: Nakamura-ku Tsubaki-cho Building Project (Aichi Prefecture)



AEON RETAIL CO., LTD.

AEON Sendai Oroshimachi Construction Project



Anabuki Kosan Inc.

Tentative name: Alphasmart Nishikokubun II Construction Project (Fukuoka Prefecture)

Civil Engineering



Niigata Prefecture

National Route 345 Disaster Prevention and Safety
(Public Disaster Prevention)

Ashidani Falling Rock Countermeasures Project (Niigata Prefecture)



Niigata Prefecture

Iwafune Port Disaster Prevention and Safety Grant
(Renewal and Dredging)

South Groin (Correction) Project (Niigata Prefecture)



Niigata Prefecture

Niigata Port (Higashi Ko-ku) Minamihama Breakwater Embankment (1)
Wave Dissipation Block Manufacture and Placement Project
(Niigata Prefecture)



Ministry of Land, Infrastructure, Transport and Tourism Hokuriku Regional Development Bureau
Shinanogawa River Downstream Kumanomori Irrigation Pumping
Station External Construction Project (Niigata Prefecture)



Hitachi, Ltd.

Kisarazu Civil Engineering Construction Project
(Chiba Prefecture)



Miyagi Prefecture

Okinotagawa River Disaster Recovery Project
Number 2 (Miyagi Prefecture)

Main orders and completed projects for the fiscal year under review

Orders

- Ministry of Land, Infrastructure, Transport and Tourism Chubu Regional Development Bureau
2018 Tokai-Kanjo Expressway Gifu Yamagata Number 1 Tunnel East Area Project
- Tokyo Electric Power Company Holdings, Inc.
Kashiwazaki-Kariwa Nuclear Power Station Specific Severe Accidents
Countermeasure Facilities Building Construction Project (Ominato Side)
- AEON TOWN Co., Ltd.
Tentative name: AEON TOWN Fujimino Construction Project
- Kashii Teriha Project Consortium
Tentative name: Kashii Teriha Project (Urban Palace Teriha Construction Project)

Completed projects

- Hitachi, Ltd.
Kisarazu Civil Engineering Construction Project
- Koshi City Takaba Land Division Readjustment Association
Koshi City Takaba Land Division Readjustment Project
- DAIWA HOUSE INDUSTRY CO., LTD.
Tentative name: Royal Parks ER BANDAI Project
- AEON RETAIL CO., LTD.
Tentative name: AEON Sendai Oroshimachi Construction Project

Consolidated Financial Statements

● Consolidated Balance Sheet (Unit: Million yen, rounded down to the nearest million yen)

	92 nd term (as of December 31, 2018)	91 st term (as of December 31, 2017)
Assets		
Current assets	90,986	90,428
Non-current assets	34,850	34,494
Total assets	125,836	124,923
Liabilities		
Current liabilities	54,065	56,917
Non-current liabilities	8,504	8,620
Total liabilities	62,569	65,538
Net assets		
Shareholders' equity	62,098	57,313
Accumulated other comprehensive income	576	1,461
Valuation difference on available-for-sale securities	792	1,389
Revaluation reserve for land	9	22
Remeasurements of defined benefit plans	△225	49
Non-controlling interests	591	610
Total net assets	63,266	59,385
Total liabilities and net assets	125,836	124,923

● Consolidated Statement of Income (Unit: Million yen, rounded down to the nearest million yen)

	92 nd term (January 1, 2018 - December 31, 2018)	91 st term (January 1, 2017 - December 31, 2017)
Net sales	173,928	167,659
Cost of sales	156,165	149,750
Gross profit	17,762	17,908
Selling, general and administrative expenses	9,707	9,916
Operating income	8,055	7,991
Non-operating income	545	366
Non-operating expenses	191	168
Ordinary income	8,410	8,190
Extraordinary income	220	74
Extraordinary losses	180	186
Income before income taxes and minority interests	8,451	8,079
Income taxes – current	2,506	2,287
Income taxes – deferred	270	522
Net income	5,673	5,269
Net income attributable to non-controlling interests	29	78
Net income attributable to owners of the parent	5,643	5,191

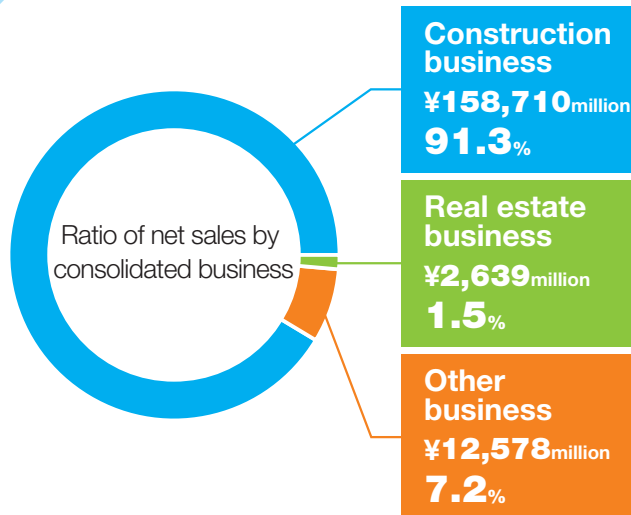
● Consolidated Statement of Cash Flows (Unit: Million yen, rounded down to the nearest million yen)

	92 nd term (January 1, 2018 - December 31, 2018)	91 st term (January 1, 2017 - December 31, 2017)
Cash flows from operating activities	△3,300	15,406
Cash flows from investing activities	△3,119	△1,803
Cash flows from financing activities	△1,023	△975
Net increase (decrease) in cash and cash equivalents	△7,443	12,627
Cash and cash equivalents at beginning of period	30,301	17,538
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	—	135
Cash and cash equivalents at end of period	22,858	30,301

● Consolidated Statement of Changes in Equity (January 1, 2018 – December 31, 2018) (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, 2018	5,158	6,132	46,766	△744	57,313	1,389	22	49	1,461	610	59,385
Changes of items during the period											
Dividends of surplus			△887		△887						△887
Net income attributable to owners of the parent			5,643		5,643						5,643
Purchase of treasury shares				△155	△155						△155
Disposal of treasury shares		32		137	170						170
Reversal of revaluation reserve for land			12		12						12
Net changes of items during the period other than shareholders' equity						△597	△12	△275	△885	△18	△903
Total changes of items during the period	—	32	4,769	△17	4,784	△597	△12	△275	△885	△18	3,881
Balance as of December 31, 2018	5,158	6,165	51,535	△761	62,098	792	9	△225	576	591	63,266

Business Overview/Subsidiaries



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 four 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.

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

Murakami Pavement Products Co., Ltd.

Founded in July 1969, Murakami Pavement Products Co., Ltd. fully utilizes its location at the northern end of Niigata Prefecture for its asphalt plant. Sales are centered around Murakami City but also extend into part of Yamagata Prefecture. Murakami Pavement Products Co., Ltd. has an extensive delivery record in landscape and specialized paving, and the company espouses a management philosophy of “gaining customer satisfaction with products and services based on the pursuit of high quality and technique” and “contributing to the development of the local community through trustworthy corporate activities.” The company is also engaged in energy-efficient driving to reduce environmental impact, and actively promotes sales of recycled and warm mix asphalt, playing its part in a sustainable society.

■ Representative	President & Representative Director Yukio Tamura
■ Address	1035 Miyanoshita, Murakami City, Niigata Prefecture
■ Date of Establishment	July 1969
■ Capital	¥10 million
■ Employees	7
■ Nature of Business	Manufacture and sales of asphalt mix Manufacture and sales of recycled roadbed materials Intermediate processing of industrial waste (As waste materials)



TOPICS 1

“Company with Excellent Record of Construction Projects” Certification Certified by the Ministry of Land, Infrastructure, Transport and Tourism as a “Company with Excellent Record of Construction Projects”

The Company received certification and an award as a Company with Excellent Record of Construction Projects for Fiscal 2018 from the Hokuriku Regional Development Bureau of the Ministry of Land, Infrastructure, 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.

The Company’s technical capabilities in regard to construction and quality control have been rated highly, and the Company has received this certification for the sixth consecutive year.



TOPICS 2

IR Information Session for Individual Investors Held an IR Information Session for Individual Investors (Sendai)

The Company hosted an IR information session targeted towards individual investors in Sendai City, Miyagi Prefecture. Participants were informed about the history and construction achievements of Fukuda Group and the Company, as well as their business performance, and the information session was a great success, extending past its planned timeframe.



TOPICS 3

The Conclusion of an Academic-Industrial Collaboration Agreement Concluded an “Agreement on Systematic Academic-Industrial Collaboration”



The Company concluded an “Agreement on Systematic Academic-Industrial Collaboration” with Niigata University. This is the first ever collaboration agreement with Niigata University in the construction industry. The Company will fully utilize its ‘achievements in collaborative research’ and ‘person-to-person ties’ with Niigata University to strive for innovation in ‘technology’ and ‘people’ through closer systematic collaboration, as well as participating in the nurture of talented individuals who will play an important part in the future, thus contributing to society and the local community.

Corporate Data

Company Profile (as of December 31, 2018)

Established: January 1902

Founded: December 1927

Capital: 5,158,408,496 yen

Employees: 858

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.

Main subsidiaries: FUKUDA ROAD CONSTRUCTION CO., LTD.

KOWA Co., Ltd.

FUKUDA HOUSING CO., LTD.

RECS CORPORATION

FUKUDA ASSET & SERVICE CO., LTD.

NigataZouen Corporation

FUKUDA RENEWAL CORPORATION

Kita Nihon Construction Material Leasing Co., Ltd.

Re Earth Corporation

Directors and Executive Officers (as of March 28, 2019)

Chairman & Representative Director Chairman of the Board	Katsuyuki Fukuda	Senior Executive Officer	Shoichi Takakuwa
President & Representative Director President of the Board	Masanori Araaki	Executive Officer	Tsuyoshi Tamiya
Vice President & Representative Director Vice President of the Board	Wataru Ishikawa	Executive Officer	Kazunori Konno
Director & Executive Officer	Ryoichi Soma	Executive Officer	Katsuhiko Iwasaki
Director & Executive Officer	Masahiro Masuko	Full-Time Audit & Supervisory Board Member	Koichi Yakuwa
Director & Executive Officer	Takeshi Yamamoto	Audit & Supervisory Board Member	Tetsuya Sunada
Director & Executive Officer	Shinichi Otsuka	Audit & Supervisory Board Member	Michiaki Miyajima
Director	Kenichi Yazawa		
Director	Yoshinao Nakata		
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, 2018)

Total Number of Shares Authorized to be Issued: 20,000,000 shares

Total Number of Shares Outstanding (excluding treasury shares): 8,898,706 shares

Number of Shareholders: 4,758

Major Shareholders

Name of shareholder	Number of shares held (thousands)	Shareholding ratio (%)
(Public Interest Incorporated Foundation) Fukuda Ikueikai	688	7.7
THE DAISHI BANK, LTD.	439	4.9
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 (89,405 shares). The number of treasury shares does not include the shares of the Company (60,500 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



FUKUDA Corporation Search

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



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