We contribute to society through providing agreeable environmental solution.

We keep challenging for sustainable development through our engineering strength and create a new value.

We aim to create mutual respecting environment in Kyudenko which utilize and develop employees’ personality.
1. Introduction

Kyudenko will achieve sustainable growth over 100 years beyond 75 years of its history.

Matsuji Nishimura
Representative Director and President

How has the Kyudenko Group grown so far and what is the essence of its strength?

The Kyudenko Group will mark the 75th anniversary of its foundation on December 1, 2019. During the first 25 years after our foundation, during the chaotic periods during and after the war in Japan, we took a significant role in boosting the reconstruction of people’s lives by supplying electricity to local people. Through providing such services, we expanded our business fields to cover the overall infrastructure required for life, such as water and air, and established a basis for integrated utilities engineering services, providing one-stop solutions to customers’ needs.

During the next 25 years, the Company was listed on the first section of the Tokyo Stock Exchange, establishing the basis as a corporation that actively operates nationwide. We also expanded the size and sales area of the general facility work division including electrical, HVAC and sanitary, and telecommunications to support the growth of the Japanese economy through integrated utilities engineering service. Meanwhile, we worked on preventive measures against operational accidents such as power outages and electric shocks in the power distribution line work division by introducing the non-power outage method and indirect hot-line work technique.

In the recent 25 years, we were able to expand our business scope and further enhance the Kyudenko brand with the aim of the lost 20 years. In the period of economic recovery, the Kyudenko Group has always moved forward to take on the challenge of the collapse of the bubble economy and its following economic slowdown. Specifically, in a continued severe management environment with a sharp decrease in construction demand, we made efforts to reinforce our cost competitiveness by combining our sales force, technological force and on-site capabilities so that we can win the competition.

Looking back at any period of our history, the Kyudenko Group has firmly held a policy that “engineers are not fixed costs but management resources essential to strengthen the quality and quantity of human resources, which is the biggest management resource in the construction industry, and made steady progress toward the creation of a corporation that can respond to labor shortages associated with the recent recovery in construction demand and the aging society. Looking back at any period of our history, the Kyudenko Group has firmly held a policy that “engineers are not fixed costs but management resources essential to strengthen the quality and quantity of human resources, which is the biggest management resource in the construction industry, and made steady progress toward the creation of a corporation that can respond to labor shortages associated with the recent recovery in construction demand and the aging society.

The Mid-term Management Plan which started in FY2015 reaches the final fiscal year this year, FY2019. With the concept of “creation of a company that can continue to grow under any environment” in mind, we conducted a follow-up evaluation and extracted new issues every year to strengthen the “sales force, technological force, on-site capabilities and growing force”. Backed by achievements from these initiatives and improvement in the management environment, we expect to achieve the numerical targets in the Plan.

Under the Plan, we project sales of 418 billion yen and operating profit of 38 billion yen for FY2019, which increases more than 100 billion yen in sales and more than 20 billion yen in operating profit from FY2014. I believe this increase in our performance are attributable to the increase in the number of Group employees and their productivity.

Over the last five years, approximately 1,000 staff, equivalent to 10% of the total, joined the Group. The Kyudenko Group has firmly held a policy that “engineers are not fixed costs but management resources essential to strengthen the quality and quantity of human resources, which is the biggest management resource in the construction industry, and made steady progress toward the creation of a corporation that can respond to labor shortages associated with the recent recovery in construction demand and the aging society.”

Based on the Mid-term Management Plan, we have enhanced our cost competitiveness by combining our sales force, technological force and on-site capabilities so that we can win the competition. As the construction industry is a moving industry where a work site moves from here to there, a physical and psychological distance tends to arise between the management of head office/branch offices and on-site staff.

In order to resolve this issue, the Technology Management Department and Team were established in the head office and branch offices to increase the engagement of the management with work sites. Review meetings for construction works were held several times with involvement by the management from the quotation stage until the follow-up stage after the completion/handover to facilitate company-wide sharing of know-how and visualization of work sites. Enhancing the transparency in work sites and costs is highly significant in terms of compliance as well.

Meanwhile, new issues were found for FY2019.

How is the current progress of the Mid-term Management Plan (FY2015 ~ FY2019)?

The Plan for March 2020 was released.

<table>
<thead>
<tr>
<th>March 2019 Result</th>
<th>Plan for March 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales (Billion Yen)</td>
<td>408.1</td>
</tr>
<tr>
<td>Operating profit (Billion Yen)</td>
<td>36.7</td>
</tr>
<tr>
<td>Ordinary profit (Billion Yen)</td>
<td>39.9</td>
</tr>
<tr>
<td>Profit attributable to owners of parent (Billion Yen)</td>
<td>26.6</td>
</tr>
<tr>
<td>Orders (Billion Yen)</td>
<td>405.9</td>
</tr>
</tbody>
</table>

Road map of sales plan (Billion Yen)

- Solar power plant work
- Electrical work
- HVAC and sanitary facility work
- Power distribution line work
- Others
1. Introduction

Message from the President

Regarding the financial results for FY2018, the profit margin decreased by approximately 1% compared to the previous year. While the work style reform is being promoted, construction schedules are becoming extremely tight due to the rush for completion of construction works associated with the Tokyo 2020 Olympic and Paralympic Games, and thus we must enhance our productivity. Affected by labor shortages in construction and manufacturing sites, unit costs for labor and materials are increasing, and it has therefore become increasingly important to manage detailed working process and procure staff and materials at the earliest possible stage. Due to the decrease in the profit margin, the Kyudenko Group promptly held a meeting for profit margin measures in April, attended by general managers and managers of Technology Departments of all branch offices. A range of large and small issues were identified at the meeting, and it was decided that measures to solve these issues shall be shared every month. Although various types of new issues may arise in the future, we will identify them at an early stage to address them speedily.

While this year is the final fiscal year of the Mid-term Management Plan, what is the key to achieving the Plan? And how do you see the business environment going forward?

In FY2019, with approaching delivery of large-scale projects especially in the metropolitan area, I think the management of working process will become increasingly important. While the management of branch offices should firmly grasp the situation of each site, excellent technicians should be efficiently allocated to sites with tight work schedules to prevent cost increase. I suppose the feasibility of the sales plan is high because there are many sites where delivery will be completed, but more efforts are needed to recover and raise as much as possible the profit margin that decreased in FY2018 by gathering company-wide wisdom.

With regard to acquisition of orders, I feel the competition has intensified mainly for ultra-large-scale projects in the metropolitan area. As an overall trend in the industry, companies seem to target projects that will become the foundation of sales for FY2021 and FY2022, after 2020 when completion and delivery reach their peak. The Kyudenko Group aims to increase orders by leveraging its cost competitiveness which it has built over the years.

Large-scale redevelopment in the metropolitan area will still continue. Also in our hometown, Fukuoka in Kyushu, large-scale redevelopment is on the verge of being implemented in the Tenjin area, Fukuoka’s central area, Hakata Port as an ocean gateway and Hakata Station as a land gateway, and large-scale construction works will not decrease.

On the other hand, areas with declining and aging population face severe issues of labor shortages in facility works, and thus the Kyudenko Group has a mission to support the infrastructure for people in the region. I expect these small-scale works will continue to grow. Large-scale works can bring higher sales per engineer because they do not require much transportation for construction and can be carried out in an integrated and efficient way. However, competitors are leading companies across Japan, and the construction period is relatively long, which means that the amount of orders are likely to be affected by economic swings, and costs are largely affected by manpower and material prices. Small-scale works, in which such risks are small, will therefore highly contribute to stable management.

With regard to construction of solar power plants, while the number of projects already reached its peak, there are still multiple ultra-large-scale projects under development. The Kyudenko Group has established a business development-based business model, which engages in both facility construction and businesses such as PFI (Private Finance Initiative) and renewable energy generation businesses to differentiate from other facility work operators. While conducting planning and development in alliance with other industries such as energy and leasing, we strive not only to acquire construction work orders but to gain returns through investments. Such management stance and technologies capable of providing one-stop construction services for overall facility have been appreciated by our alliance partners, bringing us information for construction of solar power plants, which already came to an end at other companies. As this business model is also effective for other renewable energy related businesses including wind power and biomass, and decentralized energy plans, our involvement in these businesses is also increasing every year.

What are the specific initiatives for environmental issues, especially global environmental issues?

The Kyudenko Group sees its contribution to solving global environmental issues as a big business opportunity and continues to explore the possibility of achieving a sustainable society by using its technologies. These business activities are in accordance with our Corporate Philosophy - “We contribute to society through providing agreeable environmental solution”, and we have over the years worked on the construction of facilities for filtration and reprocessing of drained water and sludge, and heat supply facilities, in addition to various renewable energy generation facilities. In Taiwan, a local subsidiary has been engaged in the environmental analysis business from 1987 and it was the first company in Taiwan to receive an environmental substances measurement and inspection license from the Taiwanese Government.

Currently, we are working on the dissemination of the Kyudenko EMS. This Kyudenko EMS is a globally patented system that combines renewable energy generation facilities and long life lead storage batteries, and enables a stable and lower cost supply of electricity in an off-grid mode for remote islands and under-populated areas. EMS proof facilities are established in Sumba Island, the eastern part of Indonesia, to supply electricity. This business was adopted as “low-carbon innovation creation business for developing countries” by the Ministry of the Environment, and “study on business opportunity of high-quality energy infrastructure to overseas” by the Ministry of Economy, Trade and Industry. The system is an effective solution for areas such as Indonesia with many small islands where construction costs of power transmission facilities do not pay off, and may be introduced in other unelectrified areas in emerging countries, as well as remote islands and distant areas in Japan. As this business has potential for big business and is also consistent with our mission to improve the lives of people in local communities, we will make efforts for its dissemination.

I believe safety is fundamental to corporate activities. Would you once again explain about the initiatives for safety?

Under the basic philosophy that “Safety comes first before anything else. Safety and health are the foundation for management and a prerequisite of all activities”, we are working to realize “zero-accident” and “healthy management”. The FY2019 basic policy on safety and health management stipulates that (i) for safety, “all employees must “think & practice”, which means employees take initiatives to think and act to prevent disasters in advance, and (ii) for health, “aiming for “creation of a workplace where everyone can enjoy working”.”

In terms of safety, there have been many disasters, and in some cases, valuable lives of our coworkers were lost. When we analyze the reasons for past accidents in detail, we always discover things that make us say “again?”. Why does the same tragedies happen again and again? Do people forget the shock of accidents of their colleagues? At an education facility called the Kyudenko Academy, the Kyudenko Group established a permanent facility “Safety Heritage Facility” to relive the experience of past disasters. The exhibition includes painful videos and pictures, and contents of pre-work meetings, and the overall Group is making efforts not to let the past failures fade away. In terms of sanitation, the Group places health of employees as one of its important management resources. Recognizing that support for health enhancement activities led by employees and organizational promotion of health activities are essential to corporate growth, the Group adopted the Kyudenko’s “Health Management Declaration”. To ensure a comfortable workplace environment, employees’ self-responsibility and enhanced awareness for health are essential prerequisites. At the same time, it is a social responsibility of a company to maintain the health of its employees. The Kyudenko Group will reinforce the health management and health enhancement activities for its employees.
As I mentioned before, the Kyudenko Group has steadily strengthened its human resources, which are our greatest management resources. We are proud that the number of our new recruits is ranked number one in the construction industry, surpassing leading general contractors. Amid the recent clamor about labor shortages and difficulty in recruitment, our capability for steadily employing competent staff centered in Kyushu is the outcome of our ongoing efforts to nurture well-balanced personnel in terms of all aspects of knowledge, physical strength and mental strength.

The Kyudenko Group has been consistently one of the leading general contractors in Japan. Going forward, retaining and reinforcing human resources with reliable technical capabilities and skills within the Group will continuously facilitate further differentiation of the Kyudenko Group.

As part of the above initiatives, for the purpose of promoting active involvement by women in the construction industry, the Group employed new female recruits, 10 staff in April 2018 and nine staff in April 2019, as site technicians working at electricity sites. In addition, in order to nurture next generation leaders of technicians working on site, we encourage employees to participate in the “Skill Olympics”, where young engineers compete their technical skill levels.

To fully support our employees, the Academy is equipped with training rooms designed to practice skills for the Skill Olympics. We also work to raise the overall skill level by transferring predecessors’ skills and technologies to junior staff.

Corporate governance and violation of compliance

We sincerely extend our apologies to shareholders and relevant parties for much inconvenience caused due to violation of laws and regulations by an employee of the Company concerning bidding of a construction project of Chikuyou town water and waste sewage treatment facility. The Group has taken this situation seriously and has put forth every effort in grasping the fact and detecting the cause at an early stage. While the Group has worked on strict compliance across all companies from the past, given this incident, it has established recurrence prevention measures as described below, based on the facts discovered and detection of the causes regarding this event.

Going forward, the Group will put further efforts in thoroughly complying with laws and regulations in all its business activities to recover trust.

The recurrence prevention measures will promptly incorporate practical and detailed approaches, and the overall Group will make efforts so that this kind of incident will never happen again and will not be faded away.

President’s Declaration to Stop Misconducts

The Kyudenko Group will comply with laws and regulations thoroughly in all its business activities.

We will strive to establish a system in which misconducts are not tolerated, cannot be conducted, or exposed.

Recurrence prevention measures

1. Enhance compliance awareness
   (1) Reform employee’s awareness to create a corporate culture in which misconducts can be detected.
   (2) Enhance education through the implementation of education programs based on required knowledge on laws and regulations for positions and job scope as well as past events.
   (3) Formulate and disseminate “sales representatives action guidelines” thoroughly.
   (4) Raise awareness for the prevention of misconducts.
      - Include a check item such as “a task for acknowledging compliance with laws and regulations” in internal documents for construction bidding.

2. Enhance in-house check functions
   (1) Thorough scrutiny of costs
      - Evaluate any room for inappropriate costs in estimated costs, order costs and working budgets through cooperation between sales and technical teams.
   (2) Thorough implementation of new personnel and evaluation system
      - Not create a habit of misconduct by conducting appropriate rotation.
      - Train the rotation of employees that there are many eyes around them by conducting multifaceted evaluation.
   (3) Enhancement of check functions in business processing
      - Numerical check functions by amending internal and self-audit procedures.
   (4) Enhancement of verification using systems
      - Consider introducing a system to monitor misconducts in e-mail contents.

3. Review of outsourcing order scheme
   (1) Thoroughly pursue a scheme to avoid misconducts in outsourcing.
      - Separate the construction division and order division.
   (2) Enhancement of verification of validity of the outsourcing order amount
      - Make sure to hold a meeting to examine construction works and apply strict cost management.
   (3) Establish a new system where approval is given after discrepancy is checked by a manager.
   (4) Enhancement of misconduct monitoring function for construction orders

4. Thorough prevention of misconducts at outsourcing companies
   (1) Request for cooperation of outsourcing companies to prevent misconducts.
      - Request them to refrain and not become involved in misconducts.
   (2) Review the items of the contract with outsourcing companies
      - Review terms for misconduct prevention included in basic construction contracts, and terms and conditions for construction.

5. Enhancement of reporting systems and stricter internal disciplinary action
   (1) Dissemination and enhancement of the reporting system
      - Make internal reporting mandatory when detecting a misconduct.
      - Thoroughly inform employees about the compliance desks.
   (2) Stricter internal disciplinary action
      - Make the review and punishment system stricter, and apply them appropriately.
Management Team of Kyudenko

Yasuhiro Kashima Director
Managing Executive Officer, Responsible for the President’s Office, human resources and labor affairs, and general affairs

Sumio Kuratomi Director (part-time)
Independent Director, Outside Director

Masaaki Jono Director
Senior Managing Executive Officer, General Manager, Technology Div., Responsible for overall technology and procurement

Hironori Higaki Representative Director
Vice President Executive Officer, Responsible for overall business administration and overall Electric Power Div.

Matsuii Nishimura Representative Director and President

Kazuyuki Ishibashi Director
Senior Managing Executive Officer, General Manager, Sales Div., Responsible for overall sales

Naofumi Sato Director and Chairman

Kunihiko Kitamura Director
Managing Executive Officer, Deputy General Manager, Technology Div.

Seiki Ino Representative Director
Vice President Executive Officer, Representative, Tokyo Head Office

Keizo Fukui Director
Managing Executive Officer, Responsible for corporate strategic planning

Akiyoshi Watanabe Director (part-time)
Independent Director, Outside Director
2. Growth and Development of the Kyudenko Group

(1) 75 Years of Kyudenko

Foundation phase when Kyudenko was born as a company engaging in electrical and power distribution line work across the Kyushu region

Kyudenko was established in December 1944 as “Kyushu Denkikouji Corporation” (former Kyudenko) by integrating fourteen electric companies in Kyushu.

- December 1944: Established Kyushu Denkikouji Corporation, Paid in capital 2.5 million yen, Head Office 11, Haegeiren-cho, Fukuoka city
- October 1945: Opened Tokyo Satellite Office (current Tokyo Head Office)
- June 1947: Concluded an agreement on contracted power distribution line work with Kyushu Haiden Co., Ltd. (current Kyushu Electric Power Company, Incorporated)
- February 1952: Opened a training center (current Kyudenko Academy)

Establishment and growth phase of a firm management base, with stock listing and the 50th anniversary

The Company was listed on the Fukuoka Stock Exchange and Osaka Exchange in September 1972. In December 1969, the company name was changed to the current “Kyudenko”, and it marked the 50th anniversary in 1994.

- November 1968: Listed on the Fukuoka Stock Exchange
- July 1971: Started operation of water treatment work
- September 1972: Designated to the Tokyo Stock Exchange first section
- April 1976: Head office was newly established and relocated to the current location
- April 1978: Completed Satake 60
- July 1981: Started operation of public sewerage works
- March 1987: Issued the first series of unsecured convertible bond of 10 billion yen
- December 1989: Changed the company name to Kyudenko Corporation
- December 1994: Marked the 50th Anniversary

New management stage with expansion into the metropolitan area and overseas

Tokyo Head Office was established in July 2008, and “Kyudenko Academy”, a training facility, was newly established in March 2012, to build a stronger management base in Japan. With full entry into global businesses, as well as further expansion of businesses in the metropolitan area, Kansai, Chukyo and Okinawa, we are entering a new management stage.

- December 1997: Obtained ISO9001 Certification
- December 1999: Obtained ISO14001 Certification
- June 2004: Delisted from the Osaka Exchange
- June 2008: Introduced the Executive Officer System
- July 2009: Established Tokyo Head Office
- March 2012: Newly established a training center “Kyudenko Academy” in Kyoto-cho, Miyake-ku, Saga Prefecture
- April 2012: Newly established the Tohoku regional office
- September 2012: Started establishment of local subsidiaries in Southeast Asia
- May 2013: Capital participation in Asia Projects Engineering Pte. Ltd. (APECO) in Singapore
- March 2015: Issued the second series of unsecured convertible bond of 10 billion yen
- December 2019: To mark the 75th Anniversary

Origin of our logo

Our logo is based on the letter “K”, the initial of Kyudenko, and represents a corporate image that aims at an optimal harmony of “People = red”, “Environment = green” and “Engineering Skill = blue”.

The cuboid extending toward the upper right direction symbolizes our will to pursue dynamic growth.
2. Growth and Development of the Kyudenko Group

(2) Business of Kyudenko

Comprehensive energy management as a leading company of “Integrated Utilities Engineering Service (electricity, air and water)”

As a company that undertakes contracted works from Kyushu Electric Power Company, Incorporated, it engages in installation and maintenance of overhead distribution equipment, installation of drop wires and meters, and installation of communication cables and related devices to build a distribution automatic control system. Specifically, in case of power outage due to natural disasters, etc., the Company conducts recovery works day and night, largely contributing to the local community.

HVAC and sanitary facility work division not only provides a comfortable living environment in terms of air and water but also safety and security through installation of heat and ventilation air conditioning equipment, plumbing system, and sanitation and disaster-proof equipment in a wide range of buildings, such as office buildings, hospitals, hotels and factories. From designing to construction, the division thoroughly controls the safety of working sites, quality of works, and management of working process, providing high-quality facilities. In addition, by providing after care services for the HVAC and sanitary facilities and being involved in the entire lifetime of the building, the division supports the safe and comfortable lives of clients.

Solar power generation using natural energy is a promising renewable energy which is also cost effective, and is commercially operated in Europe and the U.S. in large volume. Kyudenko has worked to introduce a solar power generation system since 1992, and has been offering detailed services including proposal of a construction method suitable for the location to be installed, management such as proper maintenance after installation and proposal of attached equipment. We have accumulated a wealth of experience in serving clients in Kyushu, as well as Honshu, and built a 70MW large-scale solar power generation system in the Nanatsu Island Mega SP Station in Kagoshima Prefecture.

We have also worked on the construction of various renewable energy generation plants, such as wind power and biomass, to contribute to the realization of a carbon-free society.
Pick-up

Realization of “Electric/HVAC Paired Construction Management” by nurturing multi-skilled engineers

Aiming to become a top integrated utilities engineering service company, we promote the “Electric/HVAC Paired Construction Management” in which electrical, HVAC and sanitary facility works are managed by one person. We are establishing a framework that realizes both improvement of customer satisfaction and reduction of construction costs at a high level with a one-stop solution leveraging cutting-edge technology.

Business strategy

We will work to offer clients highly efficient, stable, and safe electric and instrumentation facility work at a competitive price and with high quality by promoting IT, considering introduction of advanced technology such as VR and AI, and improving productivity on an ongoing basis.

We will strengthen our cost competitiveness through “creation of minimum costs”, and realize ongoing improvement of the profit margin.

Construction managers and technicians in over 100 sales offices across Japan will directly grasp issues concerning customers’ facilities and respond to their needs comprehensively and speedily by making technical proposals involving the entire electrical, HVAC and sanitary facility divisions.

We will secure workforce through active recruitment, and nurture a number of technicians who can conduct a set of electrical facilities work in buildings of any size and for any purpose.

We will further strengthen our initiatives to acquire more orders for hotels, apartments, and energy service business, which are areas where there are potential for growth in demand.

Pick-up

Development of the Great Eco Cooling Tower System

The “Great Eco Cooling Tower System” utilizes our internally developed energy-saving cooling tower in this system, by lowering the temperature of the cooling water inlet of the freezer below the normal level, even when there is an increase in temperature difference in the cooling water, a decrease in freezer efficiency can be prevented and the amount of circulated water can be reduced as well, resulting in a reduction of cooling water pump power. In addition, even though the power of the cooling tower fan will increase by lowering the cooling water inlet temperature, we are working to reduce the required power by customizing the tower body, fan blade shape, and volume and distribution of filler material for each project.
iii) Power distribution line work

Business environment/Performance trend
- Sales increased by 2.4% year-on-year and orders received increased by 2% year-on-year.
- In the second half, sales and profit margin increased due to an increase in construction volume.
- We are responding to frequent natural disasters by leveraging our personnel resources not only in Kyushu but across the entire Company to realize early recovery.
- Taking the opportunity of the legal separation of power companies (separation of power generation and distribution) to be implemented in 2020, we are working to secure a stable volume of orders for the future.

Business strategy
- With the full liberalization of electricity retail sales, we aim to further improve construction quality to provide a stable supply of electricity to all customers.
- We aim to strengthen competitiveness and improve profitability through technology development, enhancement of work efficiency, securing workers by improving work environments, and further reducing costs for power system reform.
- Regarding underground distribution line work, we will strive to expand sales and profit by working to acquire orders not only in Kyushu but nationwide by utilizing the expertise we have accumulated thus far.
- By responding promptly to the increasingly powerful natural disasters utilizing our mobilization capabilities, we will work for the early restoration of electricity and maintenance work under long-term contracts and realize stable power generation, while seeking to gain demand for replacing power conditioning systems 10 years later and replacement demand 20 years later.
- We are constructing a tight connection with partners in other industries as a result of appreciation of abilities to develop deals and judge investments.
- To prevent further global warming, we are promoting the installation and construction of clean natural energy generation facilities aimed at reducing CO2 emissions.
- We are working closely with power companies with a sufficient margin in the construction period, and we see an increase in orders directly nominated from partners.
- After newly constructing power generation plants, we aim to acquire orders for maintenance work under long-term contracts and realize stable power generation, while seeking to gain demand for replacing power conditioning systems 10 years later and replacement demand 20 years later.
- Looking ahead to the next stage, we will aim to expand our pipelines by participating in a multi-industry community for the implementation of an offshore wind farm project.

iv) Renewable energy generation plant work

Completion of Nanatsu Island Biomass Power Generation Plant

The Nanatsu Island Biomass Power Generation Plant, established by the Company, JH Corporation and seven other investment companies and constructed by Nanatsu Island Biomass Power G.K. (location: Kagoshima City, Kagoshima Prefecture), which operates a woody biomass power generation business, was completed on May 7, 2019.

By using palm kernel shells, wood pellets, and domestic lumber obtained from thinning, we provide environmentally friendly renewable energy generation, which not only aims for a stable supply of electricity, but also contributes to reducing approximately 200,000 tons of CO2 annually.

Figures in lower parentheses represent solar power plant work.

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales (Billion Yen)</th>
<th>Orders (Billion Yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>46.2</td>
<td>45.5</td>
</tr>
<tr>
<td>2016</td>
<td>46.9</td>
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<tr>
<td>2018</td>
<td>46.6</td>
<td>46.5</td>
</tr>
<tr>
<td>2019</td>
<td>47.7</td>
<td>47.4</td>
</tr>
</tbody>
</table>

Pick-up

The "non-power outage method" (a construction method that prevents power outages by using bypass cables, generators, etc.) and "indirect hot-line work technique" (a secure installation work method, with which on-site workers do not need to touch hot wires directly while installing and replacing wires and its related equipment), that were introduced ahead of other domestic companies, maintain the convenience of electricity, an essential infrastructure, while improving the safety of workers and their work environment.

"Non-power outage method" and "indirect hot-line work technique" that maintain convenience and realize worker safety
We construct, own, and operate solar power and wind power generation plants and engage in the business of selling electricity using the Feed-in Tariff (FIT) scheme. We also jointly participate in the business of generating and selling solar power, wind power and biomass power through equity investment and anonymous partnership.

### Renewable energy generation business

**Solar power generation**
- Sales (Billion Yen)
  - 2015: 2.1
  - 2016: 2.7
  - 2017: 3.2
  - 2018: 3.5
  - 2019: 4.2
- Operation output (MW)
  - 2015: 57
  - 2016: 65
  - 2017: 72
  - 2018: 88
  - 2019: 92

**Wind power generation**
- Sales (Billion Yen)
  - 2015: 0.8
  - 2016: 0.9
  - 2017: 1.0
  - 2018: 0.9
  - 2019: 0.9
- Operation output (MW)
  - 2015: 38
  - 2016: 38
  - 2017: 38
  - 2018: 38
  - 2019: 38

**Equity investment**
- Non-operating income (Billion Yen)
  - 2015: 0.1
  - 2016: 0.2
  - 2017: 0.1
  - 2018: 0.7
  - 2019: 1.4
- Operation output (Billion Yen)
  - 2015: 92
  - 2016: 27
  - 2017: 110
  - 2018: 35
  - 2019: 92

### April 2018

**Participation in floating solar power generation business in Taiwan**

Kyudenko, Tokyo Century Corporation, CELL ET TERRE TAIWAN Ltd., and Kyuden Mira Energy Company, Incorporated jointly started a floating solar power generation business in Taiwan. In this project, the electricity generated by floating solar cell modules in regulating ponds owned by Taian City is sold to Taiwan Electric Power Company through the renewable energy FIT scheme of Taiwan. Kyuden Environment Improving Co., Ltd., Kyudenko’s local subsidiary, also participates in the construction of the facilities.

### May 2018

**Conclusion of basic agreement on renewable energy generation business**

Kyudenko, Tokyo Gas Co., Ltd., and Tokyo Century Corporation jointly concluded the “Basic agreement on renewable energy generation business” for the purpose of acquiring, developing and operating a renewable energy generation business. Going forward, we will bring together the knowledge that each company has accumulated regarding development, funding, construction, and operation to contribute to the spread of renewable energy and creation of a sustainable society.

### September 2018

**Jointly commenced the prefecture’s largest woody biomass power generation business in Uruma City, Okinawa Prefecture**

Kyudenko, Kyuden Mira Energy Company, Incorporated, TOYO KANETSU K.K., Okinawa Gas Co., Ltd., Tokyo Gas Engineering Solutions Corporation, and five local companies in Okinawa Prefecture participated in the investment in Okinawa Uruma New Energy Co., Ltd., established by area companies, Ltd. Okinawa Uruma New Energy Co., Ltd. constructed the Nakajimakuna Biomass Power Generation Plant, which exclusively burns woody biomass to generate a 49,000kWh output and is expected to reach an annual energy production of approximately 350,000MWh, equivalent to the annual electricity consumption of approximately 110,000 households. Kyudenko will be responsible for the electricity facility work of this power generation plant.

By utilizing our expertise and management resources obtained through facility work, the Kyudenko Group is developing businesses in a wide range of areas, such as remote medical image diagnosis support services and materials and equipment sales business related to electrical, HVAC, and sanitary facility work. Furthermore, we are engaged in the business development of the Bayside Place Hakata, which is leading to the revitalization of the Fukuoka waterfront.

### Material Sales (Q-mast)

In April 2017, the Procurement Division of Kyudenko and that of our subsidiaries were merged to form Q-mast. By taking advantage of economies of scale and reducing procurement costs, Q-mast is contributing to generating profit for the Kyudenko Group.

### Urban Development (Bayside Place Hakata)

Kyudenko has been operating Bayside Place Hakata since 2009, increasing the number of visitors every year by attracting appealing tenants. By holding various events, the place has become a popular place to visit not only for Japanese tourists but also for tourists from abroad.

### Hotel Business (Hotel Urbic Kagoshima)

A one-minute walk from the west exit of Kagoshima-chuo Station, the Hotel Urbic Kagoshima is highly convenient. The hotel has been received well by many guests since its establishment in 2007 due to its sophisticated design and reasonable price range.

### Golf business (Hokuzan Country Club)

The golf course at the Hokuzan Country Club, located in the center of Sefuri Hokuzan Prefectural Natural Park in Saga Prefecture, is one of the top 18-hole golf courses in Kyushu. We provide a comfortable golf environment by focusing on maintaining the quality of the course and providing services to users.
(4) Overseas Business of Kyudenko

The overseas business of Kyudenko was launched in 1979. As Japanese general contractors and plant manufacturers expand overseas, Kyudenko has also participated in many projects in areas including Asia, Africa, the Middle East, and Europe, building up a track record of construction work.

Although the overseas business entered a period of temporary stagnation from the 1990s, we established the International Business Division in 2011 and decided to develop business in Southeast Asia, which continues to have one of the highest growth rates in the world. Currently, we are developing businesses in six countries and regions: Singapore, Malaysia, Vietnam, Thailand, Indonesia and Taiwan.

APECO in Singapore is a plant engineering company invested in 2013 and will celebrate its 50th anniversary this year. APECO is a leading engineering and maintenance company serving diversified industries, including the power & energy, petrochemical, and water utility industries. About seven years have passed since the establishment of local subsidiaries in Malaysia, Vietnam and Thailand, and the companies are receiving orders from Japanese manufacturers and general contractors for such work as construction of new factories and renovations, steadily building up a track record of construction work.

The main business of Kyulien Environment Improving Co., Ltd. in Taiwan is the environmental measurement and analysis of exhaust gas and wastewater released from factories and waste disposal facilities. It is the first company in Taiwan to receive an environmental substances’ measurement and inspection license from the Taiwanese Government and has earned the trust of customers with its high-quality services. In April 2018, we set up a Representative Office in Indonesia. Kyudenko has developed “Kyudenko EMS,” an energy management system that can convert renewable energy, such as solar power and wind power, whose output is extremely changeable, into a stable form for utilization. We are conducting demonstration projects in Sumba Island, Indonesia, and are working to spread Kyudenko’s EMS technology throughout Indonesia, an island country.

Kyudenko’s overseas business covers a wide range of fields, including facility work such as electrical, HVAC and plumbing, plant engineering business, environmental analysis business, energy management business (EMS), and renewable energy business.

By bringing together the technical capabilities accumulated in Japan and the technical capabilities possessed in each country abroad, we would like to further develop business overseas.

2. Growth and Development of the Kyudenko Group

(5) Business Locations

Overseas

Japan

Indonesia

Vietnam

Singapore (APECO)

Thailand

Kyulen Environment Improving Co., Ltd.
Line of business: Environmental analysis, electrical works

Kyudenko (THAILAND) Co., Ltd.
Line of business: Electrical works, HVAC and sanitary facility works and energy-saving works

Kyudenko Vietnam Co., Ltd.
Line of business: Electrical works, HVAC and sanitary facility works and consulting service on construction technology

Kyudenko Malaysia Sdn. Bhd.
Line of business: Electrical works, HVAC and sanitary facility works and fire prevention facility works

Kyudenko South East Asia Pte. Ltd.
Line of business: Headquarter of Kyudenko’s overseas business development in Southeast Asia region, operating support to local subsidiaries

Asia Projects Engineering Pte. Ltd.
Line of business: Plant installation works, assistance and EPC works and district cooling facilities works

Indonesian Office
Line of business: Diffusion and commercialization of EMS (Energy Management System)
2. Growth and Development of the Kyudenko Group

(6) Corporate Value Creation Model

Corporate Philosophy

“We contribute to society through providing agreeable environmental solution.”

“We keep challenging for sustainable development through our engineering strength and create a new value.”

“We aim to create mutual respecting environment in Kyudenko which utilize and develop employees’ personality.”

Promotion of Mid-term Management Plan (FY2015-FY2019)

Input
Strength of the Kyudenko Group

- Manufacturing capital
  - 112 locations throughout Kyushu and Okinawa

- Intellectual capital
  - Development and utilization of IT, AI, and 3D technology by the R&D division

- Human capital
  - In preparation for a shortage of engineers, we provide in-house training not only for construction managers but also for technicians.

- Financial capital
  - Financing capabilities by maintaining a high ROE and rating.

- Social relationship capital
  - Promotion of flexible capital alliances in areas of new expansion.

Natural capital

Overview of business model

Value creation process

- "Sales force" to meet trusts and expectations of clients
  - Enhancement of after-sales services
  - Strengthening and expanding our management base in the metropolitan area
  - Enhancement of solution sales

- "On-site capabilities" to obtain more projects and profit efficiency
  - Enhancing and strengthening construction force
  - Promoting efficiency to improve productivity
  - Strengthening of Group-companies

- "Technological force" to win the cost & quality competition
  - Through quality assurance and strengthening cost competitiveness
  - Improving profitability of Power Distribution Linework
  - Promoting research and development in the energy field

- "Growing force" for future success
  - Development of human resources
  - Strengthening overseas management bases
  - Promoting renewable energy business
  - Developing business in new areas

One-stop service for all types of facility works through integration of know-how

Continuous development of human resources

Establishment of stable foundation in Kyushu and expansion to the metropolitan area

Output
Results of business activities

- Financial results
  - Operating cash flows: 26.0 billion yen (FY2019)
  - Cash dividends per share: 100.0 yen (FY2018)
  - Payout ratio: 26.7% (FY2019)
  - Equity ratio: 50.5% (FY2019)
  - ROE 15.6% (FY2018)
  - Rating A- (R&I)
  - Annual sales: over 400.0 billion yen

- Further exploration of diverse business models
  - Proposal and original contract type
  - Sub-contract type
  - Capital participation type

- Relationship with society
  - Nationwide expansion of solar power generation and wind power generation

Three driving forces of growth

- Utilization of our strength as the leader of integrated utilities engineering service

Kyudenko Corporation
(7) Progress of Mid-term Management Plan

Taking on Challenges to Make the Next Leap Forward

~To the next growth stage~

In the Mid-term Management Plan (FY2015-FY2019: five-year plan), we will further improve sales force, technological force, on-site capabilities and growing force, and work to raise the comprehensive strength of the Kyudenko Group to win the cutthroat competition, no matter how a management environment changes.

Panels of growth strategy

Kyudenko’s Four Strategic Policies

1. “Sales force” to meet trusts and expectations of clients
2. “Technological force” to win the cost & quality competition
3. “On-site capabilities” to obtain more projects and profit efficiency
4. “Growing force” for future success

(8) Six Strategies of Differentiation

Strategy 1
Utilizing technologies of Integrated Utilities Engineering Service

One-stop construction of all types of facility works

- Customers do not need to meet with multiple companies.
- In the construction of energy facilities and renovation work, which mainly consists of facility work, we engage in direct contract work instead of construction.

Integrating expertise in electrical work and HVAC and sanitary works

- Total solutions that realize energy saving.

Cost reduction through management of working process of entire facility

- Shortening construction periods, line and pipe distribution that enables maximum use of space.

Strategy 2
Building a solid foundation in Kyushu and Okinawa

112 business bases throughout Kyushu and Okinawa

- Placed engineers and technicians of electrical works and HVAC and sanitary works at each business base.

Developed services for maintenance and solution-driven sales.

A reliable company that immediately rushes to protect the basic infrastructure in the event of a disaster.

Aiming for Kyudenko to become a company that is continually chosen by customers through local-based business activities and social contribution activities.

Strategy 3
Expansion of business areas and acceptance of brand

Promote expansion and strengthening of business areas

During the past financial year, we signed contracts for expansion of business activities and new businesses in the metropolitan area and new areas and companies possessing technology that can complement Kyudenko.

New participant companies of the Kyudenko Group (in construction)

<table>
<thead>
<tr>
<th>Year of Participation</th>
<th>Name of Company</th>
<th>Location</th>
<th>Sales for FY2018</th>
<th>Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>Kikuyanakaishi</td>
<td>Osaka</td>
<td>1,832 million yen</td>
<td>90</td>
</tr>
<tr>
<td>2014</td>
<td>Takahashikensetsu</td>
<td>Osaka</td>
<td>1,133 million yen</td>
<td>57</td>
</tr>
<tr>
<td>2015</td>
<td>Kiyosakiyuken</td>
<td>Osaka</td>
<td>1,488 million yen</td>
<td>18</td>
</tr>
<tr>
<td>2015</td>
<td>Shizukuishi</td>
<td>Osaka</td>
<td>805 million yen</td>
<td>28</td>
</tr>
<tr>
<td>2015</td>
<td>Kiyosakiyuken</td>
<td>Osaka</td>
<td>917 million yen</td>
<td>9</td>
</tr>
<tr>
<td>2017</td>
<td>Jiroushi</td>
<td>Hakata</td>
<td>370 million yen</td>
<td>34</td>
</tr>
<tr>
<td>2018</td>
<td>Nagahata</td>
<td>Kikukawa</td>
<td>87 million yen</td>
<td>47</td>
</tr>
<tr>
<td>2018</td>
<td>Engi</td>
<td>Okayama</td>
<td>10,447 million yen</td>
<td>144</td>
</tr>
<tr>
<td>2018</td>
<td>Kikuyanakaishi</td>
<td>Osaka</td>
<td>1,720 million yen</td>
<td>90</td>
</tr>
</tbody>
</table>

Strategy 4
Recruitment and development of human resources

Implement solid recruitment even in difficult times, with the philosophy of “Human resources is the biggest management resource”.

- To prepare for a shortage of skilled persons in the future, provide in-house training for not only construction managers but also technicians.

Strategy 5
Growth of solar power plant work

- We constructed a tight connection with partners in other industries as a result of abilities to develop deals and judge investments.

- There is a huge volume of information on large deals requiring much time for development, and we now expect orders directly nominated from partners. (The following expectations exclude the UKujima project.)

- We seek to gain demand for replacing power conditioning systems in 10 years later and replacement demand 20 years later as a direct constructor.

Strategy 6
Cultivation of diverse business models

<table>
<thead>
<tr>
<th>Business model</th>
<th>Characteristics</th>
<th>Target</th>
<th>Strengths of Kyudenko</th>
</tr>
</thead>
</table>
| A - Proposal and original contract type | One-stop construction of electricity, air and water facilities | Local based business offices, contractors | "Engineer + independent contractor"
| B - Assistance for solar power plant construction | Subcontract from general contractors | Making suggestions for implementing purchasing: Construction & Large scale, building & lever marginal |
| C - Capital participation in operations | Capital participation in operations: Financing: 9% of cost of construction | Bearing development risk, Financing investment income |

Road map of sales plan (below left)

- Numerical target of Mid-term Management Plan (con-solidated)

<table>
<thead>
<tr>
<th>Sales</th>
<th>400.0 billion yen</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Profit Ratio</td>
<td>15.0 %</td>
</tr>
<tr>
<td>Operating Profit Ratio</td>
<td>9.0 %</td>
</tr>
<tr>
<td>ROE</td>
<td>14.0 %</td>
</tr>
</tbody>
</table>

Numerical target of Mid-term Management Plan (con-solidated)

- Increase at decrease in plan

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment work department</td>
<td>1,728</td>
<td>1,690</td>
<td>2,040</td>
<td>2,233</td>
<td>2,328</td>
</tr>
<tr>
<td>Other work department</td>
<td>2,044</td>
<td>2,816</td>
<td>3,742</td>
<td>5,130</td>
<td>5,906</td>
</tr>
<tr>
<td>Total employment work department</td>
<td>3,772</td>
<td>4,506</td>
<td>5,782</td>
<td>7,363</td>
<td>8,234</td>
</tr>
<tr>
<td>Power distribution</td>
<td>1,100</td>
<td>1,410</td>
<td>1,470</td>
<td>1,830</td>
<td>1,970</td>
</tr>
<tr>
<td>Total employment work department</td>
<td>4,872</td>
<td>6,916</td>
<td>7,252</td>
<td>9,193</td>
<td>10,204</td>
</tr>
<tr>
<td>FY2015</td>
<td>FY2016</td>
<td>FY2017</td>
<td>FY2018</td>
<td>FY2019 (plan)</td>
<td></td>
</tr>
<tr>
<td>Employees of the Group</td>
<td>8,076</td>
<td>8,207</td>
<td>9,843</td>
<td>10,306</td>
<td>About ±1,000</td>
</tr>
</tbody>
</table>

- Actual and expected results of works in hand

- Actual achievements of solar power facility construction: Exceeds 100 million yen in working day
(9) Investment in Business and Human Resources and Financial Strategies

Investment for further growth, shareholder returns, and the strengthening of corporate governance to support such growth and returns are the important management issues.

Hironori Higaki
Representative Director, Vice President, Responsible for overall business administration

While taking such measures, we have made the following investments to realize the differentiation of Kyudenko. The first is the expansion of investment in the renewable energy generation business. Thus far, we have invested approximately ¥35 billion in the construction of renewable energy generation plants. In addition, we have jointly established power generation companies and solar panel manufacturers, strengthened our alliances, and invested about ¥22 billion in securities. The revenue from electricity sales generated by power plants using the FIT scheme is expected to contribute as a base of profit and cash flow without being affected by the economy for over the next 10 years.

The second is investment toward business area expansion and diversification of integrated utilities engineering service. We have proceeded with full participation mainly in companies running local-based business operations in the Kanto and Kansai area and companies possessing technology that can complement the integrated utilities engineering works of Kyudenko. The third is investment in the reconstruction of business offices and branch offices to further strengthen the sales base in Kyushu and Okinawa, and construction of educational, dormitory, and recreational facilities for training young employees and enhancing company benefits. The above investments were carried out after an appropriate institutional decision was made, taking into account the return on investment and magnitude of risk.

Future financial and investment strategies and issues

We recognize the following financial issues faced by Kyudenko.

The first is the increase in working capital due to the increasing scale of construction works. The cycle from investment to collection of funds is getting longer, due to orders of construction work accompanying large-scale urban development and large-scale solar power plants in recent years. Through construction review meetings, we will strengthen investment in the construction site of the technology management division, which is a Head Office personnel organization, and thoroughly implement construction management. By doing so, we will not only strengthen governance and increase profit margin, but also realize timely and appropriate return on investment. Compressing total assets by improving capital turnover is also essential.

We are also aware of issues such as the gradual increase in the ratio of net assets, a gradual decrease in ROE, and a deterioration in capital efficiency due to the rapid increase in capital resulting from improved business performance. Meanwhile, we plan to increase investments to continuously raise corporate value. Previous investments involved in business development have mainly been in the form of facility works, maintenance, and participation in business operations through investments in renewable energy generation companies and PFI companies. In the future, in addition to these, we would like to strengthen investments in urban development, such as companies that supply energy to local areas and also strengthen alliances with companies in other industries.

We are also considering capital participation and alliances with companies that expand the range of integrated utilities engineering works, including plants. To improve operation flow from the perspective of increasing operational efficiency, we will promote IT investment, development of construction methods, and increasing operational efficiency, we will promote IT investment, development of construction methods, and strengthening of corporate governance to support such growth and returns are the important management issues.

Investment in solar power plants

<table>
<thead>
<tr>
<th>Year</th>
<th>Initial investment (¥ billion)</th>
<th>ROE (%)</th>
<th>Return on assets (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>35</td>
<td>10</td>
<td>3%</td>
</tr>
<tr>
<td>2013</td>
<td>30</td>
<td>12</td>
<td>4%</td>
</tr>
<tr>
<td>2014</td>
<td>25</td>
<td>14</td>
<td>5%</td>
</tr>
</tbody>
</table>

Trends in ROE

<table>
<thead>
<tr>
<th>Year</th>
<th>ROE (%)</th>
<th>ROE (%) to assets (%)</th>
<th>Net assets (¥ billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>10</td>
<td>5%</td>
<td>20</td>
</tr>
<tr>
<td>2011</td>
<td>10</td>
<td>5%</td>
<td>25</td>
</tr>
<tr>
<td>2012</td>
<td>10</td>
<td>5%</td>
<td>30</td>
</tr>
<tr>
<td>2013</td>
<td>10</td>
<td>5%</td>
<td>35</td>
</tr>
<tr>
<td>2014</td>
<td>10</td>
<td>5%</td>
<td>40</td>
</tr>
</tbody>
</table>

Investment in wind power plants

<table>
<thead>
<tr>
<th>Year</th>
<th>Initial investment (¥ billion)</th>
<th>ROE (%)</th>
<th>Return on assets (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>35</td>
<td>10</td>
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<td>2013</td>
<td>30</td>
<td>12</td>
<td>4%</td>
</tr>
<tr>
<td>2014</td>
<td>25</td>
<td>14</td>
<td>5%</td>
</tr>
</tbody>
</table>

Cash dividends

<table>
<thead>
<tr>
<th>Year</th>
<th>Dividends (¥ billion)</th>
<th>Dividends as % of net income</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>10</td>
<td>5%</td>
</tr>
<tr>
<td>2011</td>
<td>10</td>
<td>5%</td>
</tr>
<tr>
<td>2012</td>
<td>10</td>
<td>5%</td>
</tr>
<tr>
<td>2013</td>
<td>10</td>
<td>5%</td>
</tr>
<tr>
<td>2014</td>
<td>10</td>
<td>5%</td>
</tr>
</tbody>
</table>

Stable shareholder returns

With regard to profit distribution, we will strive to maintain an appropriate financial structure. While securing internal reserves necessary for strengthening our management base and further business expansion to improve business performance, taking into account factors such as the business environment, performance results, and financial conditions, we will respond to our shareholders’ expectations by continuously paying stable dividends with a consolidated dividend ratio of 25%. In addition, we intend to conduct share buyback as part of a flexible capital policy corresponding to changes in the business environment.

We will also invest in human resources, the most important management resource. In addition to the improvement of employee treatment, we will make tangible and intangible investments in education for young employees and improvement of employee benefits and work environment. We also believe that certain funds are required to control retirement benefit obligation related to corporate pensions and lump-sum retirement benefits. In addition, we will consider investments in overseas business expansion.

Investment strategies for further growth

Since the conventional construction industry does not require large capital investment, a balance sheet with a relatively small amount of total assets, particularly fixed assets, is common. However, Kyudenko has carried out a business development-based business model, through capital participation and a local-based proposal and original contract type business model at the operation bases throughout Kyushu and Okinawa. Through such active investment, we are realizing differentiation. Each investment has its own characteristics, such as high risk in business development and low risk for local-based development. While considering the balance between risk and investment return, we will establish a strong but not excessive financial base and execute financial strategies that support investments for further growth. To do so, we believe that diversifying funding methods and improving capital efficiency is important.

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## (10) Financial and Non-financial Highlights

### Sales (consolidated)

<table>
<thead>
<tr>
<th>Year</th>
<th>2019.3</th>
<th>2017.3</th>
<th>2018.3</th>
<th>2016.3</th>
<th>2014.3</th>
<th>2015.3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>315,949</td>
<td>311,346</td>
<td>341,771</td>
<td>360,872</td>
<td>408,143</td>
<td>379,310</td>
</tr>
</tbody>
</table>

### Operating profit (consolidated)

<table>
<thead>
<tr>
<th>Year</th>
<th>2019.3</th>
<th>2017.3</th>
<th>2018.3</th>
<th>2016.3</th>
<th>2014.3</th>
<th>2015.3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>25,197</td>
<td>16,576</td>
<td>21,450</td>
<td>25,769</td>
<td>34,726</td>
<td>30,732</td>
</tr>
</tbody>
</table>

### Profit attributable to owners of parent (consolidated)

<table>
<thead>
<tr>
<th>Year</th>
<th>2019.3</th>
<th>2017.3</th>
<th>2018.3</th>
<th>2016.3</th>
<th>2014.3</th>
<th>2015.3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>3,681</td>
<td>11,517</td>
<td>17,901</td>
<td>22,297</td>
<td>25,296</td>
<td>26,691</td>
</tr>
</tbody>
</table>

### Orders (consolidated)

<table>
<thead>
<tr>
<th>Year</th>
<th>2019.3</th>
<th>2017.3</th>
<th>2018.3</th>
<th>2016.3</th>
<th>2014.3</th>
<th>2015.3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>293,149</td>
<td>324,123</td>
<td>363,564</td>
<td>377,769</td>
<td>384,757</td>
<td>405,903</td>
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</table>

### Capital investment (consolidated)

<table>
<thead>
<tr>
<th>Year</th>
<th>2019.3</th>
<th>2017.3</th>
<th>2018.3</th>
<th>2016.3</th>
<th>2014.3</th>
<th>2015.3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>9.1</td>
<td>9.0</td>
<td>8.1</td>
<td>8.2</td>
<td>8.4</td>
<td>8.4</td>
</tr>
</tbody>
</table>

### ROE (consolidated)

<table>
<thead>
<tr>
<th>Year</th>
<th>2019.3</th>
<th>2017.3</th>
<th>2018.3</th>
<th>2016.3</th>
<th>2014.3</th>
<th>2015.3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>3.9</td>
<td>11.9</td>
<td>16.3</td>
<td>17.8</td>
<td>16.8</td>
<td>15.6</td>
</tr>
</tbody>
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### Cash dividends and dividend ratio (consolidated)

<table>
<thead>
<tr>
<th>Year</th>
<th>2019.3</th>
<th>2017.3</th>
<th>2018.3</th>
<th>2016.3</th>
<th>2014.3</th>
<th>2015.3</th>
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<tbody>
<tr>
<td>Value</td>
<td>7,159</td>
<td>16,757</td>
<td>25,197</td>
<td>25,769</td>
<td>34,726</td>
<td>34,726</td>
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### Number of employees (consolidated)

<table>
<thead>
<tr>
<th>Year</th>
<th>2019.3</th>
<th>2017.3</th>
<th>2018.3</th>
<th>2016.3</th>
<th>2014.3</th>
<th>2015.3</th>
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<tbody>
<tr>
<td>Value</td>
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<td>408,143</td>
<td>405,903</td>
<td>384,757</td>
<td>377,769</td>
<td>384,757</td>
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### Results of periodic recruitment (non-consolidated)

<table>
<thead>
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<th>Year</th>
<th>2019.3</th>
<th>2017.3</th>
<th>2018.3</th>
<th>2016.3</th>
<th>2014.3</th>
<th>2015.3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>77.9</td>
<td>79.1</td>
<td>80.3</td>
<td>83.8</td>
<td>86.0</td>
<td>78.8</td>
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### Ratio of female employees (non-consolidated)

<table>
<thead>
<tr>
<th>Year</th>
<th>2019.3</th>
<th>2017.3</th>
<th>2018.3</th>
<th>2016.3</th>
<th>2014.3</th>
<th>2015.3</th>
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</thead>
<tbody>
<tr>
<td>Value</td>
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<td>40.7</td>
<td>40.4</td>
<td>40.1</td>
<td>39.5</td>
<td>38.8</td>
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### Re-employment rate of retired employees (non-consolidated)

<table>
<thead>
<tr>
<th>Year</th>
<th>2019.3</th>
<th>2017.3</th>
<th>2018.3</th>
<th>2016.3</th>
<th>2014.3</th>
<th>2015.3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>9.1</td>
<td>9.0</td>
<td>8.1</td>
<td>8.2</td>
<td>8.4</td>
<td>8.4</td>
</tr>
</tbody>
</table>

### Average age of employees (non-consolidated)

<table>
<thead>
<tr>
<th>Year</th>
<th>2019.3</th>
<th>2017.3</th>
<th>2018.3</th>
<th>2016.3</th>
<th>2014.3</th>
<th>2015.3</th>
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<td>11.9</td>
<td>16.3</td>
<td>17.8</td>
<td>16.8</td>
<td>15.6</td>
</tr>
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### Re-employment rate of retired employees (non-consolidated)

<table>
<thead>
<tr>
<th>Year</th>
<th>2019.3</th>
<th>2017.3</th>
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<td>79.1</td>
<td>80.3</td>
<td>83.8</td>
<td>86.0</td>
<td>78.8</td>
</tr>
</tbody>
</table>
**Technology features**

- The energy source for Kyudenko EMS is compatible with different power sources, such as wind power generation and solar power generation, and the individual control device including storage batteries are autonomously distributed, so the failure of one control device will not affect the operation of other control devices.
- Kyudenko EMS’s hybrid power generation control is performed by a DC circuit (DC 380V), making frequency and power factor control easier and reducing loss compared to AC control. A stable supply is possible for AC output (voltage, power factor, frequency).
- Kyudenko EMS acquires data from smart meters and digitized remaining battery power data from BMU (Battery Monitoring Unit), calculates the balance between demand and supply and issues input/output commands from SPM (Smart Power Manager).
- Kyudenko EMS incorporates a check/rotation control in its system to protect the life of lead storage batteries, which usually run out in several years, to about 11 to 18 years.

**Commercialization overseas**

In 2016, Kyudenko was selected for a subsidized project by the Ministry of the Environment of Japan and established the first overseas proof facility in Sumba Island, located in eastern Indonesia. Indonesia has thousands of inhabited remote islands and Sumba Island is a big island with a population of approximately 600,000. But almost all of the electricity for the whole island is provided by diesel generators, a condition which often results in a shortage of power supply, hindering industrial development.

The Indonesian government has designated Sumba Island as “Iconic Island”, a model area for introducing renewable energy and is planning to introduce renewable energy for the entire island in 2025.

The island’s power distribution grid (micro grid) is very fine and fragile and cannot take unstable power generation. Therefore, the local government and municipalities have high expectations for this attempt to stabilize renewable energy using “Kyudenko EMS”.

This proof facility launched operation in January 2018 and is currently transmitting about 200kWh of electricity to micro grids 7 hours a day.

In FY2019, this business was selected by JICA (Japan International Cooperation Agency) as a “Collaboration Program with the Private Sector for Disseminating Japanese Technology”. With support from JICA, Kyudenko will work to spread the technology overseas and plan to start business development at an early stage.
The academy is located in nature-filled Kiyama-cho in Saga Prefecture. We have set the academy as the symbol of human resource development, based on our belief that employees are the greatest assets, and their development leads to raising corporate value. In addition to teaching advanced expert knowledge, technologies and skills, Kyudenko utilizes a special facility called “Hougakuan” for cultivating mental discipline and another facility called “Safety Heritage Facility” for safety culture building, in order to conduct an integrated training that covers the aspects of the spirit, technique, and physical strength.

Kyudenko Academy

The facility is dedicated to communicating the lessons we have learned from tragic accidents in the past without letting them fade. It offers safety education to “raise awareness, promote learning and contemplation about safety, and to arouse motivation to follow safety procedures”. By giving employees a strong sense of pride and awareness of their role as a professional who creates safety, we remind them of the importance of securing safety.

We are striving to build a safety culture by continuing efforts to achieve zero accidents, utilizing this facility.

● Hougakuan

A place for stimulating character development and spiritual training grounded in Japanese culture, the Hougakuan provides “zen-meditation” lectures to heighten concentration as part of mental discipline, and Japanese tea ceremony and calligraphy lectures designed to learn about work ethics through Japanese culture. It is also used as a place where trainees can gather for discussions and relaxation.

In front of the 117m² hall is the word “Path” in calligraphy, meaning that it is a place to open up the “path of life” and “path at Kyudenko”. In addition, there is a 27m² tearoom with a Japanese hearth, an important space for learning culture.

● Safety Heritage Facility

All Employees Aim For Zero-accident

In order to support the enhancement of techniques of young technicians and to transfer technologies to junior staff, Kyudenko has started participating in the National Skill Olympics from the second competition held in 1964, and has since won a total of 10 gold medals for electrical installations and plumbing fields.

In recent years, Kyudenko has won a gold medal, a silver medal, and a spirit award in the field of electrical installations at the 51st national competition held in 2013. At the 52nd national competition held in the following year, five competitors participated and received a gold medal, achieving two consecutive wins. The fact that all competitors received either a silver medal, a bronze medal, or a spirit award (two awardees) was an unprecedented achievement. Furthermore, the gold medalist, Seto, has participated in the 43rd World Skill Olympics (held in Brazil) held every two years as a representative of Japan, and has won a spirit award (fifth place).

At the 54th national competition held in 2016, six competitors participated and five competitors received a gold medal, a silver medal, two bronze medals, and a spirit award. The gold medalist, Inoue, has participated in the 44th World Skill Olympic held in UAE in 2017 as a representative of Japan, and has won a spirit award (fifth place).
We have made social contributions by reducing disasters through work safety improvements, realizing a stable supply of electricity across Kyushu through zero work power outages and improving work environments. Examples of such contributions include the non-power outage method (a work method that uses bypass cables and generators to cut power only in the work section without causing power outages for customers), fully introduced in 1985, and the establishment of the indirect hot-line work technique (a work method in which workers use a bypass tool called a hotstick and do not need to touch high voltage power lines directly), introduced in 1988 ahead of the entire country.

In the event of typhoons and other natural disasters, we take advantage of our mobilization capabilities and respond quickly.

We have mobilized a total of approximately 3,500 workers within one week of the earthquake and worked day and night. As a result, we contributed to the early restoration of electricity.

In response to the frequent natural disasters in recent years, such as heavy rain disasters and increasingly powerful typhoons, we will strive to restore and maintain the infrastructure throughout Kyushu by utilizing the strength of Kyudenko, where most of our workers are directly managed employees.
(1) Corporate Governance

The Compliance Committee and Internal Control Committee are also established as a body to make reports on execution of operations, raise management issues, discuss measures to be taken, and facilitate the sharing of information concerning the management policy and plans, and is held nine times a year.

Remuneration Advisory Committee
In order to ensure transparency in decision-making, and independence and objectivity of the functions of the Board of Directors, the Company establishes a Remuneration Advisory Committee consisting of three or more Directors including Independent Outside Directors to prepare a "proposal to be submitted to shareholders" meeting concerning revision of total annual remuneration for Directors and total annual remuneration for Audit & Supervisory Board Members", which is submitted to the General Meeting of Shareholders upon resolution by the Board of Directors. The Committee also deliberates on "determination of individual annual basic remuneration for Directors", "assessment and revision of incentive portion of remuneration for Directors", "revision of individual annual basic remuneration for Executive Officers by position" and "assessment and revision of target management regarding incentive portion of remuneration for Executive Officers", which are reported to Representative Director and President.

Nomination Advisory Committee
In order to ensure transparency in decision-making, and independence and objectivity of the functions of the Board of Directors, the Company establishes a Nomination Advisory Committee consisting of three or more Directors including Independent Outside Directors to stipulate matters on nomination of candidates for Directors and Audit & Supervisory Board Members and dismissal of Directors, election of the Director to whom representative authority is granted, and election and dismissal of Executive Officers, which are submitted to the Board of Directors.

System of audit by Audit & Supervisory Board Members
Audit & Supervisory Board Members attend the Board of Directors meetings and other important meetings to express objective and fair opinions for overall management, and continuously conduct validation audits, including audit on legality in the execution of operations by Directors and the appropriateness of risk management measures, in accordance with audit policies and plans stipulated by the Audit & Supervisory Board. They also study the status of operations and assets of the subsidiaries to monitor and supervise the overall Group. The Audit & Supervisory Board receives reports on important matters for audit to be discussed or resolved, and is held at least every three months in principle, and whenever necessary. (11 meetings were held in the fiscal year ended March 31, 2019) The Audit & Supervisory Board has three Outside Audit & Supervisory Board Members, and two of them are designated as Independent Audit & Supervisory Board Members. The Auditors' Office is established to assist duties of Audit & Supervisory Board Members and the Audit & Supervisory Board, and designated employees are assigned to the Office so that efficient audit activities by Audit & Supervisory Board Members can be conducted. The Audit & Supervisory Board receives an advanced notice on personnel transfer of designated employees from the Director responsible for human resources, etc., and may request for change of the designated employees by submitting the reason.

Accounting audit
The Company has concluded an audit contract for accounting audits with Ernst & Young ShinNihon LLC. There is no special interest between the Company and Ernst & Young ShinNihon LLC or the Engagement Partners.

Internal audit
The Internal Control Department, President’s Office that is responsible for conducting internal audits, reviews and evaluates whether management activities of each department/division are performed according to the management policy, and audits whether such activities are appropriately processed according to internal rules such as regulations, administrative authority, and manuals to report the audit results to the Internal Control Committee chaired by Representative Director and President. The Directors in charge, etc., who receive the report of the internal audit results formulate a measure for improvement, and submit it to the Board of Directors, etc., as necessary. The Internal Control Department, President’s Office not only gives advice and recommendations to audited bodies but also requests them to submit a report for improvement measures, and conducts a follow-up audit as necessary.

Compliance system
The Compliance Committee is established to determine the basic policy and activities for compliance, prepare plans, confirm the implementation method, and discuss measures, etc.

Establishment and implementation of “Kyudenko Corporate Governance Guidelines”
The Company establishes the "Kyudenko Corporate Governance Guidelines" in order to be supported by all stakeholders and realize appropriate and efficient corporate management, and aims for its realization.

Please refer to the Company’s website for details. https://www.kyudenko.co.jp/ir/governance/cg_guide.html (Japanese)

Outside Directors/Audit & Supervisory Board Members
The number of Directors of the Company is 11, of which two are elected as Independent Outside Directors. The Independent Outside Directors, as directors who do not engage in the execution of operations, give advice on management policies and management improvement, oversee management and conflict of interest, and reflect opinions of stakeholders to the Board of Directors.

In addition to legal requirements, the Company establishes and discloses its own “Independence Standards for Outside Directors/ Audit & Supervisory Board Members”, and the Independent Outside Directors are elected based on the Independence Standards. The number of Audit & Supervisory Board Members is five, of which three are elected as Outside Audit & Supervisory Board Members. Outside Audit & Supervisory Board Members account for...
Corporate Governance

Incentive matters

With regard to remuneration for Directors, the “performance-based remuneration for Directors” is introduced. Under this system, for a part (25%) of the basic amount of annual remuneration of Directors determined by their positions to be paid as compensation for execution of operations, a variable amount depending on the achievement level of “consolidated operating profit” is added to or deducted from the remuneration of the following year within the scope of the total amount of remuneration resolved at the General Meeting of Shareholders. Such an increase/decrease in remuneration for Directors based on the incentives is not applicable to Outside Directors.

With the establishment of the Kyudenko Officers Shareholding Association, Directors, Audit & Supervisory Board Members and Executive Officers purchase shares of the Company at more than a certain rate of the market value of the purpose of promoting value sharing with shareholders as part of incentives to reflect the Company’s medium-term long-term performance and potential risk.

Internal control system

The Company establishes a system to comply with laws and regulations and the Articles of Incorporation in the execution of duties by Directors, and ensure appropriate operations by the corporation and its subsidiaries. The internal control system consists of Directors, full-time Audit & Supervisory Board Members and Executive Officers.

1. System to ensure compliance with laws and regulations, and the Articles of Incorporation in the execution of duties by Directors and employees

(1) Representative Director and President ensures compliance with laws and regulations and social ethics as assumptions for corporate activities by establishing the Kyudenko Charter of Behavior and repeatedly communicating the spirit of the Charter to officers and employees.

(2) The Compliance Committee chaired by Representative Director and President deliberates on important issues for compliance, and reports the outcome to the Board of Directors.

(3) The General Affairs Division, which serves as a division in charge of compliance, works on company-wide development of a compliance system and identification of issues, and ensures dissemination of manuals through offering education. In addition, each department/division and branch office develops a system for promoting compliance activities to plan and implement specific activities for compliance.

(4) We have a compliance framework so that Directors and Audit & Supervisory Board Members can immediately report any compliance issue detected by them to the Compliance Committee, and the Kyudenko Group Compliance Desk (internal desk: phone, fax and email, external desk: phone and email) which employees can directly contact to seek consultation from.

(5) When the General Affairs Division receives a report or whistle-blowing from employees, it investigates and reports the details to the Compliance Committee after discussion with a relevant division on a recurrence prevention measure, which is implemented company-wide.

We stipulate that any unfair treatment in terms of personnel affairs, salaries and disturbance of the working environment for provision of information or a reporting party to the Kyudenko Group Compliance Desk is prohibited.

The overall company takes a firm attitude against inappropriate requests from anti-social forces and cuts off any relationship with them.

2. Matters on storage and management of information relating to Directors’ execution of their duties

A management supervisor is appointed for proper storage and management of documents and other records relating to Directors’ execution of their duties, in accordance with the regulations on management of documents.

3. Regulations and other systems regarding management of risks of losses

(1) While each division in charge establishes rules and guidelines, conducts training, and prepares and distributes manuals for risks related to compliance, the environment, disaster, quality, and information security, the General Affairs Division monitors the status of cross-organizational risks and addresses them with a company-wide approach.

(2) The Internal Control Department, President’s Office, audits the status of risk management of each department/division and branch office of the Company, and the results and countermeasures are regularly reported to the Internal Control Committee of the Company.

The Company’s system regarding management of risk of losses by subsidiaries

(1) The Internal Control Department, President’s Office of the Company, checks the implementation status in the “risk management for business operations” table prepared by the Subsidiaries, etc.

(2) The Internal Control Department, President’s Office, conducts an internal audit to check the risk management of the Subsidiaries, etc., and the results and countermeasures are regularly reported to the Internal Control Committee of the Company.

The Company’s system to ensure the efficient execution of the duties by Directors of subsidiaries

(1) The Company notifies its annual “Basic Management Policy” to the domestic Subsidiaries, etc., and checks the progress of an annual policy formulated by the Subsidiaries, etc. based on the Company’s Policy.

(2) The meeting of Presidents of affiliated companies mainly consisting of Directors, full-time Audit & Supervisory Board Members of the Company and Presidents of domestic Subsidiaries, etc., is regularly held to share information including the internal audit to check the risk management of the Subsidiaries, etc.

System for reporting matters concerning the execution of the duties by Directors of subsidiaries to the Company

(1) The “regulations on affiliated companies administration” formulated by the Company stipulate the matters to be reported by the Subsidiaries, etc., to establish a reporting system with main involvement by Corporate Strategic Planning Division of the Company, and especially important matters are reported to the Management Meeting and the Board of Directors of the Company.

(2) With regard to important management matters of the Subsidiaries, etc., the “regulations on affiliated companies administration” designate matters which require prior discussion, and a prior discussion is held with the Company. Highly important matters among all are submitted to the Management Meeting and the Board of Directors of the Company to make a decision.
(1) Corporate Governance

3. ESG...Foundation to Support Value Creation

(3) Internal Control Department, President's Office, conducts an internal audit on the status of reporting and prior discussion of the Subsidiaries, etc.

9. System concerning employees who assist the Audit & Supervisory Board when the Board requests the appointment of such employees

Employees are exclusively assigned to the Auditors’ Office to assist audit duties.

10. Matters on the independence of employees who assist the duties of the Audit & Supervisory Board Members from Directors, and matters on securing the effectiveness of instructions of Audit & Supervisory Board Members to employees

(1) The Audit & Supervisory Board is notified of the transfer of the employees who work for the Auditors’ Office by the Director responsible for human resources, etc. in advance, and may request a change for such transfer of the employees to the Director responsible for human resources, etc. as necessary by submitting the reason.

(2) In order to secure the effectiveness of instructions by Audit & Supervisory Board Members, the employees of the Auditors’ Office do not have any concurrent positions relating to the execution of operations of the Company.

11. System to make a report to Audit & Supervisory Board Members by Directors and employees of the Company, and system concerning other reporting to Audit & Supervisory Board Members

(1) Audit & Supervisory Board Members attend the Board of Directors meeting and system concerning other reporting to the Audit & Supervisory Board Members, the employees of the Auditors’ Office and President have a regular meeting to exchange their opinions.

(2) Directors and employees are required to report the matters as described below to Audit & Supervisory Board Members.

i) Matters which may materially damage the Company

ii) Results of internal audit and countermeasures

iii) Matters reported or consulted to the Corporate Strategic Planning Division of the Company or others

(3) The Audit & Supervisory Board Members may request Directors and employees of the Company to make a report as necessary.

(4) When employees detect any significant fact that may materially cause damages, they may directly report it to Audit & Supervisory Board Members of the Company.

12. System to make a report to Audit & Supervisory Board Members by Directors, Audit & Supervisory Board Members and employees of a subsidiary, or any party who receives a report from them

(1) Matters to be reported or matters for prior discussion to be submitted concerning the Subsidiaries, etc. at the Management Meeting and the Board of Directors meeting are deemed to be reported when Audit & Supervisory Board Members attend such Management Meeting and the Board of Directors meeting.

(2) The results and countermeasures of internal audit for the Subsidiaries, etc., conducted by the Internal Control Department, President’s Office of the Company, are reported to Audit & Supervisory Board Members in advance by the Internal Control Department, President’s Office, in addition to the attendance to the Internal Control Committee by Audit & Supervisory Board Members.

(3) Matters on violation of compliance by the Subsidiaries, etc., and matters reported or consulted to the Corporate Strategic Planning Division are reported to Audit & Supervisory Board Members in advance by the General Affairs Division, in addition to the attendance to the Compliance Committee by Audit & Supervisory Board Members.

(4) Any significant violation of laws and regulations or compliance detected by the Subsidiaries, etc. themselves, is reported to the Corporate Strategic Planning Division of the Company without delay, and the Corporate Strategic Planning Division reports it to Audit & Supervisory Board Members.

(5) When Directors, Audit & Supervisory Board Members and employees of the Subsidiaries, etc. detect a significant fact that may materially cause damages, they may directly report it to Audit & Supervisory Board Members of the Company.

13. System to secure protection of a person who makes a report to Audit & Supervisory Board Members against unfair treatment on the ground of making such report

The Company prohibits any unfair treatment for a person who makes a report to Audit & Supervisory Board Members on the ground of making such a report.

14. Matters on treatment of prepayment or reimbursement procedures of expenses arising from the duties of Audit & Supervisory Board Members, and other expenses and liabilities arising from the execution of the duties

The budget is reserved for audit expenses of the Audit & Supervisory Board to secure an effective audit.

15. Other systems to secure effective audit by the Audit & Supervisory Board

(1) The Audit & Supervisory Board and Representative Director and President have a regular meeting to exchange their opinions.

(2) The Audit & Supervisory Board is guaranteed to have an opportunity to receive advice on audit duties by utilizing outside experts.

Disclosure of information to and communication with shareholders and investors

Disclosures system

The Company fully realizes that disclosing corporate information to investors in a timely and appropriate manner constitutes a fundamental part of a healthy securities market, and strives for the enhancement of internal systems to appropriately disclose corporate information speedily, accurately and fairly in accordance with the Fair Disclosure Rule.

Improvement of communication

The IR activities of the Company are conducted mainly by the Finance Division in cooperation with the President’s Office, General Affairs Division and Corporate Strategic Planning Division to promote communication with stakeholders including shareholders.

Representative Director and President and Officer responsible for finance hold a financial results briefing for analysts and institutional investors twice a year, and materials for the briefing are disclosed on the Company’s website. The Company also appropriately holds individual briefings and responds to interviews for analysts, institutional investors and individual investors.

The outcome of such financial results briefings and individual briefings is reported at the Management Meeting to share the information with Directors and Audit & Supervisory Board Members.

Information management and ensuring transparency

The IR activities are promoted to ensure transparency of corporate activities and enhance healthy management by disclosing Financial Statements, Securities Report, disclosure documents for stock exchange and important facts to shareholders and investors in a timely and appropriate manner and also providing information on the management policy, business activities, compliance activities, and social contribution activities to the media from the top management as well as publishing various information on the website.

Explanation on business risks

Business risks

The major risks that may affect the Group’s business performance and financial conditions are as follows:

1. Financial conditions, etc.

2. Changes in costs of construction materials and labor

3. Business risk

Although the Group sets a credit limit according to clients’ financial conditions and continuously reviews their credit status to prevent bad debts, any deterioration in management or financial conditions of clients may affect the Group’s business performance, etc.

4. Risk associated with the Group’s assets

The Group holds assets such as real estate and securities related to business activities, and any significant decrease in the market value of the assets held or profitability of real estate for commercial use may affect the Group’s business performance, etc.

5. Risk associated with business other than non-facility work

In addition to its core business of facility works, the Group is working to expand its business fields to real estate sales, renewable energy generation, temporary staffing service, software development, environmental analysis and measurement, medical-related business, golf course management, business hotel management, and planning and operation of commercial facilities with effective utilization of the Group’s management resources and network.

These businesses may affect the Group’s business performance, etc. in case of changes in the business environment such as development of competitions with other businesses.

6. Risk associated with renewable energy generation business

The Group adopts projects for the renewable energy generation business with sufficient preliminary study and consideration and takes measures to avoid or minimize expected risks. However, as the business generally requires a long period of time, any significant changes in the business environment or occurrence of material disasters or accidents in business operations may affect the Group’s business performance, etc.

7. Risk associated with overseas business

In overseas business, the Group is subject to various risks due to political/economic conditions or amendments to laws, regulations, and rules in local countries may affect the Group’s business performance, etc.

8. Retirement benefit obligation

When the performance results of pension plan assets of the Group differ from assumptions, the Group may face a certain period from the following year of occurrence. As such, any deterioration in yield or decline in discount rates for pension plan assets may affect the Group’s business performance, etc.

9. Occurrence of natural disasters

Large-scale natural disasters may affect the Group’s business performance, etc., due to suspension or of significant delay in construction, or damages to facilities of the corporate group.

10. Risk associated with measures and legal procedures by regulatory authorities

The Group is subject to restrictions under various laws and regulations including the Construction Business Act, and any administrative dispositions, etc., in case of conflict with these laws and regulations may affect the Group’s business performance, etc. In March and April 2019, four employees of the Company were prosecuted for violation of laws and regulations on general competitive bidding for the construction project of Chikujo town water and sewage treatment facility. An administrative disposition may be imposed depending on the conviction.
The Company believes its CSR is to contribute to society based on corporate governance through the creation of a comfortable environment as well as to practice the “Corporate Philosophy” for the purpose of sustainable growth of Kyudenko.

**Toward “specific CSR initiatives” with “consistent values” and “implementation of philosophy”**

The Corporate Philosophy has represented the purpose of businesses and the reason of existence of Kyudenko, and “Action Guidelines” based on the Corporate Philosophy are our “consistent values” that will never change in the future.

In order to practice the “consistent values”, specific issues from long-term, medium-term and annual perspectives are incorporated into the “Long-term Vision”, “Mid-term Management Plan” and “Basic Management Policy for the Fiscal Year” respectively, and these plans are regarded as “implementation of philosophy”.

Placing these plans at the core, “specific CSR initiatives” are taken in six categories: “RI information”, “quality management and customer satisfaction”, “environmental activities and creation of comfortable environment”, “workplace and labor environment” and “coexistence with local communities” together with “CSR management” as the foundation of CSR.

---

### (2) Basic Concept of CSR

**The Company** holds the basic philosophy, “Safety takes precedence over everything”. We believe it is necessary for workers, who are the basis of safety, to hold the strong belief and intention of “protecting oneself and managers and supervisors to “protect subordinates from accidents under whatever circumstance”, and we believe in the importance of “creating good relationships and a workplace culture that allows employees to warn each other”.

#### FY2019 Basic Plan for Safety and Health Management

<table>
<thead>
<tr>
<th>Basic Philosophy</th>
<th>I. Basic policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Safety takes precedence over everything</td>
<td>Safety to prevent accidents, thorough implementation of “thinking and practicing” safety by all employees.</td>
</tr>
<tr>
<td>Safety and health are the foundation for management and a major premise of all activities</td>
<td>Health: Strive to “create a happy, enjoyable workplace”.</td>
</tr>
</tbody>
</table>

#### Goal

Zero-accident, Safety of fellow workers, everyone’s health

#### Slogan

Let’s find and reduce risk in the workplace

---

### (3) Initiatives for Safety

#### Safety education facility “Safety Heritage Facility”

**“Safety Heritage Facility”**, a place to communicate valuable lessons learned from accidents in the past

At this facility, by facing the reality of serious accidents of various construction works, mainly power distribution line, electrical, HVAC and sanitary, and telecommunications, and communicating valuable lessons learned from accidents in the past, we aim for all employees of the Kyudenko Group to learn the tragic nature of accidents and the importance of securing safety. The “Safety Heritage Facility” not only aims to raise safety awareness of the Kyudenko Group but also functions as a place to create a culture of safety using the power of the whole Group.

#### Hazard Experience Training Facility

**Aim to raise safety awareness and improve the ability to avoid hazards**

To prevent accidents, gaining knowledge on safety and health through lectures is important, but increasing the ability to perceive hazards is also essential. At this facility, we aim to raise safety awareness and improve the ability to avoid hazards by experiencing hazards that can occur in the field. Combining this with education at the “Safety Heritage Facility”, the effects of further safety and health activities can be expected.

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### Taking the Company’s excellent safety measures to a National Convention

To enhance the safety awareness of the Kyudenko Group, the Company submits research papers to the “National Industrial Safety and Health Convention held nationwide every year (organized by the Japan Industrial Safety and Health Association). At the 77th National Industrial Safety and Health Convention in Yokohama” in FY2018, we gave a research presentation on “Risk assessment: Bringing awareness to workers regarding chemicals and safety measures in construction”.

While planning for company-wide expansion of safety measures in line with mandatory chemical risk assessment, a poisoning accident occurred at the Company, presumably caused by chemical exposure. A presentation was given on the difficulty of bringing awareness to workers regarding the toxic and hazardous nature of chemicals and safety measures that were implemented when conducting the same type of construction as the accident. The presentation was very well received and given a huge round of applause at the end.
(4) Workplace and Labor Environment

A company that creates a mutual respecting environment that utilizes and develops employees’ personality

Charter of Human Resources Development

Based on the Corporate Philosophy, “We aim to create a mutual respecting environment in Kyudenko which utilize and develop employees’ personality”, the Company has established the Charter of Human Resources Development to clarify policies related to the development of “human resources”, the greatest management resource, and to disseminate the policies to all employees.

Starting with the management level, all employees understand and share the “Corporate Philosophy and Action Guidelines” and are actively making efforts for human resources development in order to put the Charter into practice.

Promoting Health and Productivity Management

We consider our employees’ health to be an important management resource, and in FY2018, we established the “Health and Productivity Management Declaration”. We actively initiate support for our employees’ proactive health promotion activities and promote organizational health activities in order to raise awareness of “putting health first” and “creating a work environment with peace of mind” and “creating a happy and agreeable work environment”.

Initiatives for “work style reform”

In FY2017, we set up the “Promotion Committee for Work Style Reform”, an organizational body under the direct control of the President, and we are working on various initiatives, such as the introduction of new leave systems, establishment of days in which promotion of diverse work styles, and building a workplace support system to standardize operations.

Initiatives for childcare support

The Company’s childcare support system, introduced in 1992, is a system that exceeds the standards of the Childcare and Family Care Leave Act. So far, almost all female employees who gave birth and are raising children have used this system and 100% of employees return to work from childcare leave. After returning to work, many are successful while balancing childcare and work.

In addition to the special paid leave of three days given when an employee’s spouse gives birth, there is a system called, “Childcare support leave due to spouse’s childbirth”, in which employees can use their accumulated annual paid leave for one month after their spouse gives birth.

* Accumulated annual paid leave is a system that allows employees to accumulate a maximum of 40 days of annual paid leave, which otherwise will expire in two years (10 days of annual paid leave can be accumulated per year; limitations on usage requirement).

(5) Coexistence with Local Community

To contribute to society as a company rooted in our local region through various activities

A community program, dedicating contributing activities to the local community

Kyudenko believes that it is its responsibility as a member of the local community to participate in social contribution activities. We designate a certain period in late October every year as a community program, dedicating contributing activities to the local community. During the period, the entire group engages in contribution activities rooted in the community, such as cleaning work utilizing its expertise in cleaning high places and facility checks at welfare facilities. The activity marked the 50th anniversary in 2018, and has been established as a core of Kyudenko’s social contribution activities.

(6) Sports

Kyudenko Track and Field Team

Since its establishment as a Marathon Team in 1953, the Kyudenko Track and Field Team, the men’s team has been active for 66 years and the women’s team has been active for 31 years. In the past, the Kyudenko Track and Field Team has produced Japan national team members of the Olympics and World Athletics Championships and many other international games. In addition, the Team has participated in the All Japan Industrial Teams Men’s Ekiden (Gunma) held on January 1 for 44 consecutive years (the longest record of all participating teams) and has participated in the All Japan Industrial Teams Women’s Ekiden (Gunma) 27 times. We will continue to work hard to produce more Japan national team members and win the Men’s and Women’s All Japan Industrial Teams Ekiden.

Passed on tradition

Passed on tradition

We also promote other social contribution activities through sports, including the Kendoka and Judo Teams.
3. ESG…Foundation to Support Value Creation

(7) Interview with Outside Directors

By utilizing the diverse experience and knowledge as Outside Directors, we will enhance the effectiveness of corporate governance and the Board of Directors and lead to sustainable growth.

Q: What is your impression of the deliberation of the Board of Directors meetings?
Watanabe: I think the Board of Directors meetings have appropriate proposal criteria for the agenda to be considered and operated after all necessary items and information have been covered, ensuring its effectiveness. On the other hand, I cannot deny that the overall atmosphere is a little too quiet, so I think that if the Board of Directors meetings has a livelier atmosphere, discussions will progress further, and more opinions will be given.

Kuratomi: I believe that appropriate and important agenda items are discussed and deliberated efficiently in a short amount of time. Spending a long time does not necessarily produce a constructive, positive result. However, as Director Watanabe mentioned, frankly, I also feel that there should be efforts made to make discussions a little livelier. Even if the same conclusion may be added by holding many discussions in the process.

Q: What are some improvement measures to further enhance the Board of Directors meetings?
Watanabe: I also participate in the Management Meeting held once a week. As a subordinate organization of the Board of Directors, the Management Meeting, attended by Executive Officers and division head employees in charge of practical business operations, hold discussions on an operational level from various angles on important matters that need discussion in advance from among the matters to be submitted to the Board of Directors.

From the standpoint of a person who also participates in the Management Meeting, I hope that the Board of Directors will not simply discuss the content of the final decision of the Management Meeting, but also be given an explanation of the general discussion process of the Management Meeting. In doing so, further understanding will be gained on the background of each agenda, leading to livelier discussions at the Board of Directors meeting.

I mentioned at the beginning that I appreciate the Board of Directors meetings running efficiently in a short amount of time, but I very much agree with the idea of the Board of Directors meeting being given an explanation of the general discussion process of the Management Meeting. It is not necessary to do it at every Board of Directors meeting, but having the persons who held discussions at the Management Meeting give an explanation when there is an important and big agenda will be a way to check whether the operation is being run appropriately.

Kuratomi: I have been serving as Outside Director of Kyudenko from 2011 and since that time, I recognize that Kyudenko is a company that has continued to give top priority to aspects of risk management and compliance. But at the same time, it is true that there were difficulties in completely disseminating these efforts throughout the whole organization. And unfortunately, it cannot be denied that there was a gap in the perception of compliance between society and the internal company. In regard to the recent bio-ripping case, I think it is necessary to face what happened and work on recurrence prevention measures while also ensuring that each employee develops their own compliance level.

If I may add to what Director Watanabe said, because the scale of the Company is expanding at such a rapid pace, concurrent with this growth, I believe setting up structures and systems to prevent fraud will become more important in the future. The Company cannot meet the expectations of society with growth that is based solely on scale and figures and not supported by healthy sustainable growth. The joy that employees get from contributing to society by working hard to achieve high-quality work will become one of the factors supporting the future growth of Kyudenko.

Q: What are other issues or themes that Kyudenko should work on?
Watanabe: With the Mid-term Management Plan entering its final year and the next mid-term management plan coming into view, in aiming for further growth and expansion of business fields in the future, I feel that efforts should be focused more overseas. There is a strong demand for the development and expansion of the infrastructure environment in South East Asia, the best example being the Kyudenko EMS operation in progress in Sumba Island, Indonesia since January 2018. It is a great place for Kyudenko to shine and it will also lead to a virtuous cycle in which the value of local initiatives can also be utilized in Kyushu, where there are many remote islands.

In regard to ESG, which is the basis for the continued survival of companies in the future, in addition to what has been mentioned so far, particularly for Kyudenko, I think that further contributions should be made to environmental issues by utilizing technical force. The Company has shown technical force capable of that. In that sense, Kyudenko is a company that can meet the needs of the times and society, and as a company with more and more possibilities, I am very much looking forward to its future.

Q: How do you evaluate the contents and current progress of the Mid-term Management Plan that is being carried out?
Watanabe: Regarding the Mid-term Management Plan, each Officer in charge has set up a working group while constantly checking the status of individual measures and achievement status of KPIs, and extracting issues to achieve the goals. I believe that such enthusiasm and attention to detail is reflected in the current steady achievements of the highly-set goals. I received a strong impression that very high goals are set that express the Company’s willingness to grow. The current achievement status is also transitioning steadily. I think it is proof that Kyudenko has come to possess real ability. Then, what is the essence of that ability? I think it is Kyudenko’s daily operations and human resources. The foundation of being solid in those areas and also having a network is a major factor in reaching the current growth stage. In addition, I also appreciate that the “recruitment and development of human resources” is being carried out as one of the differentation strategies in preparation for the future. The gathering of truly excellent human resources will support big growth in the future.

Kuratomi: It is not necessary to do it at every Board of Directors meeting, but having the persons who held discussions at the Management Meeting give an explanation is a little too quiet, so I think that if the Board of Directors meetings being run efficiently in a short amount of time, but I very much agree with the idea of the Board of Directors meeting being given an explanation of the general discussion process of the Management Meeting. It is not necessary to do it at every Board of Directors meeting, but having the persons who held discussions at the Management Meeting give an explanation when there is an important and big agenda will be a way to check whether the operation is being run appropriately.

“As a company that can meet the needs of the times and society, I feel the potential for further growth”

Outside Director Sumio Kuratomi

June 2008 Director and Executive Officer, General Manager, Cpb Development Business Div., NISHI-NIPPON RAILROAD CO., LTD.
June 2011 Director and Managing Executive Officer, General Manager, Corporate Planning Div., NISHI-NIPPON RAILROAD CO., LTD.
June 2013 Representative Director and President, NISHI-NIPPON RAILROAD CO., LTD.
June 2016 Representative Director and President Executive Officer, NISHI-NIPPON RAILROAD CO., LTD. (to the present); Director (part-time), the Company (to the present)

“I look forward to initiatives from Kyushu to nationwide and overseas.”

Outside Director Akiyoshi Watanabe

June 1998 Director, TOYOTA MOTOR CORPORATION
June 1998 Director, TOYOTA MOTOR KYSHEL, INC. (part-time)
June 2001 Managing Director, TOYOTA MOTOR CORPORATION
June 2002 Representative Director and President, TOYOTA MOTOR KYSHEL, INC.
June 2008 Representative Director and Chairman, TOYOTA MOTOR KYSHEL, INC
June 2011 Advisor to TOYOTA MOTOR KYSHEL, INC.
June 2011 Director (part-time), the Company (to the present)
## (1) 10-year Financial Summary

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Sales</td>
<td>225,891</td>
<td>248,577</td>
<td>246,660</td>
<td>239,282</td>
<td>279,310</td>
<td>315,049</td>
<td>311,346</td>
<td>341,771</td>
<td>360,872</td>
<td>408,143</td>
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<td>Operating profit</td>
<td>5,442</td>
<td>6,186</td>
<td>1,621</td>
<td>4,371</td>
<td>7,136</td>
<td>16,757</td>
<td>25,197</td>
<td>30,732</td>
<td>34,726</td>
<td>36,747</td>
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<td>Ordinary profit</td>
<td>7,207</td>
<td>7,874</td>
<td>3,278</td>
<td>5,744</td>
<td>8,908</td>
<td>18,163</td>
<td>27,551</td>
<td>32,187</td>
<td>37,342</td>
<td>39,924</td>
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<td>Profit attributable to owners of parent</td>
<td>4,102</td>
<td>3,776</td>
<td>1,361</td>
<td>2,882</td>
<td>3,681</td>
<td>11,517</td>
<td>17,901</td>
<td>22,207</td>
<td>25,206</td>
<td>26,691</td>
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<td>Capital investment</td>
<td>4,838</td>
<td>4,935</td>
<td>7,046</td>
<td>6,034</td>
<td>14,226</td>
<td>7,606</td>
<td>6,127</td>
<td>7,469</td>
<td>4,245</td>
<td>4,353</td>
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<td>Depreciation and amortization</td>
<td>2,851</td>
<td>3,327</td>
<td>3,303</td>
<td>3,631</td>
<td>4,305</td>
<td>5,262</td>
<td>5,475</td>
<td>5,449</td>
<td>5,512</td>
<td>6,074</td>
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<td>Research and development costs</td>
<td>269</td>
<td>266</td>
<td>263</td>
<td>275</td>
<td>313</td>
<td>298</td>
<td>255</td>
<td>235</td>
<td>296</td>
<td>326</td>
</tr>
<tr>
<td>Cash flows from operating activities</td>
<td>10,972</td>
<td>754</td>
<td>6,267</td>
<td>4,871</td>
<td>12,767</td>
<td>19,117</td>
<td>10,776</td>
<td>14,187</td>
<td>30,016</td>
<td>26,054</td>
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<tr>
<td>Cash flows from investing activities</td>
<td>(3,062)</td>
<td>(3,706)</td>
<td>(622)</td>
<td>(1,203)</td>
<td>(14,456)</td>
<td>(11,816)</td>
<td>(15,957)</td>
<td>(17,351)</td>
<td>(3,800)</td>
<td>(11,298)</td>
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<tr>
<td>Free cash flow</td>
<td>7,909</td>
<td>(3,041)</td>
<td>5,645</td>
<td>(1,201)</td>
<td>(1,688)</td>
<td>7,300</td>
<td>(2,820)</td>
<td>(3,763)</td>
<td>26,185</td>
<td>14,755</td>
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<td>Cash dividends paid</td>
<td>892</td>
<td>743</td>
<td>733</td>
<td>730</td>
<td>733</td>
<td>1,190</td>
<td>2,295</td>
<td>3,732</td>
<td>5,635</td>
<td>7,108</td>
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<tr>
<td>Net assets</td>
<td>90,409</td>
<td>92,386</td>
<td>92,720</td>
<td>95,950</td>
<td>94,388</td>
<td>104,658</td>
<td>113,199</td>
<td>141,503</td>
<td>164,159</td>
<td>182,176</td>
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<tr>
<td>Total assets</td>
<td>212,562</td>
<td>219,207</td>
<td>195,393</td>
<td>211,944</td>
<td>225,727</td>
<td>254,861</td>
<td>261,985</td>
<td>300,261</td>
<td>324,919</td>
<td>357,271</td>
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<tr>
<td>Interest-bearing debt</td>
<td>25,278</td>
<td>25,512</td>
<td>8,619</td>
<td>15,966</td>
<td>25,319</td>
<td>33,093</td>
<td>31,966</td>
<td>36,128</td>
<td>20,078</td>
<td>19,169</td>
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<tr>
<td>Net profit per share</td>
<td>55.12</td>
<td>51.05</td>
<td>18.41</td>
<td>41.46</td>
<td>51.95</td>
<td>174.64</td>
<td>272.45</td>
<td>327.22</td>
<td>356.89</td>
<td>375.17</td>
</tr>
<tr>
<td>Net assets per share</td>
<td>1,202.57</td>
<td>1,245.70</td>
<td>1,251.69</td>
<td>1,300.23</td>
<td>1,405.38</td>
<td>1,555.33</td>
<td>1,693.45</td>
<td>1,995.00</td>
<td>2,269.48</td>
<td>2,534.46</td>
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<tr>
<td>Cash dividends per share</td>
<td>12</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>12</td>
<td>15</td>
<td>25</td>
<td>45</td>
<td>70</td>
<td>90</td>
</tr>
<tr>
<td>Operating profit ratio (%)</td>
<td>2.4</td>
<td>2.5</td>
<td>0.7</td>
<td>1.8</td>
<td>2.6</td>
<td>5.3</td>
<td>8.1</td>
<td>9.0</td>
<td>9.6</td>
<td>9.0</td>
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<tr>
<td>Net profit margin (%)</td>
<td>1.8</td>
<td>1.5</td>
<td>0.5</td>
<td>1.2</td>
<td>1.3</td>
<td>3.6</td>
<td>5.7</td>
<td>6.5</td>
<td>7.0</td>
<td>6.5</td>
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<tr>
<td>Gross profit margin (%)</td>
<td>9.8</td>
<td>9.3</td>
<td>7.7</td>
<td>9.1</td>
<td>9.1</td>
<td>11.7</td>
<td>14.5</td>
<td>15.2</td>
<td>15.7</td>
<td>14.8</td>
</tr>
<tr>
<td>Return on equity (ROE) (%)</td>
<td>4.7</td>
<td>4.2</td>
<td>1.5</td>
<td>3.1</td>
<td>3.9</td>
<td>11.9</td>
<td>16.7</td>
<td>17.8</td>
<td>16.8</td>
<td>15.6</td>
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<tr>
<td>Return on asset (ROA) (%)</td>
<td>1.8</td>
<td>1.7</td>
<td>0.6</td>
<td>1.4</td>
<td>1.6</td>
<td>4.7</td>
<td>6.9</td>
<td>7.9</td>
<td>8.1</td>
<td>7.8</td>
</tr>
<tr>
<td>Return on invested capital (ROIC) (%)</td>
<td>2.8</td>
<td>3.1</td>
<td>1.0</td>
<td>2.5</td>
<td>3.8</td>
<td>8.8</td>
<td>12.1</td>
<td>13.3</td>
<td>13.4</td>
<td>13.4</td>
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<tr>
<td>Equity ratio (%)</td>
<td>42.1</td>
<td>41.7</td>
<td>47.0</td>
<td>44.8</td>
<td>41.1</td>
<td>40.3</td>
<td>42.4</td>
<td>46.6</td>
<td>49.7</td>
<td>50.5</td>
</tr>
<tr>
<td>Total asset turn over (times)</td>
<td>1.0</td>
<td>1.1</td>
<td>1.1</td>
<td>1.1</td>
<td>1.2</td>
<td>1.3</td>
<td>1.2</td>
<td>1.2</td>
<td>1.1</td>
<td>1.1</td>
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<tr>
<td>Payout ratio (%)</td>
<td>21.8</td>
<td>19.6</td>
<td>54.3</td>
<td>25.3</td>
<td>25.0</td>
<td>14.3</td>
<td>16.5</td>
<td>21.4</td>
<td>25.2</td>
<td>26.7</td>
</tr>
</tbody>
</table>
4. Data section

(2) Report on Financial Results and Financial Analysis

(1) Overview of financial results for the year ended March 31, 2019

During the year ended March 31, 2019, the Japanese economy has continued a moderate recovery backed by improvement in corporate profit and recovery of personal consumption, but the pace of recovery is decelerating due to the impact of trade friction and a slowdown of the global economy in the second half.

In the construction industry, as construction work for the Tokyo 2020 Olympic and Paralympic Games is about to peak, new urban development plans are being carried out and the labor shortage is becoming more severe.

For the Group, orders of facility work, such as electrical, HVAC and sanitary are increasing steadily backed by steady construction work demand. In regard to solar power plant work, while demands are starting to converge, we received an order for a large-scale project that can ensure profitability. Meanwhile, as a result of tight work schedule caused by labor shortages and cost increases caused by a rise in material cost and unit cost for labor after receiving an order, the profit margin declined in general construction as compared to the year ended March 31, 2018. In power distribution line work, orders improved due to an increase in construction orders, such as those received from Kyusyu Electric Power Company.

In such a business environment, the Group has established this year, the fourth year of the Mid-term Management Plan, as a year of “reform”. After verifying and analyzing the results of the past three years and sorting out issues, the whole Group has focused on working toward solutions.

In addition, we have added specific initiatives of the annual policy, such as improving the probability of receiving orders, reinforcement of after-sales services, strengthening measures to improve construction profit margins by the whole Group, and carrying out diverse reform of work styles.

Results by business segment are as follows.

Facility work

Sales increased by 41,924 million yen (12.1%) to 388,327 million yen as compared to the year ended March 31, 2018, due to the impact of companies that became consolidated subsidiaries on March 31, 2018, in addition to the steady progress of the opening amount of work in hand. As sales increased, segment income (operating profit) increased by 1,676 million yen to 34,949 million yen as compared to the year ended March 2018.  

Other business

Sales increased by 5,347 million yen (37.0% increase) to 18,816 million yen as compared to the year ended March 31, 2018, due to factors such as an increase in sales business of construction-related materials and equipment. Segment income (operating profit) increased by 2 million yen to 1,738 million yen as compared to the year ended March 2018, with the increase in sales from business of construction-related materials and equipment sale.

(2) Overview of financial position as of March 31, 2019

Overview of assets, liabilities and net assets

Assets

Current assets increased by 27,383 million yen to 206,268 million yen as compared to March 31, 2018, as a result of an increase of notes receivable, accounts receivable on completed construction contracts and other accounts receivable.

Fixed assets increased by 4,968 million yen to 151,002 million yen as compared to March 2018, as a result of factors such as an increase in investments in securities.

Liabilities

Current liabilities increased by 11,922 million yen to 142,144 million yen as compared to March 31, 2018, as a result of factors such as an increase in long-term debt.

As a result, total liabilities increased by 32,352 million yen to 375,271 million yen as compared to March 2018.

Net assets

As a result, total liabilities increased by 14,318 million yen to 206,268 million yen as compared to March 31, 2018, due to factors such as an increase in notes payable, accounts payable on construction contracts and other accounts payable.

Long-term liabilities increased by 2,390 million yen to 32,949 million yen as compared to March 2018, as a result of factors such as an increase in long-term debt.

As a result, total liabilities increased by 14,318 million yen to 375,271 million yen as compared to March 2018.

Net assets

Total net assets increased by 18,037 million yen to 182,176 million yen as compared to March 31, 2018, as a result of factors such as recording profit attributable to owners of parent.

(3) Overview of cash flows for the year ended March 31, 2019

Cash and cash equivalents (hereinafter referred to as “Cash”) as of March 31, 2019 increased by 5,687 million yen to 40,192 million yen from March 31, 2018.

Cash flows from operating activities

Cash provided by operating activities was 20,654 million yen (a decrease of 3,962 million yen in cash inflow as compared to the year ended March 31, 2018).

This was mainly due to profit before income taxes exceeding the increase in notes and accounts receivable on completed construction contracts.

Cash flows from investing activities

Cash used in investing activities was 11,298 million yen (an increase of 7,467 million yen in cash outflow as compared to the year ended March 31, 2018).

This was mainly due to an increase in purchase of investments in securities.

Cash flows from financing activities

Cash used in financing activities was 9,021 million yen (a decrease of 12,762 million yen in cash outflow as compared to the year ended March 31, 2018). This was mainly due to cash dividends paid.

(4) Future outlook

As for the future economic outlook, while domestic corporate performance still remain at high levels and personal consumption is recovering due to improved employment and income environment, attention must be paid to changes in economic fluctuations due to the impact of the Chinese economy, a slowdown in IT demand, and the consumption tax hike.

In the construction industry, despite concerns of a decline in government contract construction work of approximately 25 billion yen will be halved. Meanwhile, in the year ending March 31, 2020, solar power plant work is expected to increase from the opening of the fiscal year, so the Company will strive to cover the decline in government contract construction work with such private-sector construction.
(3) Consolidated Balance Sheet

<table>
<thead>
<tr>
<th>Assets</th>
<th>March 2018</th>
<th>March 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash on hand and in banks</td>
<td>35,189</td>
<td>41,017</td>
</tr>
<tr>
<td>Notes receivable, accounts receivable on completed contracts and other accounts receivable</td>
<td>127,610</td>
<td>150,612</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>26</td>
<td>20</td>
</tr>
<tr>
<td>Costs of uncompleted construction</td>
<td>6,626</td>
<td>5,106</td>
</tr>
<tr>
<td>Merchandise</td>
<td>947</td>
<td>1,765</td>
</tr>
<tr>
<td>Raw materials and supplies</td>
<td>5,444</td>
<td>879</td>
</tr>
<tr>
<td>Other current assets</td>
<td>2,906</td>
<td>6,791</td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>(17)</td>
<td>(28)</td>
</tr>
<tr>
<td>Total current assets</td>
<td>178,884</td>
<td>206,268</td>
</tr>
<tr>
<td>Fixed assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property and equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buildings and structures</td>
<td>65,757</td>
<td>66,155</td>
</tr>
<tr>
<td>Machinery, vehicles, tools, furniture and fixtures</td>
<td>39,515</td>
<td>41,095</td>
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<tr>
<td>Land</td>
<td>28,484</td>
<td>28,874</td>
</tr>
<tr>
<td>Leased assets</td>
<td>6,345</td>
<td>6,126</td>
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<tr>
<td>Construction in progress</td>
<td>1,718</td>
<td>1,757</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(59,657)</td>
<td>(80,259)</td>
</tr>
<tr>
<td>Total property and equipment</td>
<td>85,164</td>
<td>83,750</td>
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<tr>
<td>Intangible assets</td>
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</tr>
<tr>
<td>Goodwill</td>
<td>500</td>
<td>343</td>
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<tr>
<td>Other intangible assets</td>
<td>943</td>
<td>966</td>
</tr>
<tr>
<td>Total intangible assets</td>
<td>1,443</td>
<td>1,329</td>
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<tr>
<td>Investments and other assets</td>
<td></td>
<td></td>
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<tr>
<td>Investments in securities</td>
<td>48,625</td>
<td>53,772</td>
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<td>Long-term loans receivable</td>
<td>932</td>
<td>1,179</td>
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<td>Asset for retirement benefits</td>
<td>353</td>
<td>1,646</td>
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<td>Deferred tax assets</td>
<td>5,995</td>
<td>5,720</td>
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<td>Other</td>
<td>4,478</td>
<td>5,201</td>
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<tr>
<td>Allowance for doubtful accounts</td>
<td>(1,119)</td>
<td>(1,688)</td>
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<tr>
<td>Total investments and other assets</td>
<td>59,427</td>
<td>65,822</td>
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<tr>
<td>Total fixed assets</td>
<td>146,034</td>
<td>151,002</td>
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<td>Total assets</td>
<td>324,919</td>
<td>357,271</td>
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<table>
<thead>
<tr>
<th>Liabilities</th>
<th>March 2018</th>
<th>March 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current liabilities</td>
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</tr>
<tr>
<td>Notes payable, accounts payable on construction contracts and other accounts payable</td>
<td>85,732</td>
<td>85,360</td>
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<tr>
<td>Electronically recorded obligations</td>
<td>13,006</td>
<td>21,044</td>
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<tr>
<td>Short-term borrowings</td>
<td>7,584</td>
<td>1,900</td>
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<tr>
<td>Income taxes payable</td>
<td>6,239</td>
<td>8,412</td>
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<tr>
<td>Advances receivable on uncompleted construction contracts</td>
<td>6,918</td>
<td>12,909</td>
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<td>Other current liabilities</td>
<td>10,741</td>
<td>9,377</td>
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<td>Total current liabilities</td>
<td>130,222</td>
<td>142,144</td>
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<td>Long-term liabilities</td>
<td></td>
<td></td>
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<tr>
<td>Long-term debt</td>
<td>8,983</td>
<td>13,660</td>
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<tr>
<td>Lease obligations</td>
<td>2,927</td>
<td>2,963</td>
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<tr>
<td>Provision for retirement benefit for directors and audit and supervisory board members</td>
<td>406</td>
<td>324</td>
</tr>
<tr>
<td>Liability for retirement benefits</td>
<td>15,746</td>
<td>13,936</td>
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<tr>
<td>Other long-term liabilities</td>
<td>2,822</td>
<td>2,432</td>
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<td>Total long-term liabilities</td>
<td>30,557</td>
<td>32,949</td>
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<td>Total liabilities</td>
<td>160,780</td>
<td>175,094</td>
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<table>
<thead>
<tr>
<th>Equity</th>
<th>March 2018</th>
<th>March 2019</th>
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<tbody>
<tr>
<td>Common stock</td>
<td>12,555</td>
<td>12,561</td>
</tr>
<tr>
<td>Capital Surplus</td>
<td>12,853</td>
<td>13,012</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>139,809</td>
<td>159,401</td>
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<tr>
<td>Treasury stock</td>
<td>(8)</td>
<td>(10)</td>
</tr>
<tr>
<td>Total shareholders’ equity</td>
<td>165,209</td>
<td>184,965</td>
</tr>
<tr>
<td>Accumulated other comprehensive loss</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrealized holding gain on securities</td>
<td>4,261</td>
<td>3,585</td>
</tr>
<tr>
<td>Unrealized loss on hedging instruments</td>
<td>(570)</td>
<td>(423)</td>
</tr>
<tr>
<td>Translation adjustments</td>
<td>302</td>
<td>179</td>
</tr>
<tr>
<td>Retirement benefit liability adjustments</td>
<td>(7,767)</td>
<td>(7,080)</td>
</tr>
<tr>
<td>Total accumulated other comprehensive loss</td>
<td>(3,758)</td>
<td>(4,647)</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>2,689</td>
<td>1,858</td>
</tr>
<tr>
<td>Total net assets</td>
<td>164,139</td>
<td>182,176</td>
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</table>

(4) Consolidated Statement of Income

<table>
<thead>
<tr>
<th>Income statement</th>
<th>FY2017</th>
<th>FY2018</th>
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<tbody>
<tr>
<td></td>
<td>346,403</td>
<td>348,327</td>
</tr>
<tr>
<td>Construction contracts</td>
<td></td>
<td></td>
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<tr>
<td>Other</td>
<td>14,468</td>
<td>19,816</td>
</tr>
<tr>
<td>Total net sales</td>
<td>360,872</td>
<td>408,143</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>292,664</td>
<td>331,391</td>
</tr>
<tr>
<td>Construction contracts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>11,047</td>
<td>16,191</td>
</tr>
<tr>
<td>Total cost of sales</td>
<td>303,712</td>
<td>347,582</td>
</tr>
<tr>
<td>Gross profit</td>
<td>53,738</td>
<td>56,935</td>
</tr>
<tr>
<td>Construction contracts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>2,261</td>
<td>3,026</td>
</tr>
<tr>
<td>Total gross profit</td>
<td>56,099</td>
<td>60,961</td>
</tr>
<tr>
<td>Selling, general and administrative expenses</td>
<td>21,932</td>
<td>23,813</td>
</tr>
<tr>
<td>Operating income</td>
<td>34,726</td>
<td>36,747</td>
</tr>
<tr>
<td>Non-operating income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest income</td>
<td>83</td>
<td>62</td>
</tr>
<tr>
<td>Dividend income</td>
<td>564</td>
<td>564</td>
</tr>
<tr>
<td>Equity in earnings of affiliates</td>
<td>310</td>
<td>754</td>
</tr>
<tr>
<td>Gain on investments in partnership</td>
<td>641</td>
<td>976</td>
</tr>
<tr>
<td>Rent income</td>
<td>326</td>
<td>312</td>
</tr>
<tr>
<td>Insurances and dividend income</td>
<td>606</td>
<td>443</td>
</tr>
<tr>
<td>Other</td>
<td>835</td>
<td>808</td>
</tr>
<tr>
<td>Total non-operating income</td>
<td>3,427</td>
<td>3,927</td>
</tr>
<tr>
<td>Non-operating expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest expenses</td>
<td>411</td>
<td>372</td>
</tr>
<tr>
<td>Extra retirement payments</td>
<td>89</td>
<td>40</td>
</tr>
<tr>
<td>Provisions of allowance for doubtful accounts of subsidiary</td>
<td>151</td>
<td>153</td>
</tr>
<tr>
<td>Other</td>
<td>161</td>
<td>137</td>
</tr>
<tr>
<td>Total non-operating expenses</td>
<td>812</td>
<td>744</td>
</tr>
<tr>
<td>Ordinary profit</td>
<td>37,342</td>
<td>39,924</td>
</tr>
<tr>
<td>Extraordinary income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gain on sales of property and equipment</td>
<td>516</td>
<td>63</td>
</tr>
<tr>
<td>Gain on sales of investments in securities</td>
<td>263</td>
<td>40</td>
</tr>
<tr>
<td>Gain on bargain purchase</td>
<td>183</td>
<td>–</td>
</tr>
<tr>
<td>Gain on liquidation of subsidiary</td>
<td>0</td>
<td>–</td>
</tr>
<tr>
<td>Total extraordinary income</td>
<td>965</td>
<td>104</td>
</tr>
<tr>
<td>Extraordinary loss</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Impairment loss on fixed assets</td>
<td>831</td>
<td>–</td>
</tr>
<tr>
<td>Loss on disposal and sales of fixed assets</td>
<td>318</td>
<td>553</td>
</tr>
<tr>
<td>Loss on sales of investments in securities</td>
<td>–</td>
<td>15</td>
</tr>
<tr>
<td>Impairment loss on investments in securities</td>
<td>7</td>
<td>186</td>
</tr>
<tr>
<td>Loss on valuation of utility rights</td>
<td>1</td>
<td>13</td>
</tr>
<tr>
<td>Loss on valuation of shares of associates</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total extraordinary loss</td>
<td>1,138</td>
<td>764</td>
</tr>
<tr>
<td>Profit before income taxes</td>
<td>37,148</td>
<td>39,260</td>
</tr>
<tr>
<td>Income taxes – current</td>
<td>10,856</td>
<td>12,001</td>
</tr>
<tr>
<td>Income taxes – deferred</td>
<td>789</td>
<td>969</td>
</tr>
<tr>
<td>Total income taxes</td>
<td>11,645</td>
<td>12,971</td>
</tr>
<tr>
<td>Profit</td>
<td>25,502</td>
<td>26,689</td>
</tr>
<tr>
<td>Profit (loss) attributable to non-controlling interests</td>
<td>206</td>
<td>(1)</td>
</tr>
<tr>
<td>Profit attributable to owners of parent</td>
<td>25,396</td>
<td>26,688</td>
</tr>
</tbody>
</table>
### Cash Flows from operating activities

- **Profit before income taxes**: 37,146,380,260
- **Depreciation and amortization**: 6,614
- **Impairment loss on fixed assets**: 107
- **Increase in allowance for doubtful accounts**: 10,056
- **Increase in liability for retirement benefits and provision for retirement benefits for directors and audit and supervisory board members**: 1,005
- **Loss on valuation of utility rights**: 1
- **Gain on investments in partnership**: 510
- **Interest and dividend income**: 645
- **Interest expenses**: 411
- **Foreign exchange (gain) loss**: 22
- **Equity in earnings of affiliates**: 310
- **Gain on sales of property and equipment, net**: 350
- **Loss on disposal of fixed assets**: 318
- **Impairment loss on investments in securities**: 6
- **Gain on sales of investments in securities**: 363
- **Gain on bargain purchase**: 183
- **Gain on liquidation of subsidiary**: 45
- **Increase in notes and accounts receivable on completed construction contracts**: 1,939
- **Increase in accounts and notes payable on construction contracts**: 3,054
- **Increase in long-term accounts payable**: 9
- **Decrease in consumption taxes, net**: 1,880
- **Interest expenses paid**: 398
- **Payments into time deposits**: 406
- **Net cash provided by operating activities**: 30,016

### Cash Flows from investing activities

- **Payments into time deposits**: 430
- **Proceeds from withdrawal of time deposits**: 166
- **Purchase of property and equipment**: 6,062
- **Proceeds from sales of property and equipment**: 711
- **Payments of disposal of property, plant and equipment**: 113
- **Purchase of investments in securities**: 2,734
- **Proceeds from sales of investments in securities**: 3,145
- **Purchase of subsidiaries’ shares**: 168
- **Payments of disposal of subsidiaries’ shares**: 3,060
- **Collection of long-term loans receivable**: 82
- **Other**: 1,145

### Cash Flows from financing activities

- **Net increase (decrease) in short-term borrowings**: 14,874
- **Proceeds from long-term debt**: 6,187
- **Payments of long-term debt**: 6,000
- **Purchase of treasury stock**: 5
- **Cash dividends paid**: 5,635
- **Repayments to non-controlling shareholders**: 1
- **Net cash used in financing activities**: 4,418

### Net cash and cash equivalents

- **Net increase (decrease) in cash and cash equivalents**: 4,168
- **Cash and cash equivalents at the beginning of the year**: 33,505
- **Cash and cash equivalents at the end of the year**: 37,673

---

**Note:** The above data represents the consolidated statement of cash flows for the Kyudenko Corporation for the years ended March 31, 2018 and 2017. The financial statements are prepared in accordance with the Generally Accepted Accounting Principles in Japan (GAAP-J).
(7) Stock Information

Stock information (as of March 31, 2019)

- Fiscal year: Every year from April 1 to March 31 in the following year
- Annual general meeting of shareholders: Held every year within 3 months from April 1
- Record date of dividends payment: Year-end March 31
- Method of public notice: Electronic public notice will be posted on the Company’s website (https://www.kyudenko.co.jp). However, if an electronic public notice cannot be made due to an accident or other unavoidable reason, it will be posted on the Nihon Keizai Shimbun.
- Stock exchange listing: First Section of Tokyo Stock Exchange
- Stock index: JPX-Nikkei Index 400
- Securities code: 1959
- Category of business: Construction
- Trading unit of shares: 100 shares
- Stock index: JPX-Nikkei Index 400

Major shareholders (as of March 31, 2019)

| Name of shareholder | Number of shares (thousand shares) | Shareholding ratio (%)
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Kyushu Electric Power Company Incorporated</td>
<td>15,980</td>
<td>22.46</td>
</tr>
<tr>
<td>Japan Trust Svc Bank, Ltd.</td>
<td>5,030</td>
<td>7.07</td>
</tr>
<tr>
<td>THE NISSAN CIVIC C.B.</td>
<td>3,249</td>
<td>4.57</td>
</tr>
<tr>
<td>The Bank of Fukui, Ltd.</td>
<td>3,133</td>
<td>4.40</td>
</tr>
<tr>
<td>The Nippon Trust Bank of Japan, Ltd. (trust account)</td>
<td>2,396</td>
<td>3.37</td>
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<tr>
<td>Kyudenko Employees Shareholding Association</td>
<td>2,018</td>
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</tr>
<tr>
<td>Kyudenko Labor Union</td>
<td>1,200</td>
<td>1.83</td>
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<tr>
<td>Nih-Nippon Railroad Co., Ltd.</td>
<td>1,142</td>
<td>1.60</td>
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<tr>
<td>MFS Bank, Ltd.</td>
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<td>1.60</td>
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<tr>
<td>KYUSHU RAILWAY COMPANY</td>
<td>987</td>
<td>1.45</td>
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</tbody>
</table>

Distribution of shares (as of March 31, 2019)

- Individuals and others: 23,184 thousand shares (32.9%)
- Other domestic corporations: 10,558 thousand shares (14.8%)
- Foreign Individuals: 1,142 thousand shares (1.60%)
- Financial institutions: 5,030 thousand shares (7.07%)

Policy on dividends of surplus and trend of dividends

Policy on dividends of surplus

With respect to profit distribution, we will strive to maintain a sound financial position and make appropriate returns to shareholders while strengthening our management base to improve performance and financial position and make appropriate returns to shareholders while maintaining continuous and stable dividend payment.

With respect to dividends, we will meet the expectations of our shareholders by maintaining continuous and stable dividend payment, considering the business environment, performance, and financial condition.

Trend of stock price/volume

<table>
<thead>
<tr>
<th>Year</th>
<th>Stock Price ($)</th>
<th>Volume (thousands shares)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>10,000</td>
<td>6,000</td>
</tr>
<tr>
<td>2011</td>
<td>12,000</td>
<td>8,000</td>
</tr>
<tr>
<td>2012</td>
<td>14,000</td>
<td>10,000</td>
</tr>
</tbody>
</table>

(8) List of Reference for Key Information

<table>
<thead>
<tr>
<th>Contents</th>
<th>Information found in this report</th>
<th>Company website containing related information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Philosophy</td>
<td>Corporate Philosophy</td>
<td><a href="https://www.kyudenko.co.jp/company/philosophy/">https://www.kyudenko.co.jp/company/philosophy/</a> (Japanese)</td>
</tr>
<tr>
<td>Management strategy</td>
<td>Details of Mid-term Management Plan</td>
<td><a href="https://www.kyudenko.co.jp/company/strategy.html">https://www.kyudenko.co.jp/company/strategy.html</a></td>
</tr>
<tr>
<td>Investment in Business and Human Resources and Financial Strategies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business features and strengths</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business of Kyudenko</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Performance by Business Category</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Creating and increasing corporate value</td>
<td>Basic Concept of CSR</td>
<td><a href="https://www.kyudenko.co.jp/csr/csr.html">https://www.kyudenko.co.jp/csr/csr.html</a></td>
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<tr>
<td>Corporate Value Creation Model</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Initiatives for safety</td>
<td>Initiatives for Safety</td>
<td></td>
</tr>
<tr>
<td>Kyudenko initiatives</td>
<td>Initiatives for safety</td>
<td></td>
</tr>
<tr>
<td>CSR &gt; Workplace and labor environment</td>
<td>CSR Workplace and labor environment</td>
<td><a href="https://www.kyudenko.co.jp/approach/safety/index.html">https://www.kyudenko.co.jp/approach/safety/index.html</a></td>
</tr>
<tr>
<td>CSR &gt; Coexistence with local communities</td>
<td>Coexistence with local communities</td>
<td><a href="https://www.kyudenko.co.jp/approach/local_symbiosis/index.html">https://www.kyudenko.co.jp/approach/local_symbiosis/index.html</a></td>
</tr>
<tr>
<td>Kyudenko initiatives &gt; Social contribution and environmental activities</td>
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<td><a href="https://www.kyudenko.co.jp/approach/safety/index.html">https://www.kyudenko.co.jp/approach/safety/index.html</a></td>
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<td>Corporate Governance</td>
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<td>Interview with Outside Directors</td>
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| Financial highlights | Financial and Non-financial Highlights | https://www.kyudenko.co.jp/reports/financial/
| Financial data | | |
| Data section | | |

Note: Shareholding ratio is calculated excluding treasury stock (670 shares).