

Integrated Report

**KYUDENKO REPORT**

**2020**

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Corporate Philosophy

- 1** We contribute to society through providing agreeable **environmental solution**.
- 2** We keep challenging for sustainable development through our **engineering strength** and create a new value.
- 3** We aim to create mutual respecting environment in Kyudenko which utilize and develop **employees' personality**.

Action Guidelines

- (1) We will create the future environment with a new perspective
- (2) We will enhance technological force with creativity and ingenuity
- (3) We will appropriately accept and respond to customers' voice
- (4) We will embrace teamwork in work
- (5) We will create a vibrant and bright workplace



## Message from the President

The Kyudenko Group will achieve sustainable growth to realize our vision for the 100th anniversary.



**Naofumi Sato**  
Representative Director and President

## Greetings from the New President

I took office as President in June 2020. Ever since, I was faced with the COVID-19 crisis, as well as a series of natural disasters that tested our crisis management systems. The experience made me acutely aware of the weight of my responsibility as President not only of the Company but also a company that supports the infrastructure of local communities and other companies.

Under the leadership of former President Nishimura, our business scope steadily expanded to sales of over 400 billion yen. We have more or less achieved targets set in the previous Mid-term Management Plan (FY2015-FY2019) as well.

The main theme of the previous Mid-term Management Plan was “Taking on Challenges to Make the Next Leap Forward ~ To the next growth stage ~”. “Establish stable foundation in Kyushu”, “Strengthening business in the metropolitan area”, and “Development of human resources” were the pillars of our growth strategy, and we worked on strengthening the four forces, namely, “sales force”, “engineering strength”, “on-site capabilities”, and “growing force”.

The initiatives in the previous Mid-term Management Plan not only contributed to achieving work related to solar power, but also brought about more orders from outside Kyushu, especially in the metropolitan area, through efforts including strengthening the organizational structure and construction system of the Tokyo Head Office as well as allowed us to focus on expanding HVAC and sanitary facility work.

In addition, we actively performed M&As of construction companies and expanded our business scope especially in the field of facility work in Japan. We also worked on thorough cost management and horizontally shared experience and knowhow

company-wide through the Technology Management Department, and Q-mast, a material sales subsidiary established in FY2017 played a central role in reducing material costs.

In particular, we focused on “worksites” that are the frontline of the business and strengthened our construction capability by systematically recruiting new graduate engineers, hiring mid-career engineers, performing M&As and taking other measures to proactively secure workforce in an organized manner. These were the most important factors that contributed to expanding our business scope, and it brought about the greatest achievement, unprecedented in the results of former Mid-term Management Plans.

Thanks in part to these achievements, we have been a constituent of JPX-Nikkei Index 400 since August 2016. I believe that by meeting the “corporate earnings” criteria of the Index, our profitability and management achieved high esteem, allowing us to enhance the Kyudenko brand across Japan.

It is a great honor to be one of the top 400 companies among the entire 3,500 or so listed companies, and we appreciate it as a token of investors’ recognition of the Group. Such a status is expected to foster a more positive mindset among officers and employees within the Company.

Meanwhile, a number of challenges have emerged as we expanded our business scope of late. Specifically, construction volume has rapidly increased so much so that human resource development cannot keep pace. This led to overtime work and increased turnover of young employees, which in turn caused increased construction quality issues and serious misconduct.

We need to address these issues by working on the initiatives in the new Mid-term Management Plan.

### Previous Mid-term Management Plan (2015-2019)

Sales (Billion Yen)



Operating profit ratio (%)



Gross profit ratio (%)



ROE (%)



## Message from the President

### Toward the 100th Anniversary

The Corporate Philosophy forms the basis of our business activities. We have set out our vision for the future based on the Corporate Philosophy and with an eye on megatrends of 2044, when we mark our 100th anniversary.

Among various reforms in social structure (megatrends) expected in the future, the Group places importance on “advent of a decentralized energy society”, “increased environmental awareness”, “demographic change and diversified working styles”, and “advancement of digital technology”.

Based on these four megatrends, we have set the directions the Kyudenko Group heads for, which are to “maintain local public infrastructure”, “realize a carbon-free society”, and “solve social problems”.

To this end, we will actively engage in business activities with the basic approach of “creating an appealing company where diverse employees work”, “expanding a wide range of technology fields that meet customer expectations”, “refining operations through digital technology”, and “creating innovation through alliance”.

Let me elaborate on the four megatrends starting with “advent of a decentralized energy society”. As local communities further depopulate, along with the spread of renewable energy, storage batteries, and electric vehicles in the future, the mainstream of energy supply will be decentralized and complete within each local area, instead of energy supplied from large-scale power plants or through large transmission and distribution networks. Accordingly, we expect expanding needs for energy management systems (EMS) in each region and smart cities to be developed. The Kyudenko Group has been working on the establishment of “Kyudenko EMS”, a hybrid power generation control system combining solar power generation and lead storage batteries. A project to adopt the system is in progress in Sumba Island, Indonesia, and success in building such a large-scale power network will pave the way for a new

business. By applying this technology, we will aim for the dissemination of Kyudenko EMS in each local area.

Next, “increased environmental awareness” suggests a larger proportion of energy will consist of renewables in the future to realize a carbon-free society. I am certain that the Kyudenko Group will be able to take advantage of the construction records and business know-how it has accumulated in the renewable energy business as demand rises in the field.

Third, “demographic change and diversified working styles”. Going forward, as local communities further depopulate, the Kyudenko Group intends to play an active role in keeping up the level of infrastructure in depopulated areas and providing maintenance, using the aforementioned Kyudenko EMS for example.

I believe that diversifying working styles is important in that a new working style needs to be established for an environment where we can accept foreign workers and adapt to life with and after COVID-19. Through such initiatives, we aim to create an appealing company that attracts a tide of prospective employees.

Lastly, “advancement of digital technology” is expected to bring about a significant change to economic activities as a whole, with the progress of automation utilizing AI and robots dramatically increasing productivity in all industries. The construction industry will also enjoy benefits such as AIs preparing construction drawings, robots performing construction at worksites, and even AR/VR-assisted education. The Kyudenko Group will refine operations through digital technology while flexibly adapting to such changes, and create innovation through crossovers with initiatives capitalizing on the other three megatrends.

### Steadily Carrying Out the New Mid-term Management Plan

The Kyudenko Group has launched a new Mid-term Management Plan covering five years from FY2020 to FY2024, which aims to “Establish a management foundation for sustainable growth”. My mission is to steadily promote the initiatives in the Plan to achieve the final target.

To this end, it is essential to promptly and steadily realize three reforms, namely, “reforms in construction capability, productivity, and governance”, which are the pillars of the Plan, and create a “strong and muscular corporate culture” that can win the competition even in an economic recession, to solidify the trust from customers.

FY2020, the first year of the Plan, is positioned as a year to thoroughly review and reflect on past initiatives and to make the foundation for a new step.

The initiative with top-most priority is to secure and develop human resources that can handle the volume of orders and construction ability required and establish a workplace environment where each employee can find growth and fulfillment.

The second is to promote IoT, AI, and other digital technologies, not only to increase operational efficiency but also to create unprecedented business models and value aiming to offer new value to customers and society.

The third is to build awareness toward compliance and establish a system of preventing misconduct, so that laws and regulations are thoroughly observed, a premise for corporate activities and survival of a company.

Amid the COVID-19 crisis, acquisition of orders is expected to become more difficult. We plan to closely analyze projects that turned out to be fruitless and identify why we failed, whether it was sales, costs, or other factors, and reflect the lessons learned on future order-taking activities. As price competition could further intensify, we will strive to promptly secure cost

advantage among the competition and steadily obtain orders for targeted projects.

The Mid-term Management Plan also focuses on the development of new business fields. We will actively engage in large-scale wind power generation, biomass power generation and other renewable energy businesses that may replace solar power, and in energy services with promising growth in future demand.

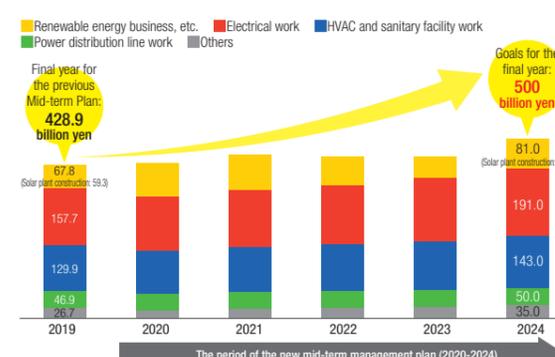
By energy services, we mean back-to-back solutions ranging from system design to construction, operation, and maintenance. Specifically, we partner with major energy service providers and offer solutions to customers’ energy-related issues by introducing cutting-edge equipment, managing energy, and improving the operation. A distinctive feature of this business is that customers do not need to make an initial investment. Energy service providers supply energy required to buildings, and customers pay monthly service charges, which enables them to level out the costs. In addition, as energy service providers also manage the equipment, customers can do away with the hassle. By broadening our scope to these businesses and expanding our range from construction work to maintenance services that follow, the Kyudenko Group aims to secure long-term and stable revenue.

The Track and Field Team symbolizes operations of the Kyudenko Group and has strong ties with the community. Just as athletes pass on the sash in ekiden across sections of different lengths and geographical features to achieve the goal (vision) of the team, we expect Group employees in different locations and environments to make a concerted effort at the workplace to address challenges to achieve the final goal we have in common.

#### Our Vision for the Future (See page 13 for details)

Megatrends	Directions to Head for	Basic Approach
<ul style="list-style-type: none"> <li>i) Advent of a decentralized energy society</li> <li>ii) Increased environmental awareness</li> <li>iii) Demographic change and diversified working styles</li> <li>iv) Advancement of digital technology</li> </ul>	<ul style="list-style-type: none"> <li>I. Maintain local public infrastructure</li> <li>II. Realize a carbon-free society</li> <li>III. Solve social problems</li> </ul>	<ul style="list-style-type: none"> <li>• Creating an appealing company where diverse employees work</li> <li>• Expanding a wide range of technology fields that meet customer expectations</li> <li>• Refining operations through digital technology</li> <li>• Creating innovation through alliance</li> </ul>

#### New Mid-term Management Plan (Road map of sales plan) (Billion Yen)



#### New Mid-term Management Plan (2020-2024)

Numerical target for the final year (FY2024) (consolidated)		Sales breakdown	
Sales	500 billion yen	Power distribution line	50 billion yen
Ordinary profit (Ordinary profit ratio)	50 billion yen (over 10.0%)	Electrical/HVAC and sanitary facility	334 billion yen
Return on invested capital (ROIC)	Over 10.0%	Renewable energy business, etc.	81 billion yen
		Others	35 billion yen

## Message from the President

### Affinity with the SDGs and Strengthening Governance

The Sustainable Development Goals (SDGs) set forth by the United Nations in 2015 are positioned as the Kyudenko Group's top management agenda. The Group will actively work to achieve them by identifying the areas of the 17 goals where the Group can leverage its management resources and strengths.

The Kyudenko Group has solved various social problems, including global environmental issues through the proposal, design, and construction of energy-saving, clean energy facilities, water treatment facilities, and disaster-resistant infrastructure, based on the corporate philosophy "We contribute to society through providing agreeable environmental solution". We see our contribution to solving those social problems as a big business opportunity and continue to explore ideas to achieve a sustainable society by using our technologies.

The Kyudenko Group's business thus has a close affinity with the SDGs by nature. By further refining our technology and know-how, we will be able to contribute even more to achieving the SDGs. At the same time, we believe SDGs initiatives need to be managed as part of the company's business. If considered solely as social contribution, such efforts are nothing but costs for a company. We will commit to sustainable growth by continuing to yield profits through the efforts.

Meanwhile, strengthened governance is much required as a basis for solving those social problems. The Kyudenko Group recognizes strengthened corporate governance as an extremely important issue, and "Reform of Governance" is one of the three reforms set out in the new Mid-term Management Plan. We apologize for the violation of compliance committed last year, causing significant inconvenience to shareholders and various other stakeholders. The business suspension ordered by the government has expired, but

we will strive to prevent recurrence so that similar incidents will never materialize.

The first specific step for preventing recurrence is to "enhance compliance awareness". To reform employee awareness for building a corporate culture that can identify misconduct, we announced the "Declaration to Stop Misconduct". Our officers take every opportunity to make the contents known. In addition, we reestablished the education framework by position and job scope, based on required knowledge on laws and regulations as well as past events, and implement thorough compliance education.

The second is to "enhance in-house check functions". We eradicate any room for inappropriate costs in estimated costs, order costs and working budgets through stringent review under cooperation between sales and technical teams. In terms of human resource management, employees who have been in the same position for a long time are identified and appropriate rotation is conducted so as not to create a hotbed of misconduct.

The third is "review of outsourcing order scheme". To prevent misconduct in outsourcing orders, the construction division and order division have been separated. Specifically, orders, which had been made at the construction division (sales offices), are now made at the technology division of branch offices.

Other initiatives include request for cooperation of outsourcing companies to prevent misconduct, enhancement of reporting systems, and stricter internal disciplinary action.

We will strive to recover trust by keeping these measures in place, and make Group-wide efforts not to let this incident fade away.



### Initiatives for Safety ~ Thorough Implementation of 'Thinking and Practicing' Safety on One's Own ~

Under the basic philosophy, "Safety takes precedence over everything", the FY2020 basic policy on safety and health management states 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'".

When it comes to safety, accidents have occurred almost every year. In a number of cases, one mistake may lead to a disaster, causing damage that cannot be undone. It is important to ensure that we take advantage of past reflections and lessons, as well as recurrence prevention measures, and to be even more sensitive to hazards. All employees of the Kyudenko Group take the situation seriously, make sure to "think & practice" what safety is and what they should do now, and work in earnest to realize "zero-accidents".

The Kyudenko Group has established the "Safety Heritage Facility" inside the Kyudenko Academy, an education facility. 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.

Health of employees is one of the Group's 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 has adopted the Kyudenko's "Health Management Declaration".

In order to create 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". We declared the policy to further raise awareness of "putting health first" and work on "creating a work environment with peace of mind" and "creating a happy and agreeable work environment" and are reinforcing the health management and health enhancement activities for our employees.

### Human Resource Development ~ Employees are the Greatest Assets ~

The Kyudenko Group has actively recruited engineers and technicians.

We are proud that the number of our new recruits is ranked number one in the industry, surpassing other electrical and HVAC work companies and leading general contractors. This spring, around 360 new recruits joined the Company, of which around 340 are engineers or technicians.

Unlike other companies, we have been increasing the recruitment of directly-managed technicians who work on site, anticipating a future shortage of technicians. They learn sophisticated technologies and skills at the education facility Kyudenko Academy and develop into competent Kyudenko employees. Such a policy will continuously facilitate further differentiation of the Kyudenko Group.

For the sustainable growth of the Kyudenko Group, it is important to develop young people who will bear the next generation. We seek human resources who do not

blindly follow the changes but are able to flexibly adapt to the era of transformation with creativity and vitality, and take on any challenge.

For the Kyudenko Group to be a company that creates new value and solves various issues, we need human resources who bring about innovative ideas or boldly take on any challenge. To spread such a culture that encourages employees to take on new challenges, we introduced a new personnel evaluation system in FY2019. The system recognizes the fact that employees took on new challenges. Employees set targets that are difficult to achieve; the level of achievement, the process, and specific actions they took are evaluated from a multifaceted perspective; and the results of their self-driven actions are reflected in their compensation and human resource management.

Through this system, we will foster a culture that encourages Kyudenko Group employees to take on new challenges.

### Message to Stakeholders

To remain a trusted corporation, the Kyudenko Group, with an eye toward the 100th anniversary, will first carry out the three reforms in the Mid-term Management Plan and put forth every effort to secure firm trust from customers.

In addition, we will ensure strict compliance with laws and regulations in all business activities so that misconduct will never happen again. We appreciate your continued support.

# Structure of KYUDENKO REPORT 2020

The purpose of KYUDENKO REPORT 2020 is to promote understanding of how the Kyudenko Group creates value, as well as to facilitate opportunities for dialogue.

The report was written, by referring to the past, present, and future of the Group, to provide an integrated story that contains our future vision, the Mid-term Management Plan and other medium- to long-term strategies, and features of our business.

The diagram below illustrates the structure of key elements that constitute the story.

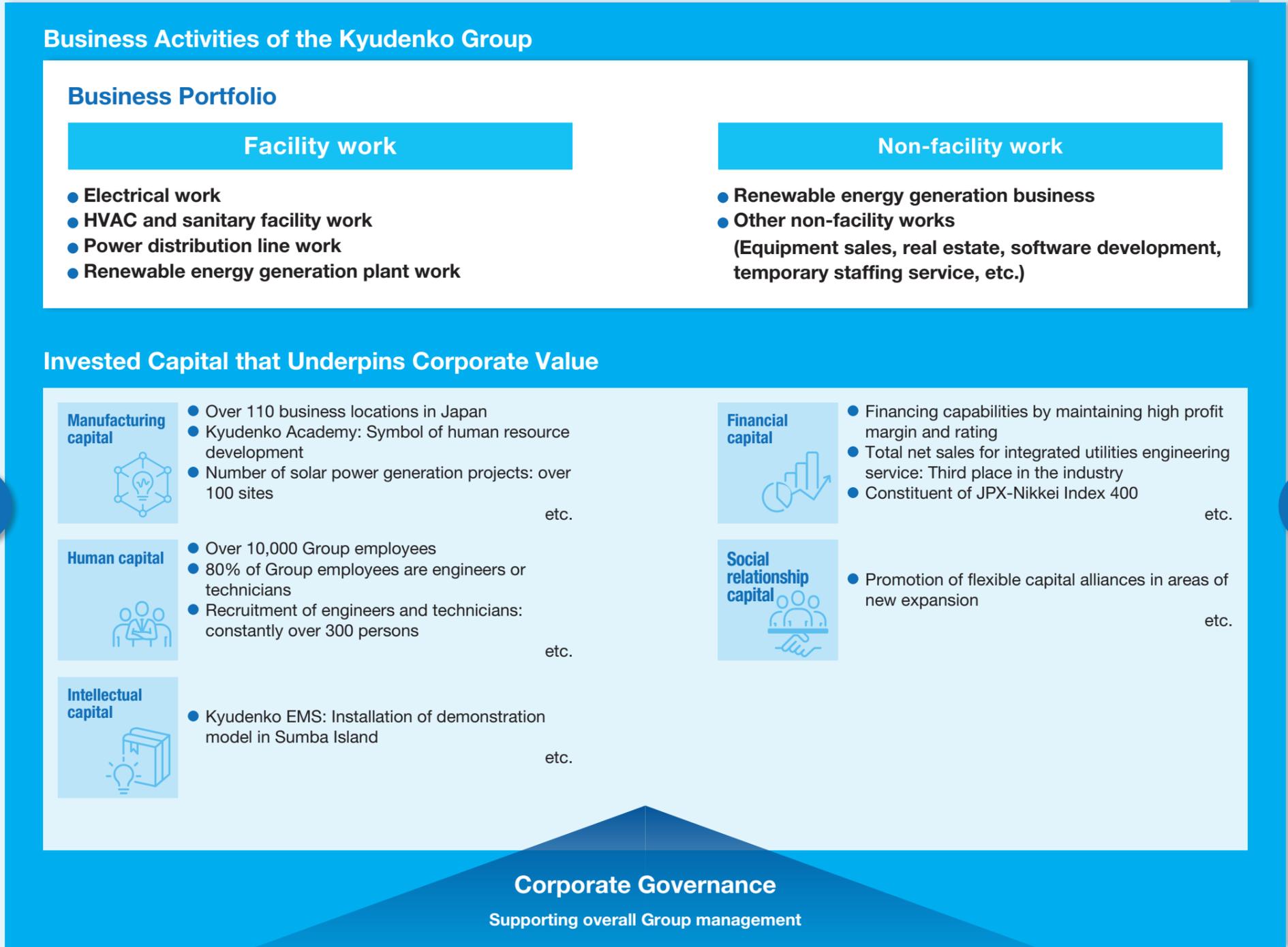


**Disclaimer regarding forward-looking statements**  
 KYUDENKO REPORT 2020 contains certain forward-looking statements, including plans, strategies, results, etc., of the Kyudenko Group. Such forward-looking statements are based on judgements made by management using information currently available to them. Actual results are subject to various risks and uncertainties and thus may differ materially from these forward-looking statements. Factors that may affect the forward-looking statements are described under "Risks in businesses" on page 43, but factors that may affect the results are not limited to those described therein.

# Value Creation Process

**Corporate Philosophy**

1. We contribute to society through providing agreeable environmental solution.
2. We keep challenging for sustainable development through our engineering strength and create a new value.
3. We aim to create mutual respecting environment in Kyudenko which utilize and develop employees' personality.



**Social challenges**  
**Business challenges**

- Decrease in Japan's working population/Shortage of construction workers due to declining birthrate and aging population
- Increase in costs of construction materials and labor
- Issue of useful lives of buildings constructed during the period of high economic growth
- Expectations for renewable energy due to increased environmental awareness
- Breakout of natural disasters and epidemics
- Advancement of digital technology, such as IoT and AI
- Work style reform
- Enhancement of pension assets
- etc.

**Value Offered**  
(Results of business activities)

- FY2019 results**
- Orders..... 507.0 billion yen
  - Sales..... 428.9 billion yen
  - Operating profit ..... 36.0 billion yen
  - Operating cash flows 38.2 billion yen
  - Cash dividends per share ..100.0 yen
  - Payout ratio ..... 27.0%
  - ROE ..... 14.0%
  - Equity ratio ..... 53.1%
  - Rating A- (R&I)
  - Designated in JPX-Nikkei Index 400
  - Group employees..... 10,018 persons
  - New recruits ..... 356 persons
  - Nationwide expansion of solar power generation and wind power generation businesses
    - Solar power generation business  
103 sites, 378MW
    - Wind power generation business  
11 sites, 91MW
  - etc.

## Our Vision for the Future

The Kyudenko Group has set out its vision for the future based on the Corporate Philosophy with an eye on possible changes in the business environment and megatrends up to 2044, which marks our 100th anniversary. As a milestone for realizing the vision, we formulated the Mid-term Management Plan covering the period up to FY2024. Hereby, we promise our stakeholders that we commit to medium- and long-term, continuous growth.

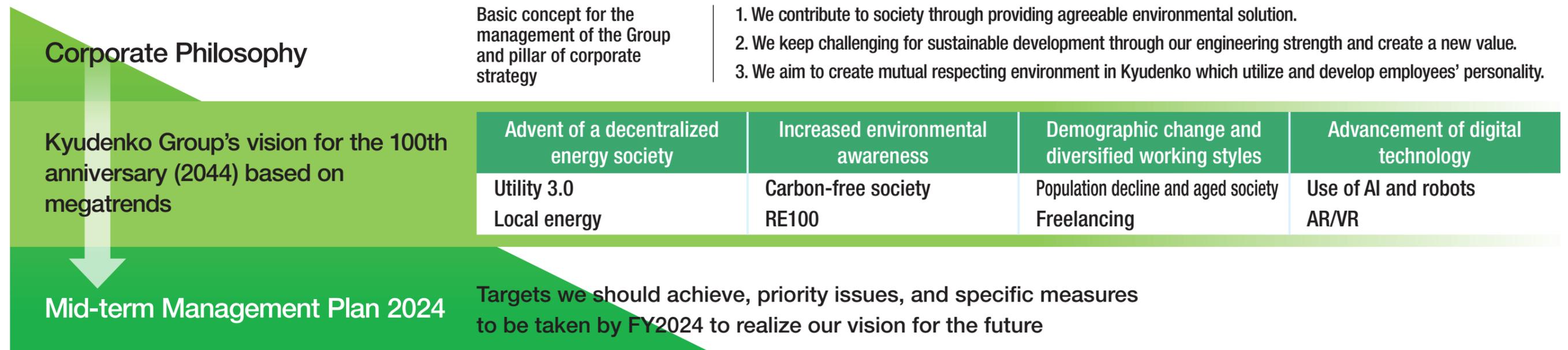
Among various reforms in social structure and megatrends that are expected to be seen by 2044, the Group places particular importance on the following four: “advent of a decentralized energy society”, “increased environmental awareness”, “demographic change and diversified working styles”, and “advancement of digital technology”.

Based on these megatrends, the Group has set the directions to head for in expanding our business, which are to “maintain local public infrastructure”, “realize a carbon-free society”, and “solve social problems”. As an integrated utilities

engineering service provider that protects lifeline facilities essential for people’s lives, we will further deepen the engineering strength we have cultivated and aim to be a group of companies that are trusted and continually chosen by society. We will also contribute to the achievement of the SDGs through our business activities.

To realize our vision for the future, we will actively invest human, physical and financial resources with the basic stance of “creating an appealing company where diverse employees work”, “expanding in a wide range of technology fields that meet customers’ expectations”, “refining operations through digital technology”, and “creating innovation through alliances”.

### Our vision for the future (toward the 100th anniversary)



### Directions to head for and relevance to the SDGs

#### Basic Stance

Creating an appealing company where diverse employees work

Expanding in a wide range of technology fields that meet customers’ expectations

Refining operations through digital technology

Creating innovation through alliances

#### I. Maintain local public infrastructure

Contribute to the maintenance and development of local infrastructure through facility work and urban development

#### II. Realize a carbon-free society

Contribute to the realization of a carbon-free society through clean energy

#### III. Solve social problems

Contribute to the realization of affluent life by leveraging our engineering strength to revitalize agriculture and take action against aging society



# Mid-term Management Plan

## Policy and directions of the new Mid-term Management Plan

The Kyudenko Group reviewed and analyzed the achievements of the previous Mid-term Management Plan covering five years up to FY2019, sorted out what challenges the Group should continue to work on, and formulated the new Mid-term Management Plan as a goal to achieve by FY2024 in the process of a long-term strategy based on the Corporate Philosophy.

The main theme of this Mid-term Management Plan is "Establish a management foundation for sustainable growth ~ Realization of the three reforms ~". Based on the achievements and lessons of the previous Mid-term

Management Plan, we recognize that for the renewed growth of the Kyudenko Group, creating a base to support the growth should be the top priority. As we secure and maintain the volume of orders for electrical, HVAC, and sanitary facility works commensurate with our current construction capability, we will make our utmost efforts to create a "strong and muscular corporate structure" that can win the competition even in an economic recession.

Specifically, we will work on three reforms. "Reform of construction capability" will secure engineers who support core businesses, review construction management

methods, and assign engineers to appropriate positions. "Reform of productivity" will improve quality and cost competitiveness, which are the source of our competitive edge, and promote work style reform. "Reform of governance" will work for the creation of a clean and highly transparent corporate culture. Through the three reforms, we aim for dramatic growth and development by the final year of this Mid-term Management Plan and by the subsequent 100th anniversary (2044).

While the global spread of COVID-19 is posing stronger downside risks to the economy, the impact on the Group's

business results is not reflected in this Mid-term Management Plan because it is difficult at the moment to predict the scale and period of the impact. While being committed to the achievement of targets for the final year, we will keep a close watch on future trends and review the Mid-term Management Plan as necessary.

**Previous Mid-term Management Plan (FY2015-FY2019)**  
Taking on Challenges to Make the Next Leap Forward  
~ To the next growth stage ~

**New Mid-term Management Plan (FY2020-FY2024)**  
Establish a management foundation for sustainable growth

Growth strategy		Strategic policies	
<ul style="list-style-type: none"> <li>Establish stable foundation in Kyushu</li> <li>Strengthening business in the metropolitan area</li> <li>Development of human resources</li> </ul>	<ul style="list-style-type: none"> <li>Sales force</li> <li>Engineering strength</li> <li>On-site capabilities</li> <li>Growing force</li> </ul>		
Results for the final year of the previous Mid-term Management Plan			
	Numerical targets for FY2019	Numerical results for FY2019	Status of achievement
Sales	400.0 billion yen	428.9 billion yen	Achieved
Gross profit ratio	over 15.0 %	over 14.0 %	Achieved for FY2016 and FY2017
Operating profit ratio	over 9.0 %	8.4 %	Achieved for FY2016, FY2017, and FY2018
ROE	over 14.0 %	14.0 %	Achieved

- Achievements**
- Achieved the following driven by robust demand for construction:
    - Increased orders outside Kyushu
    - Expanded HVAC and plumbing work leveraging the strength of the integrated utilities engineering service
    - M&As of construction companies
  - Strict cost management by the Technology Management Department and improved profit margin by the establishment of Q-mast
  - Strengthened construction capability, including increase in the recruitment of engineers

Expansion of business scope

- Challenges**
- Challenges in human resource development and productivity improvement amid rapid increase in construction volume
  - Increase in overtime work and turnover rate
    - Concerns over future decline in quality and risk of accidents
  - Decrease in profit margin toward the end of the period after once achieving the target

- Realization of the three reforms**
- Reform of construction capability**
- Strengthen hiring of engineers based on a long-term workforce plan
  - Reduce the turnover rate of young engineers by reviewing technical education
  - Establish a system to ensure the timely and optimal deployment of all technicians
  - Review the construction management system by strengthening and utilizing the Technology Management Department
  - Promote multifunctional workers
- Reform of productivity**
- Review the company-wide and departmental training systems
  - Achieve optimal personnel rotation for the entire company
  - Promote rationalization and labor saving through the use of cutting-edge technology and IT
  - Realize business reforms
- Reform of governance**
- Implement measures to prevent recurrence of fraud
  - Strengthen and thoroughly implement a governance system based on the Kyudenko Corporate Governance Guidelines
- Issues continuing from the previous Mid-term Plan**
- Deepen measures to improve profit margins
  - Strengthen and expand the order base of the domestic facility work industry
  - Strengthen the profitability of power distribution line work
  - Development of new business areas
  - Creating an attractive workplace environment
  - Improving corporate value

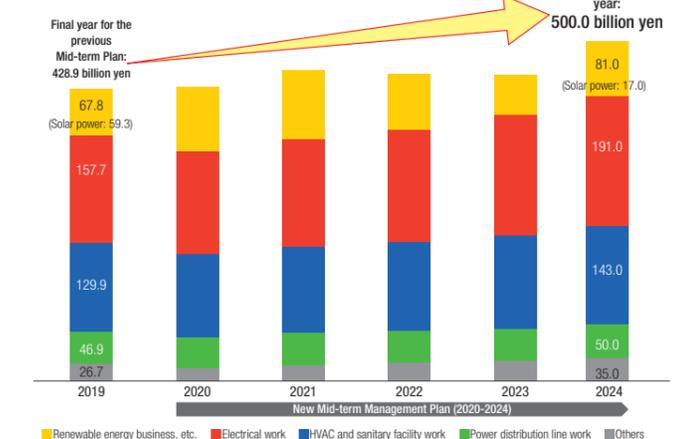
Create a strong and muscular corporate culture

Specific initiatives and relevance to the SDGs			
ESG	Key challenges	Specific initiatives in the Mid-term Management Plan	SDGs
Environment	Promotion of an environment-conscious town planning	- Strengthen initiatives for concessions, PPP and PFI businesses (Participation in waterworks, waste treatment plants, airports/ports, public facilities, etc.) - Develop new business areas (real estate, agricultural revitalization, etc.)	2, 6, 9, 11, 17
	Enhancement of energy-saving and energy-creating technologies	- Expansion of the renewable energy power generation business - Expand energy services (ES) business - Strengthening of Kyudenko EMS business (Indonesian)	7, 12, 13, 14, 15, 17
Social	Ensuring construction quality and safety	- Maintain a stable power supply through the construction of power distribution lines - Increased productivity - Promotion of research and development of advanced technologies and IT (promotion of labor saving and rationalization) - Eliminate significant work-related injuries	3, 8, 17
	Continue stable recruitment and promote human resource development	- Strengthen hiring of engineers (diversify recruitment) - Reconstruct a development plan that leads to dreams, a sense of achievement, and confidence - Development of executives and next-generation leaders	4, 5, 8
	Creating a fulfilling and rewarding work environment	- Reduce the turnover rate of young engineers - Securing holidays and reducing overtime work through thorough work style reforms - Promoting Diversity	3, 5, 8, 10, 17
Governance	Strengthening and implementing compliance management	- Implement measures to prevent recurrence of fraud - Strengthening and thoroughly implementing a governance system based on the Kyudenko Corporate Governance Guidelines	16, 17

**Numerical target for the final year (consolidated)**

Plan for FY2024	
Sales	500.0
Breakdown	
Power distribution line	50.0
Electrical work and HVAC and sanitary works	334.0
Renewable energy business, etc.	81.0
Others	35.0
Ordinary profit	50.0
Ordinary profit ratio	over 10.0 %
Return on invested capital (ROIC)	over 10.0 %

**Road map of sales plan**



## Special Feature | Growth Strategy of the Kyudenko Group ~ Roles the Tokyo Head Office Should Play ~

We will extend the new wind blowing in the construction industry across the country and raise the level of the entire Kyudenko Group.



**Hideki Takei**

Representative Director and Vice President Executive Officer

### History of the Tokyo Head Office

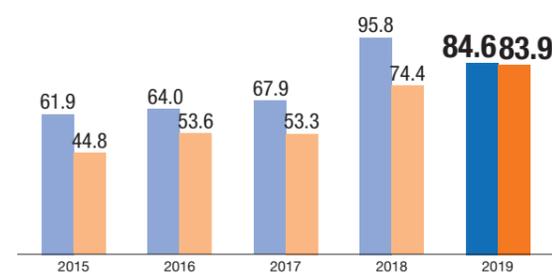
The Tokyo Head Office started as Tokyo Satellite Office, which was opened in October 1945, the year after the establishment of the Company. The Satellite Office later became Tokyo Branch Office and engaged in the construction of symbolic buildings in the metropolitan area, including “Sunshine 60” in Ikebukuro and “Roppongi Hills”. We have thus worked to enhance the Kyudenko brand nationwide. While we had been willing to “strengthen the base in the metropolitan area and expand our business scope” since the opening of the Office, we were held back because we were not as well-known as other companies and unable to establish a sufficient construction system in the metropolitan area.

In the 2000s, mainly large construction companies gradually came to recognize us. In response to the increasing name recognition, we were reorganized into the Tokyo Head Office in July 2008, which was the first step to strengthening our operations in the metropolitan area. We participated in the construction of “Tokyo Sky Tree Town” and “Marunouchi Eiraku Building” in 2009 and “Toranomon Hills” in 2010. A significant milestone that further increased our name recognition in the construction industry was the turnkey order acquired in 2012 for both electrical and HVAC and sanitary facility works for “AEON MALL Makuhari New City”, a large-scale shopping center with one of the largest total floor space in Japan. We were appreciated for delivering the work without delays in construction period.

Strengthening business in the metropolitan area became a pillar of our growth strategy in the previous Mid-term Management Plan covering the period from

FY2015, and changes were made to our organizational structure, such as establishing regional offices in Nagoya and Sendai, forming sales offices in Marunouchi and Shinagawa area, and granting Yokohama regional office the same function as a Branch Office. In addition, active M&As added four new companies to the Group during the period covered by the previous Mid-term Management Plan. While the number of Tokyo Head Office employees, including employees of Group companies, were about 500 before the previous Mid-term Management Plan, it has increased to over 1,000. With the reinforced organization and construction system, we focused on “strengthening activities to acquire orders” and “further enhancing our construction capability”. Both orders and sales exceeded 80 billion yen in FY2019, the final year of the previous Mid-term Management Plan, and we feel that our customers have come to recognize “the Kyudenko Group is a company that operates nationwide”.

Orders and sales in the metropolitan area (Billion Yen)



### Mission of the Tokyo Head Office

So far, the positioning of the Tokyo Head Office in the Kyudenko Group has been close to that of a Branch Office rather than a Head Office. However, instead of just contributing to business results as a Branch Office, Tokyo Head Office needs to properly function as a Head Office as well to share the latest information gained first-hand in the metropolitan area to Kyushu and raise the level of the entire Kyudenko Group. The metropolitan area, where major construction companies and facility work companies headquartered in Tokyo and large global companies are located in great numbers, is full of cutting-edge, valuable information. Such information includes:

- How widespread cutting-edge technologies and IT, such as building information modeling (BIM), have

become and how digital transformation (DX) has been promoted in the construction industry

- Work style trends created through healthy competition in the metropolitan area with industry peers, as well as relevant corporate information
- Future developments in the energy field, including renewable energy with the Feed-in Tariff (FIT) scheme coming to an end
- The ideal offices in an era of life with COVID-19 and an increase in air conditioning and ventilation needs

It is an important mission of the Tokyo Head Office to gain such information in a timely manner and share it across the entire Kyudenko Group.

### Be a Driver for the Achievement of Targets in the Mid-term Management Plan

Tokyo Head Office plays an extremely important role in achieving the new Mid-term Management Plan. To give a more concrete form to the role, we have formulated an action plan for the Tokyo Head office with the numerical targets of “orders of 100 billion yen, sales of 100 billion yen, and gross profit ratio of 20.0%”. To achieve the targets, we will focus on the three areas described below.

Firstly, we will further strengthen our business base in the metropolitan area. At the moment, large-scale projects, such as redevelopment, account for a significant proportion of works in progress held by the Tokyo Head Office. In addition to sales activities involving the construction of high-profile buildings in the metropolitan area, which is typically a large-scale project, we also consider it necessary to expand across the metropolitan area, the so-called “Kyushu model”, meaning local-based business activities where the original strength of the Kyudenko Group lies.

Secondly, we will strengthen the construction system by improving the quality and quantity of subcontracting companies. While the sales of the Tokyo Head Office rose sharply, tripling in the past decade, the number of subcontracting companies has only doubled. Upgrading the construction system is recognized as a pressing issue. Projects after the Olympic Games have already

been launched, and construction will peak again at some point. By increasing the number of subcontracting companies by then and offering them the same level of education as Group employees, we will build a system to manage the peak.

Thirdly, we will strengthen our IT capabilities by implementing BIM\* and utilizing existing construction data. The Kyudenko Group offers electrical, HVAC, and sanitary facility works in an integrated manner. A single team from the Company can manage construction, which includes electrical work, HVAC work, and sanitary facility work, as well as maintenance. In addition, utilizing the information of nearly 100 thousand construction projects per year as big data enables us to integrate the workflow (design and construction to maintenance and management) based on a wealth of experience. By working on the strengthening of such IT capabilities in cooperation with the DX Promotion Department, Tokyo Head Office will enhance the overall advantages of integrated facility work as well as offer optimal quality and costs to our customers.

\*BIM: A workflow intended to secure quality and improve productivity by adding information on costs, finishing, and management to the 3D digital model of the building created on a computer and utilizing it in all processes, from design and construction to maintenance and management.

### Making Steady Progress Step by Step

As mentioned above, being able to offer back-to-back services covering construction, prompt after care services, and solutions for improvement is a strength of the Kyudenko Group. For some projects, the Group may opt to participate in business or capital tie-ups. Taking advantage of this strength, we will put initiatives in the aforementioned focus areas on track, bring the Kyudenko Group up to a higher stage, and increase its presence.

Our customers praise the sincere working attitude of each Kyudenko Group employee. While the external environment changes constantly, I am certain that we

are able to gain trust from existing and future customers as long as our employees engage in each work seriously under any circumstances. By combining the technological and sales forces of the Group and the power of subcontracting companies, we will aim to be a company that contributes to society. We would like to hear our customers say, “The Kyudenko Group turned this town into an appealing place”.

Japan National Stadium



Photo courtesy of Taisei Corporation

AEON MALL Makuhari New City



Photo courtesy of AEON MALL Co., Ltd.

## Special Feature | Growth Strategy of the Kyudenko Group ~ Human Resources are the Key ~



We will focus on the development of human resources who will bear the next generation to achieve sustainable growth.

**Kazuyuki Ishibashi**  
Director and Vice President Executive Officer

### Human Resource Development at the Kyudenko Group

The history of human resource development at the Kyudenko Group dates back to its early days after the establishment. A “sense of mission” driving us to contribute to society as employees of a company that protects infrastructure has been passed down from our predecessors, and technologies have been transferred mainly through on-the-job training. As time went by, the ideal state of human resource development and education became clearer. A phrase in the current Corporate Philosophy refers to “human resources”, and all employees pay attention to the importance of human resources in their everyday work.

Amid rapid changes in society, it is necessary to constantly review our working environment, such as to cope with the decline of the working population and to implement work style reform. Under such circumstances,

I strongly feel that the “key” to realizing sustainable growth is human resources. The Kyudenko Group has set forth a profile of “ideal human resources”, which is a common goal for all employees, and watches over their growth through the education for human resource development.

To this end, we established an HR development facility called the Kyudenko Academy in 2012. The Kyudenko Academy symbolizes human resource development. It not only serves as the locale for acquiring work-related knowledge such as advanced expert knowledge, techniques, and technical skills, but also for comprehensive character development by nurturing a strong “resolve” at the “Hougakuan” and learning lessons from past accidents at the “Safety Heritage Facility”, which are both annexed to the Academy.

### Trends in Human Resource Development

At the Kyudenko Academy, many training sessions are organized throughout the year, such as training for new recruits, position-based training common to all divisions which is the backbone of our education system, and training for acquiring advanced expert knowledge, techniques, and technical skills.

In recent years, more and more training sessions focus on thinking on one’s own. For example, we launched the “Next-generation Leader Development Program” in 2015 to develop senior executives who can drive the management of the Company as candidates for top management. The Program is called Kyudenko

Management School and develops employees who can take a bird’s-eye view of the Kyudenko Group from an early stage. Participants are classified into young employees, middle-class employees, and managerial employees, in accordance with their position. They normally take part in the Program along with their work, identify issues hidden in everyday work, get together once in about three months at the Kyudenko Academy, engage in whole-hearted discussions on real management issues, and find the best solution. The solution is proposed directly to the top management, and serious exchanges of opinions take place.

Exterior of the Kyudenko Academy



Training for next-generation leaders



Participants thus strive to come closer to ideals as senior executives, from the way they identify issues to how they present their ideas.

Meanwhile, the working population is shrinking and at the same time getting younger, amid a declining birthrate and an aging population. The average age of our employees is also getting younger every year, and development of the younger generation has become an urgent necessity. The Kyudenko Group has introduced the elder system for young employees who have less than three years of experience at the Company. Senior colleagues whose age is close to that of eligible

employees are appointed as elders to create an environment where young employees can consult with them without hesitation. Supervisors also offer support to facilitate the growth of young employees both professionally and personally. Backed by such a support system, young employees are given a certain level of responsibility and authority regarding a work project or monthly routine tasks, and have the opportunity for valuable experience that can only be gained on site. The system thus aims to foster the willingness to take on challenges as they work hard together with elders (senior colleagues) and hone their skills.

### Initiatives to Create New Innovation

The Kyudenko Group has formulated the new Mid-term Management Plan for the period from FY2020 to FY2024. To realize the Mid-term Management Plan, further transformation is necessary, and we are making efforts in various initiatives accordingly.

Such initiatives include strengthening of the system to promote DX. We will need to accelerate DX initiatives and enhance our competitive advantage. First of all, we would like to swiftly solve issues in front of us. To do so, it is necessary for flexible and creative young employees and employees with a wealth of experience to join forces. I expect to see concerted efforts as one Kyudenko team, which enables transformation reflecting a lot of opinions. This initiative, if properly carried out, will sufficiently contribute to an increase in operational efficiency, work style reform, and in turn, increase profit margin, always driving new waves of transformation.

Currently, we are also taking up initiatives to solve issues using the quality control (QC) technique. Although it may seem a little outdated, it is a good technique for training how to “think”. We currently have over 200 teams in Branch Offices and sales offices across the country, and every day they dig into the cause of issues they recognize to solve them. By adopting the technique, we aim to equip employees with the ability to think and solve issues, as well as the ability to clearly express their opinions after listening to others and understanding what they say. While the result is important, the process of this activity has fostered the ability to find the X factor that may lead to the next step.

Although this is just one example, we expect to increase employee engagement by continuing to work on such initiatives. As an initiative to increase employee engagement, we will conduct an engagement survey from FY2021. The survey allows us to identify issues that may inhibit the growth of the Kyudenko Group in real time. By making improvements in a timely manner to solve those issues, we would like employees to feel “work is truly rewarding”, as well as to foster a stronger company-employee relationship.

The number of Kyudenko Group employees has grown to exceed 10,000. We would like each employee to be strongly aware of the Corporate Philosophy in their daily work, give serious thought to what the Kyudenko Group should do, and aim to create a workplace where employees can work enthusiastically with a strong sense of fulfillment and dreams based on a firm resolve to contribute to society. I would like to reiterate that human resources are the most important management resources, and we will strive to further enhance human resource development through these initiatives.

#### Ideal human resources

- Human resources who have a sense of mission and pride in contributing to society and satisfying customers
- Human resources who accurately grasp the changing times and customer needs with superb expertise to adapt to them
- Human resources who are willing to make improvements, take on the challenge to develop their abilities, and can think, make decisions, and act on their own
- Human resources who can work and ensure safety with emphasis on trust relationships and teamwork
- Human resources who can develop subordinates and junior colleagues with affection and discipline and let them demonstrate their abilities

#### Number of periodic engineer and technician recruitments

	2007-2014	2015	2016	2017	2018	2019	2020
<b>Total</b>	<b>Approx. 200</b>	<b>241</b>	<b>262</b>	<b>344</b>	<b>384</b>	<b>342</b>	<b>336</b>
Engineers	Approx. 100	139	142	185	189	186	194
Technicians	Approx. 100	102	120	159	195	156	142

## Special Feature | Growth Strategy of the Kyudenko Group ~ Development of New Business Fields ~



We will strengthen energy-saving and energy-creating businesses, such as renewable energy field that replaces solar power and energy service operations, to establish a new management base that realizes sustainable growth.

**Masaaki Jono**

Director and Vice President Executive Officer

### How the Solar Power Generation Business Expanded

The Kyudenko Group had some experience in the solar power plant construction work in the past. However, at that time, our orders received and construction did not have the scale that we have today. We mainly handled construction of power generation plants with around 500kW output at highest in the course of our local based business, including solar power generation systems for household use.

At that time, the excess electricity purchasing scheme was in place. In 2012, the “Act on Special Measures Concerning Procurement of Electricity from Renewable Energy Sources by Electricity Utilities (FIT Act)” came into force to further promote the spread of renewable energy. Until that time, the mainstream was solar power generation systems for residential use. The introduction of the FIT scheme opened possibilities for a certain level of profitability in the business of selling electricity, and large-scale power generation plants, such as mega solar power plants, have been constructed one after another.

In 2012, the Kyudenko Group decided to enter into the business of selling electricity as a power generation

business operator in addition to taking orders for constructing power generation plants, and started construction of our first solar power plant in Takeo City, Saga Prefecture. Currently, the Group is operating 49 solar power plants, with a total generation capacity of over 90MW.

Our abilities to develop deals, judge investments, and implement construction have been appreciated. As a result, we have been able to establish a business scheme where a consortium is formed with partners in other industries which developed into a special purpose company (SPC) through joint investment. Under the scheme, we take orders for construction, and after the sales of electricity begins, we incorporate equity profits into earnings as an investor.

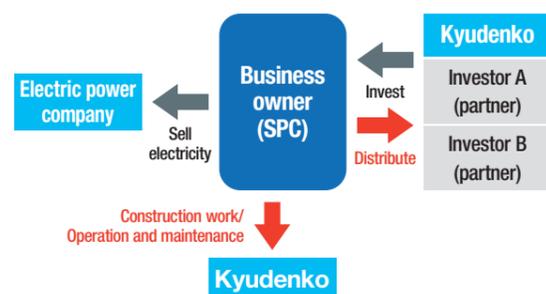
This is how we accumulated orders received of over 600 billion yen for construction work of solar power plants since FY2012, which have grown to become a major pillar of our business.

### Construction of a Solar Power Plant in Ukujima, One of the Largest in Japan

In March 2020, we received an order for the construction of an ultra-large-scale solar power plant on the island of Ukujima, Sasebo City, Nagasaki Prefecture. This project was planned to revitalize the island of Ukujima, which was faced by depopulation, by utilizing renewable energy. The maximum output of this solar power plant is 480MW, the largest of its kind in Japan, with an expected annual energy production of approximately 515,000MWh, equivalent to the annual electricity consumption of approximately 170,000 households. By

constructing a 64-kilometer undersea cable between Ukujima and the island of Kyushu, all power produced by the plant will be sold to Kyushu Electric Power Company, Incorporated. To preserve agricultural land on the island of Ukujima where animal husbandry and agriculture are thriving, some of the solar systems will be constructed on stilts, thus allowing the land to be concurrently utilized for both power generation and agriculture.

Scheme at the time of establishing SPC



FIP scheme

FIP stands for Feed-in Premium. FIP is a scheme that leaves the selling price of electricity to the market mechanism and add a premium to it.

Whereas the FIT scheme was intended to facilitate new entry into the power generation business by guaranteeing a fixed electricity price to power producers for a long term, enabling them to bear no risk of competition arising from market transactions, the FIP scheme integrates such business operators into the competitive market.

### Expanding Renewable Energy to Replace Solar Energy

The purchase price per unit of commercial solar power under the FIT scheme has been decreasing year by year and purchasing is now conducted under a competitive bidding system. Furthermore, the FIP scheme will be introduced to replace the existing FIT scheme after the end of FY2020. Therefore, we assume that the demand for solar power plant construction under the previous scheme will settle down. In light of this situation, the Kyudenko Group will shift its focus to the field of new renewable energy that replaces the solar power plant construction work that has contributed to our business performance.

Specifically, we will first make sure to secure orders for maintenance work under long-term contracts for the solar power plants we have constructed so far to realize stable power generation, while seeking to gain demand for replacing power conditioning systems 10 years later and replacement demand 20 years later. Although the amount of orders received per deal will not be on the scale of billions to tens of billions of yen as it has been so far, we will strive to secure orders as they have sufficient profit potential.

Secondly, we will capture demand for the “self-consumption” model, where customers use electricity they generate. Another possibility is a “local consumption” model for municipalities as a BCP measure, where local residents use stored electricity. The Kyudenko Group has established “Kyudenko EMS”, a hybrid power generation control system that combines solar power generation and lead storage batteries in Sumba Island, Indonesia. We hope to establish and propose a power generation control system for the domestic market by utilizing this technology.

Thirdly, we will enter into the renewable energy field other than solar power generation. We will primarily enter

into wind power and biomass power generation fields. As Japan is surrounded by oceans on all sides and in particular, waters around Kyushu are suitable for power generation, we think that demand for wind power generation will accelerate. As for biomass power generation, we think that it could be a base load power source as it can generate stable power. As we have a certain level of construction experience in both wind and biomass power generation, it is not entirely a new field for us. We intend to develop and cultivate our business by leveraging the tight connection with partners in other industries we have nurtured in the solar power generation business, with a view to participating in wind and biomass power generation businesses.

The fourth is to fully enter into the energy service business field. The business consists of a long-term maintenance and management service that efficiently provides customers with electricity, air, and water by drawing on the strength of the Kyudenko Group that engages in electrical, HVAC, and sanitary facility works. We will analyze operation data through remote monitoring to support optimal operation. Energy options have expanded for customers with the liberalization of retailing electricity and city gas, which may make total optimization difficult to achieve. We would like to develop our business to meet such customer needs and to help improve environment-friendliness by realizing energy saving.

By working on the above-mentioned initiatives and further expanding our core business of electrical, HVAC, and sanitary facility works, we believe that we will be able to build a business model that no other company has.

### Spreading “Kyudenko EMS” Overseas

Since Kyudenko has a wealth of experience in the domestic renewable energy business, the “Kyudenko EMS” business began with the idea to apply that experience and technology to bring power stabilization to developing countries.

Output from renewable energy such as solar power and wind power is subject to extreme fluctuation. “Kyudenko EMS” is an energy management system that can convert and utilize it into a stable form for utilization.

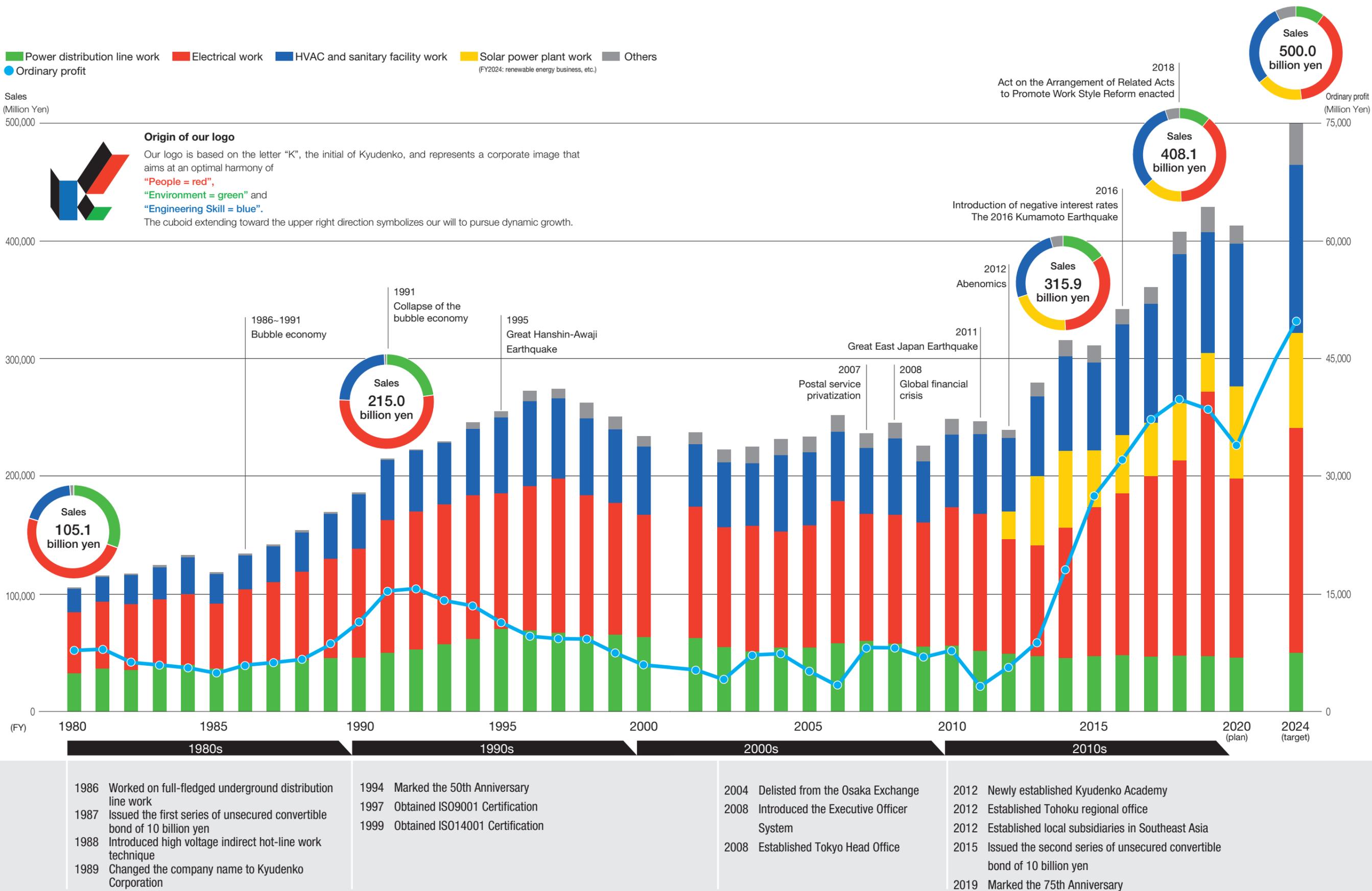
For example, on islands where the main power grid is far away, even if a solar power plant is installed, sufficient power generation capacity cannot be obtained in rainy or cloudy weather. In addition, since the amount of power generation varies greatly depending on the weather, power transmission to grids is unstable. Small distribution networks are particularly vulnerable and power outages can occur. Therefore, conventional diesel generators are still used in such distant places,

generating power using heavy oil carried from the distant mainland.

As a means to solve this problem, we newly installed the first overseas proof facility of “Kyudenko EMS” in Sumba Island, Indonesia in 2016. The proof facility launched operation in January 2018, and 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.

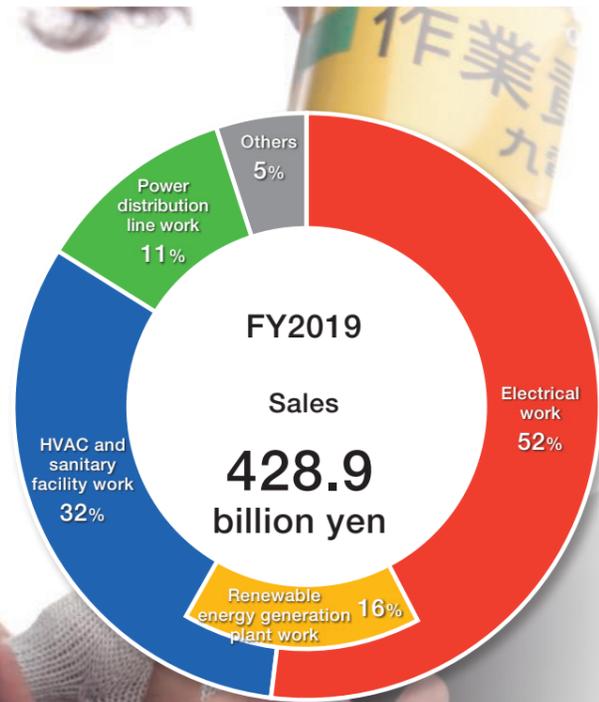
In FY2019, this business was selected by Japan International Cooperation Agency (JICA) as a “Collaboration Program with the Private Sector for Disseminating Japanese Technology”. With support from JICA, the Kyudenko Group will work to spread technology overseas and start business development at an early stage.

# Growth Trajectory of Kyudenko



## Business of Kyudenko

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



### Electrical work

Electrical, telecommunications and energy, etc.



### HVAC and sanitary facility work

Air conditioning, plumbing and sanitary, etc.



### Power distribution line work

Power distribution line and underground distribution line, etc.



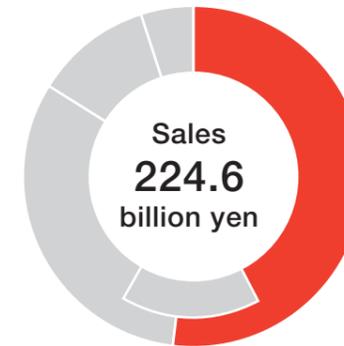
### Renewable energy generation plant work

Construction of solar, wind, biomass, and other power generation plants



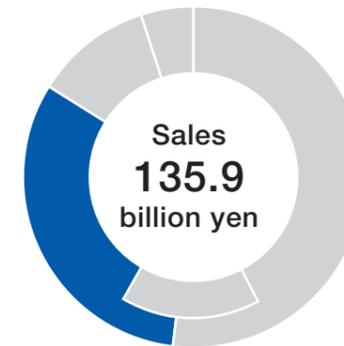
FY2019 sales

Business overview



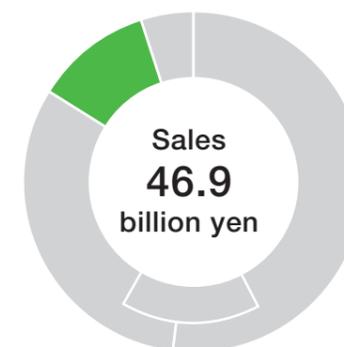
**P27**

The division installs substation equipment in order to receive electricity from the power company, as well as power source for mechanical equipment, lighting equipment, switches, plugs, low power equipment, anti-disaster facilities and communication facilities, so that they can be used safely and conveniently. We meet the diversifying needs of our customers and offer facilities that satisfy our customers, such as electrical facilities for commercial buildings, office buildings, hospitals, factories, and educational and cultural facilities, by leveraging our superb engineering strength and abundant expertise at various sites.



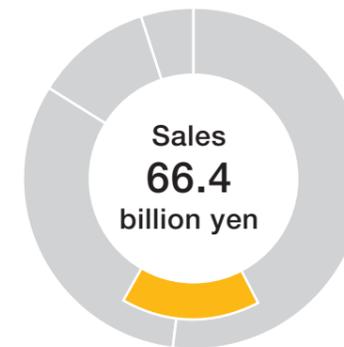
**P28**

The division not only provides a comfortable living environment in terms of air and water but also safety and security with regard to environment 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.



**P29**

As a company that undertakes contracted works from Kyushu Electric Power Transmission and Distribution Co., Inc., 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, fulfilling a social mission and largely contributing to the local community.



**P30**

Solar power generation using natural energy is a promising renewable energy which is also cost effective. 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 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.

## Electrical work



SAKURA MACHI Kumamoto



(C)SoftBank HAWKS  
BOSS E-ZO FUKUOKA

## HVAC and sanitary facility work



JR Hakata City



Photo courtesy of Fukuoka International Airport Co., Ltd.  
Domestic terminal, Fukuoka Airport

### Business strategy highlights

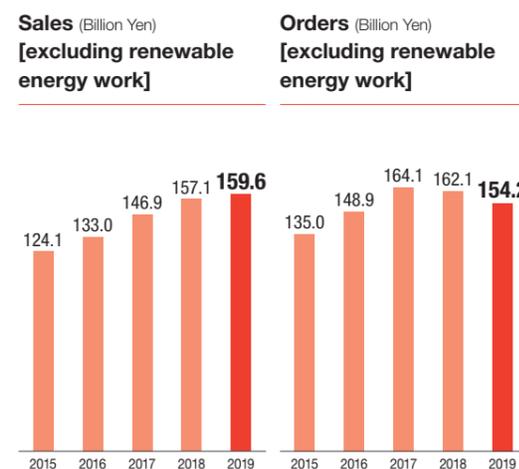
- Engineers and technicians in over 110 offices across Japan will directly grasp issues concerning customers' facilities and respond to their needs comprehensively and speedily by making technical proposals.
- We will continuously improve profit margins by rebuilding the structure of the Technology Management Department to strengthen the construction support system and strictly control cost.
- We will strive to increase operational efficiency and execute high-quality construction works by enhancing productivity with the use of VR, AI, and other advanced technologies.
- We will enhance our efforts to use BIM in construction works, the needs for which are expected to increase in the future.

#### FY2019 performance trend

- Sales increased by 1.6% year-on-year to 159.6 billion yen and orders received decreased by 4.9% year-on-year to 154.2 billion yen. The strong sales were mainly driven by redevelopment projects in the metropolitan area foreseeing the Tokyo 2020 Olympic Games.
- Orders received by region were 79.9% in Kyushu, 12.8% in Kanto, Tohoku and Chubu, 7.2% in Kansai, and 0.1% overseas.

#### FY2020 performance outlook

- We forecast that sales will decrease by 4.5% year-on-year to 152.4 billion yen and orders received will increase by 13.6% year-on-year to 175.2 billion yen.
- Sales are forecast to decrease because we have fewer projects that are expected to make big progress, like the large-scale redevelopment projects we had in the previous fiscal year.
- Orders received are forecast to increase year-on-year. Near-term concerns include the impact of COVID-19.



### Strengths

- Around 100 offices across Kyushu and Okinawa with engineers and technicians deployed in each office
- High visibility established through community-based business operations and social contribution activities, as well as strong trust relationships with customers based on these activities
- Operating bases established in the metropolitan area
- Industry-leading mobilization capabilities enabled by continuous recruitment of engineers and technicians, as well as a number of directly-managed technicians unparalleled by competitors

### Opportunities

- Ongoing plans for large-scale redevelopment projects (e.g. Tenjin Big Bang, Hakata Connected, the metropolitan area)
- Growth in information and communications works, driven by the spread of 5G and other next-generation communications networks as well as the Global and Innovation Gateway for All (GIGA) School Program
- Participation in community development works in suburban areas induced by COVID-19

### Weaknesses

- A tendency for the distribution of the construction workforce to be unbalanced across areas
- Lack of experience in apartments and other modular construction works
- Need for further introduction of IT and establishment of digital infrastructure

### Threats

- Loss of opportunities to receive orders with customers cutting back on capital investments
- Declining profit margins due to price competition among industry peers
- Difficulties in securing labor due to a fall in the number of workers in the construction industry
- Challenges associated with handing down technical expertise such as empirical rules from the past

### Business strategy highlights

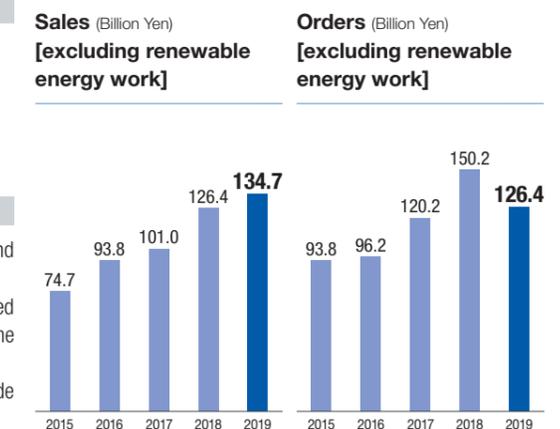
- The division boasts the sixth largest sales amount in the industry, with competent engineers making fine-tuned proposals on such issues as air conditioning, ventilation, and plumbing.
- We strive to enhance our construction capability as seven years has passed since we resumed recruitment of directly-managed technicians.
- We strive to increase operational efficiency and execute high-quality construction works, setting up a development and execution team to respond to BIM needs.
- With a focus on demand for energy saving and other "energy services" as a new business area, we aim to secure long-term and stable revenue, ranging from construction to after care services.

#### FY2019 performance trend

- Sales increased by 6.5% year-on-year to 134.7 billion yen and orders received decreased by 15.9% year-on-year to 126.4 billion yen. Sales progressed steadily on the back of abundant works in hand.
- Orders received by region were 66.8% in Kyushu, 23.6% in Kanto, Tohoku and Chubu, 5.2% in Kansai, and 4.4% overseas.

#### FY2020 performance outlook

- We forecast that sales will decrease by 9.6% year-on-year to 121.7 billion yen and orders received will decrease by 0.7% year-on-year to 125.5 billion yen.
- Sales are forecast to decrease because we have fewer projects that are expected to make big progress, like the large-scale redevelopment projects we had in the previous fiscal year.
- Orders received are forecast to be flat year-on-year. Near-term concerns include the impact of COVID-19.



### Strengths

- Advanced levels of technology capable of handling a wide range of works, including air conditioning, ventilation, plumbing, and disaster prevention, over the entire process from design and construction to after care services
- Strong trust relationships with customers built through community-based business operations such as HVAC and plumbing facility works for households, in addition to office buildings and other large-scale projects
- Mobilization capabilities enhanced by continuous recruitment of engineers and technicians

### Opportunities

- Growing needs for "air conditioning" and "ventilation" driven by abnormal weather and the COVID-19 pandemic
- Increasing global needs for saving and creating energy toward a carbon-free society
- Ongoing plans for large-scale redevelopment projects (e.g., Tenjin Big Bang, Hakata Connected, the metropolitan area)

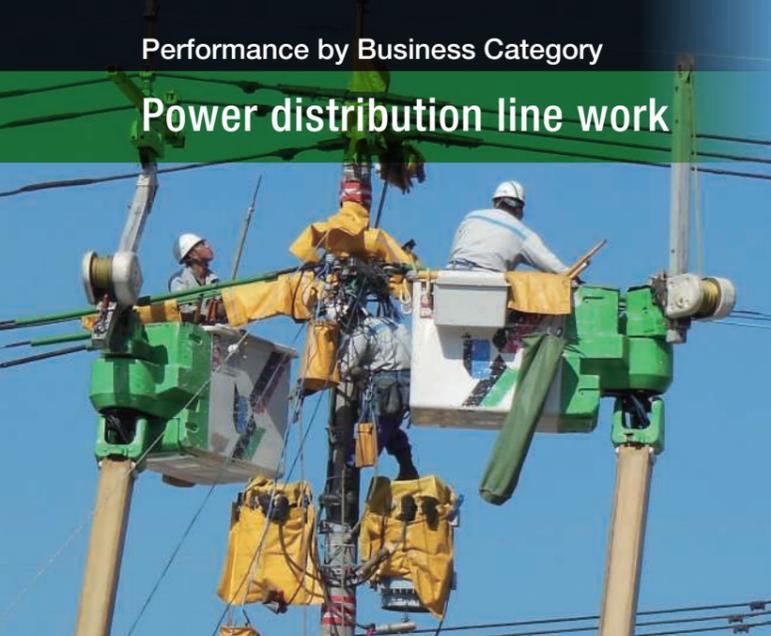
### Weaknesses

- A tendency for the distribution of the construction workforce to be unbalanced across areas
- Competition with existing specialized construction companies in water treatment and waste disposal facility works
- Need for further introduction of IT and establishment of digital infrastructure

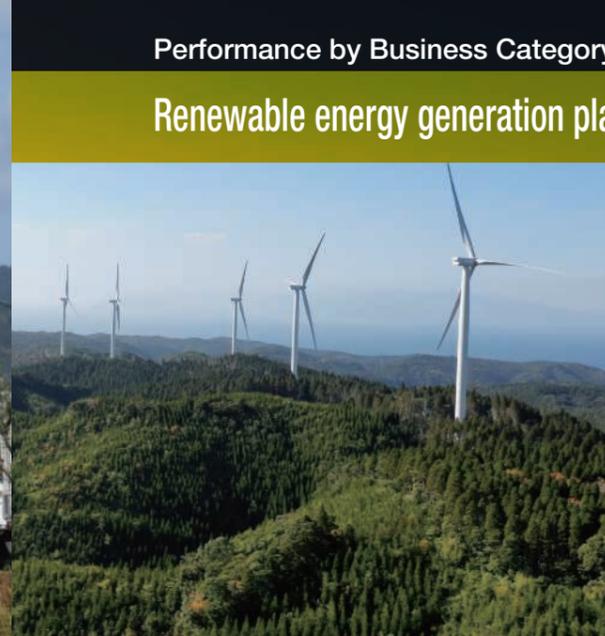
### Threats

- Loss of opportunities to receive orders with customers cutting back on capital investments
- Declining profit margins due to price competition among industry peers
- Difficulties in securing labor due to a fall in the number of workers in the construction industry
- Challenges associated with handing down technical expertise such as empirical rules from the past

## Power distribution line work



## Renewable energy generation plant work



Kushima Wind Power Generation Plant



Renatosu Soma Solar Park

### Business strategy highlights

- By responding promptly to typhoons and other natural disasters utilizing our mobilization capabilities, we will work for the early restoration of electricity and contribute to the maintenance of the infrastructure throughout Kyushu.
- 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.
- We will strive to expand sales and profit by acquiring orders not only in Kyushu but also nationwide by utilizing the expertise we have accumulated thus far.

#### FY2019 performance trend

- Sales decreased by 1.7% year-on-year to 46.9 billion yen and orders received increased by 0.3% year-on-year to 47.5 billion yen.
- Sales fell slightly due to a decline in construction volume in the second half.

#### FY2020 performance outlook

- We forecast that sales will decrease by 2.1% year-on-year to 45.9 billion yen and orders received will decrease by 6.2% year-on-year to 44.6 billion yen.
- We will enhance our efforts to establish a construction system capable of flexibly responding to construction volume, cut costs by further increasing operational efficiency, and improve safety and construction quality.



### Strengths

- Unrivaled mobilization capabilities with over 2,000 workers that enable speedy restoration in the event of a natural disaster
- High levels of technical capabilities to protect the lifeline of every customer
- Over 60 business locations for maintaining power distribution networks across Kyushu
- Ability to develop human resources with advanced technical skills on power distribution line and electrical works
- Development and improvement of tools and construction methods to increase safety and efficiency of onsite work

### Opportunities

- Growth in underground distribution line works associated with the replacement of aged power distribution facilities and the push for removing utility poles in the future
- Increased dispatches across Japan for disaster recovery in light of the drive for electricity resilience
- Orders for power distribution and underground distribution line works from new customers in line with the advent of a decentralized energy society

### Weaknesses

- Construction volume depends on capital investment trends of electric power companies
- Need of further operational efficiency improvements by promoting introduction of IT

### Threats

- Lower capital investments by power companies, stemming from such factors as promotion of energy saving
- Difficulties in securing human resources due to such factors as an aging population with declining birth rates

### Business strategy highlights

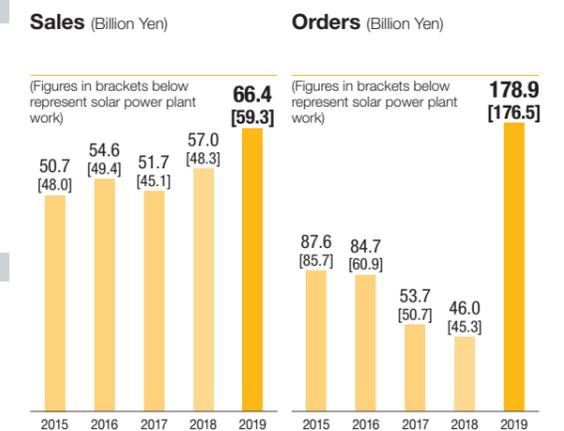
- We actively undertake renewable energy generation plant works mainly for solar power generation plants, in addition to electrical, HVAC, and sanitary facility works, our core business
- We also provide facility management services to ensure that customers' facilities will generate power stably after construction.
- Leveraging our experience and know-how as a local-based provider of integrated utilities engineering services, our initiatives extend to wind power and biomass power generation, in addition to solar power generation.
- With abundant construction experience not only in Kyushu but also in Honshu, we will continue to undertake renewable energy generation plant works across Japan.

#### FY2019 performance trend

- Sales increased by 16.4% year-on-year to 66.4 billion yen and orders received increased by 288.5% year-on-year to 178.9 billion yen. Sales were strong as works in hand at the beginning of the year progressed steadily.
- The significant rise in orders received was driven by an order for an ultra-large-scale solar power plant work.

#### FY2020 performance outlook

- We forecast sales of 78.0 billion yen and orders received of 29.5 billion yen for solar power plant work for FY2020.
- In addition, we will proactively undertake wind power and biomass power generation plant works.



### Strengths

- Excellent new project development capability generated from local-based business activities, and tight connections with partners in other industries
- Construction know-how accumulated with a top-drawer track record of construction works in Japan, as well as abundant works in hand
- Established systems for long-term operational administration/maintenance and management

### Opportunities

- Renewable energy becoming a "main power source" on the back of increased environmental awareness
- Demand for renewable energy as part of business continuity plans (BCPs) and as power supply facilities at a regional level
- Spreading "Kyudenko EMS" in developing countries overseas

### Weaknesses

- Insufficient expertise in civil engineering business
- Insufficient technology accumulated for new renewable energy facilities
- Insufficient research and development initiatives in such areas as battery technology

### Threats

- Weakening needs for construction of large-scale solar power generation plants due to a decline in purchase prices under the FIT scheme
- Collapse of power generation facilities hit by natural disasters such as a heavy rain

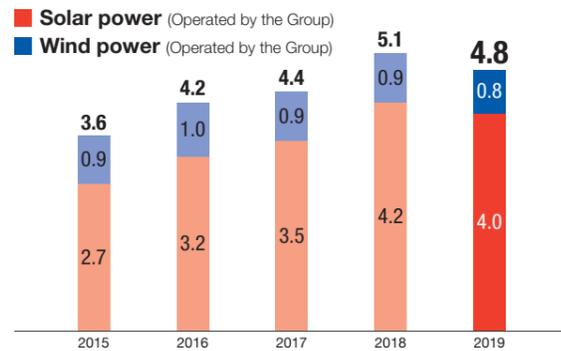
# Renewable energy generation business



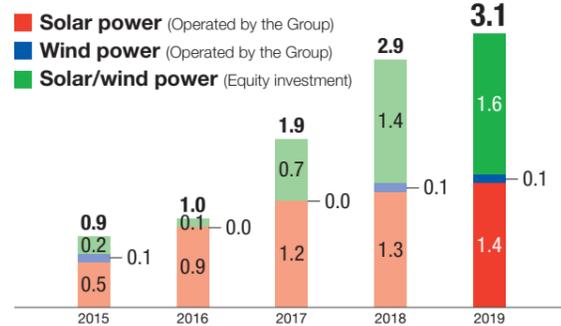
## Renewable energy generation business

We construct, own, and operate solar power and wind power generation plants and engage in the business of selling electricity using the 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.

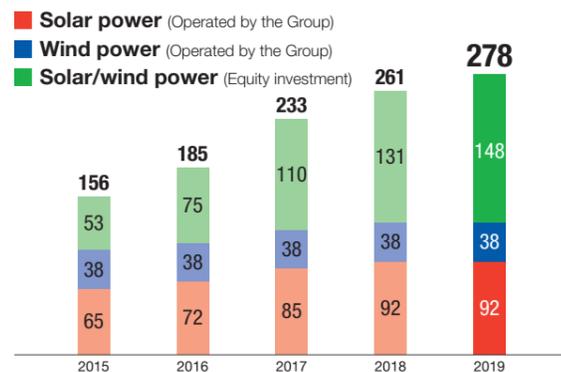
**Sales** (Billion Yen) (Sales of other business)



**Profit** (Billion Yen) (Operated by the Group: operating profit, equity investment: non-operating income)



**Operation output** (MW) (Plants in operation only)



## Investments in renewable energy generation business to differentiate ourselves

- So far, we have invested about 35.0 billion yen in the construction of renewable energy generation plants, operated by the Group. In addition, we have established power generation companies jointly with leasing companies and solar panel manufacturers to strengthen alliances, and contributed about 25.0 billion yen for securities as equity investments.
- Given the nature of the business, the business is expected to stably add to profit in the foreseeable future.
- The business is expected to contribute as a base of profit and cash flow without being affected by the economy for the next 10 years and beyond.

### Investment in solar power plants

	Deals operated by the Group		
	Number of power plants	Generation capacity (the entire operation)	Generation capacity (that equal to the equity)
In operation	49	92MW	87MW
Under construction	—	—	—
Plan	—	—	—
<b>Total</b>	<b>49</b>	<b>92MW</b>	<b>87MW</b>

	Deals through investment in equity		
	Number of power plants	Generation capacity (the entire operation)	Generation capacity (that equal to the equity)
In operation	46	402MW	130MW
Under construction	8	825MW	161MW
Plan	—	—	—
<b>Total</b>	<b>54</b>	<b>1,227MW</b>	<b>291MW</b>

### Investment in wind power plants

	Deals operated by the Group		
	Number of power plants	Generation capacity (the entire operation)	Generation capacity (that equal to the equity)
In operation	5	38MW	38MW
Under construction	—	—	—
Plan	—	—	—
<b>Total</b>	<b>5</b>	<b>38MW</b>	<b>38MW</b>

	Deals through investment in equity		
	Number of power plants	Generation capacity (the entire operation)	Generation capacity (that equal to the equity)
In operation	4	80MW	18MW
Under construction	1	65MW	32MW
Plan	1	15MW	3MW
<b>Total</b>	<b>6</b>	<b>160MW</b>	<b>53MW</b>

## 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 in 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 eight countries and regions: Singapore, Malaysia, Vietnam, Thailand, Indonesia, Myanmar, Bangladesh, and Taiwan.

Singapore (APECO)



**Singapore**  
APECO in Singapore is a plant engineering company invested in 2013 and celebrated its 50th anniversary last year. APECO is an engineering company that provides facility construction and maintenance services to various industries, including electric power, oil and gas, petrochemical, and water utility industries. With technical capabilities cultivated over many years, it has earned a high degree of trust from customers. APECO has abundant experience in plant construction by oil majors including ExxonMobil and Shell, as well as government-led infrastructure construction such as pipeline construction, mainly on Jurong Island in Singapore, which is known as one of the world's leading petrochemical complexes. In addition, a branch office was set up in Bangladesh last year. Bangladesh has a population of about 160 million and enjoys strong economic growth. As demand for electricity is rising along with economic growth in the country, we are developing operations with the aim of entering the maintenance business in the area of power & energy by leveraging our abundant experience and human resources in Singapore.

### Malaysia, Vietnam, Thailand

About eight 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 new building constructions and renovations, steadily building up a track record in construction work. Leveraging our strengths as an integrated utilities engineering service company, we also make proposals on energy saving for facilities in general and installation of solar power generation facilities.

Vietnam



### Taiwan

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. The company, headquartered in Taoyuan with five sales offices in Taiwan including Taipei and Kaohsiung offices, provides fine-tuned services to customers. In addition, in 2018, we invested in and undertook construction works of the floating solar power generation project of the Taiwan government, which is pushing forward its renewable energy promotion policy. As the construction of solar power generation facilities is expected to continue there in the future, we aim to participate in many projects, leveraging our construction experience in Japan.

Taiwan



### Indonesia

In April 2018, we set up a representative office in Indonesia. Whereas output from renewable energy such as solar power and wind power is subject to extreme fluctuation, "Kyudenko EMS", developed by Kyudenko, is an energy management system that can convert it into a stable form for utilization. The system has been in test operation since three years ago in Sumba Island, Indonesia. The introduction of renewable energy is an urgent task for Indonesia, an island nation, with a policy of completely eliminating internal combustion power generation in remote islands by 2023. By using Kyudenko's EMS technology to make renewable energy a "core energy source", a challenge that has proven difficult so far, we are working to spread and commercialize the technology.

Indonesia



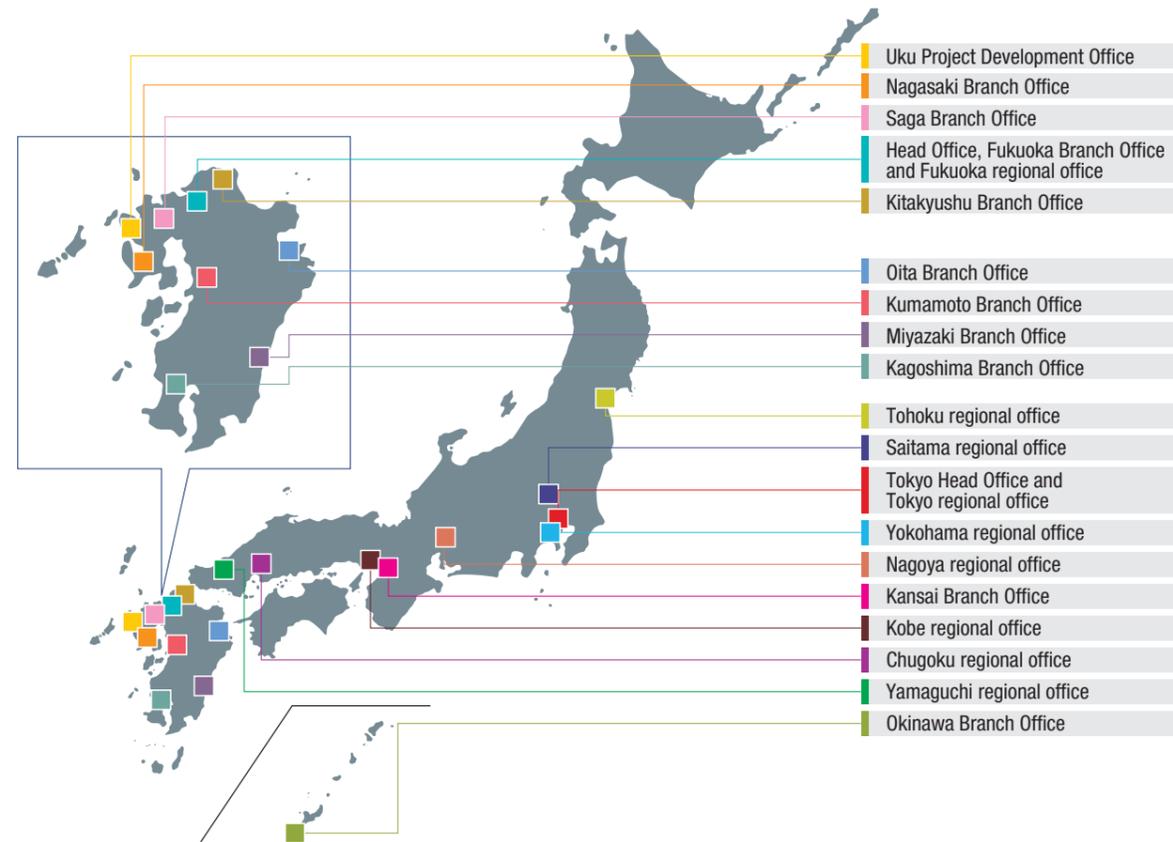
### Myanmar

In 2020, we opened an office in Myanmar. Since the transfer of power to a civilian government in 2011 in Myanmar, Japanese companies have set up operations in the country, launching many project plans, including those based on official development assistance (ODA) yen loans. We aim to develop business in Myanmar focusing on facility work, our core business.

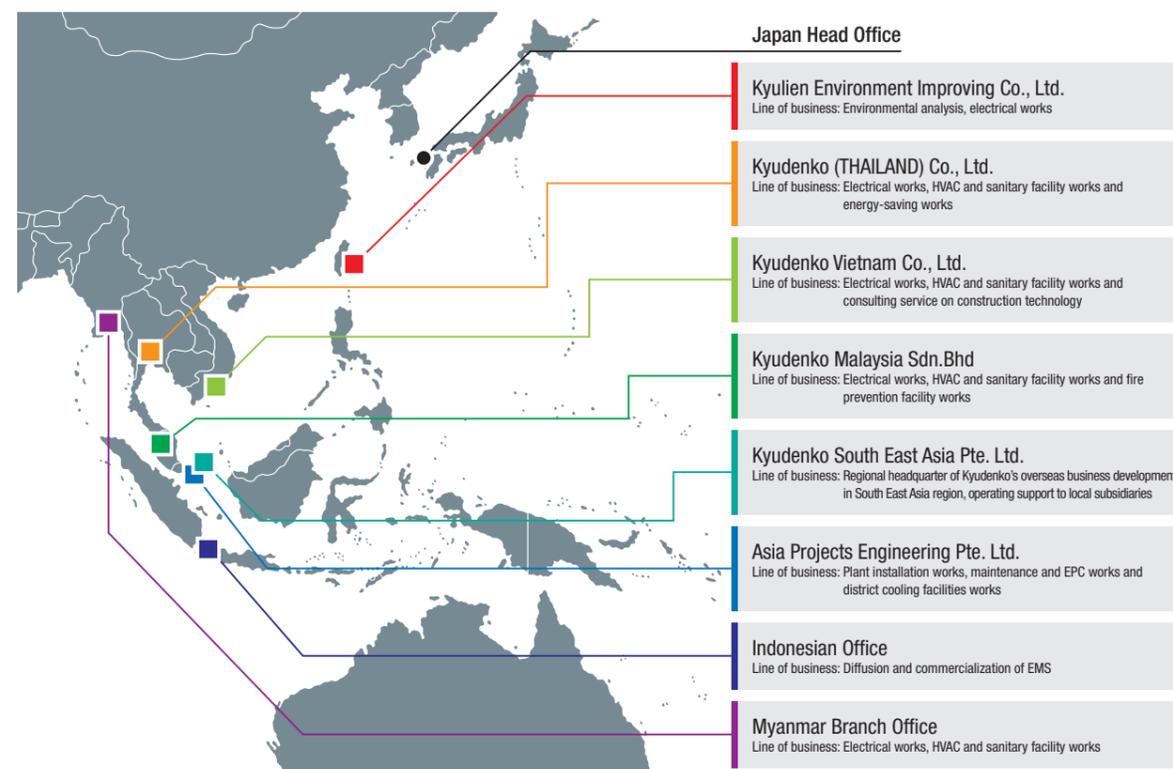
Kyudenko's overseas business covers a wide range of fields, including facility work such as electrical, HVAC and plumbing, plant engineering business, environmental analysis business, EMS, and renewable energy business. By bringing together the technical capabilities accumulated in Japan as well as knowledge and experience gained while operating in each country abroad, we would like to further develop business overseas.

## Business Locations

### Japan



### Overseas



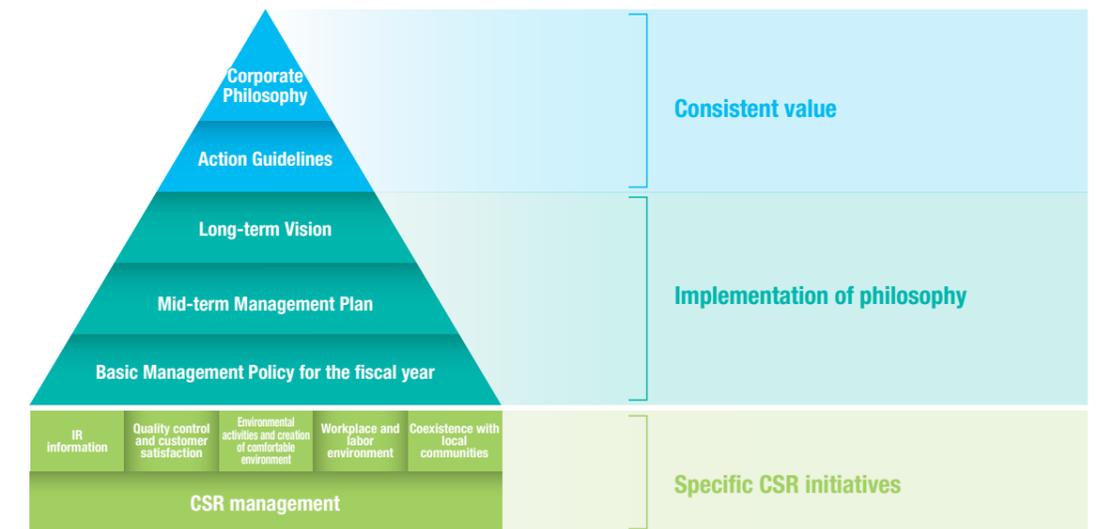
## Basic Concept of CSR

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, even before the concept of “CSR” was recognized by the Company, and all business activities of the Company are based on this Corporate Philosophy. In terms of “CSR”, it can be said that the Company’s Corporate Philosophy exactly verbalizes the “social responsibilities” that the Company should take. Accordingly, practicing the Corporate Philosophy at the site where business activities are performed is believed to realize CSR of the Company. In this way, the “Corporate Philosophy” that represents 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: “IR 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.



- | Corporate Philosophy  | Action Guidelines   |
|---|---|
| <ol style="list-style-type: none"> <li><b>We contribute to society through providing agreeable environmental solution.</b><br/>We strive for the creation of a rich human environment, aiming for an optimal harmony of “People”, “Environment” and “Engineering Skill” as an Integrated Utilities Engineering Service Company with a broad perspective.</li> <li><b>We keep challenging for sustainable development through our engineering strength and create a new value.</b><br/>We make efforts for research and development of technologies that anticipate the needs of the times, and engage in businesses that respond to the trust and expectations of clients as a forward-looking company at all times.</li> <li><b>We aim to create mutual respecting environment in Kyudenko which utilize and develop employees’ personality.</b><br/>We foster a vibrant and enriched corporate culture through respecting the personality and enhancing the abilities of each individual based on a philosophy that the corporation is people.</li> </ol> | <ol style="list-style-type: none"> <li><b>We will create the future environment with a new perspective</b></li> <li><b>We will enhance technological force with creativity and ingenuity</b></li> <li><b>We will appropriately accept and respond to customers’ voice</b></li> <li><b>We will embrace teamwork in work</b></li> <li><b>We will create a vibrant and bright workplace</b></li> </ol> |

## Initiatives for Safety

### “Safety” takes precedence over everything

Under the Basic Plan for Safety and Health Management, the Kyudenko Group carries out safety and health activities working together with its subcontracting companies. With the basic philosophy of “Safety takes precedence over everything”, the Company ensures all employees thoroughly implement ‘thinking and practicing’ safety on their own to prevent accidents and takes initiatives for eliminating accidents.

#### FY2020 Basic Plan for Safety and Health Management

##### Basic Philosophy

###### Safety takes precedence over everything

‘Safety and health are the foundation for management and a major premise of all activities’

##### Goal

Zero-accident

##### Slogan

Safety of fellow workers, everyone’s health  
Let’s find and reduce risk in the workplace

##### I. Basic Policy

###### Safety

To prevent accidents, thorough implementation of ‘thinking and practicing’ safety by all employees

###### Health

Strive to ‘create a happy, enjoyable workplace’

##### II. Primary Goals

###### Safety

1. Thorough implementation of ‘thinking and practicing’ safety on one’s own
2. Safety management activities led by the worksite
3. Thorough understanding and compliance with laws and regulations
4. Supporting safety activity of Group companies and subcontracting companies
5. Revitalization of traffic safety activities
6. Initiatives for worksite operation health

###### Health

7. Improving the workplace environment in line with promotion of work style reform
8. Enhancing health consciousness

#### Improving and strengthening safety and health activities (PDCA cycle) under the Occupational Safety and Health Management System

Under the “Occupational Safety and Health Management System (OSHMS)”, the Kyudenko Group follows the Plan-Do-Check-Act (PDCA) cycle in carrying out its health and safety activities.

Each office establishes the annual plan for safety and health activities according to its current circumstances, assesses activities every quarter, and makes daily efforts for improvement.

#### Safety and health activities at Kyudenko Academy

##### Safety and health training by position

At Kyudenko Academy, a training center with a lodging capacity of 356 persons, the Kyudenko Group provides training programs throughout the year to develop its human resources.

In particular, training programs by position provide health and safety education tailored to attendees’ experience and responsibilities, playing an important role in creating a workplace that puts safety first.



##### Safety Heritage Facility

This facility was set up to face the reality of accidents and communicate valuable lessons learned from past accidents so that all employees of the Kyudenko Group will learn the tragedy of accidents and the importance of securing safety. The “Safety Heritage Facility” functions as a place to create a culture of safety of the Group.



##### Hazard Experience Training Facility

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. By integrating this with education at the “Safety Heritage Facility”, we expect that safety and health activities will be invigorated further.



## Workplace and Labor Environment

### Initiatives for “work style reform”

#### The Kyudenko Group’s definition of work style reform

The Kyudenko Group defines work style reform as a “reform for the Company and its employees to grow together, aiming to create new values and realize a prosperous life”. Since FY2017, with the Promotion Committee for Work Style Reform established directly under the President, we have strived to work in time-effective ways with the goal of eliminating long working hours by incorporating innovative technologies and ideas unhindered by existing modes.

Eliminating long working hours is not the sole purpose of work style reform. We believe it is important to drive the creation of new technologies and improve operational

efficiency through work style reform, aiming to improve productivity (quality of work). This will result in eliminating long working hours, which will in turn enable further improvement in pay. By making these efforts, we strive to grow into a company that generates sustainable profits so that employees can enjoy economic affluence.

Furthermore, without long working hours, employees can make their personal or family time more fulfilling, allowing them to achieve spiritual prosperity and personal growth. We strive to create a workplace filled with “job satisfaction” and “sense of fulfillment”, where each employee is satisfied both in mind and body.

#### Main initiatives

##### Supplying tablets to engineers and introducing a construction management app

We have successfully increased operational efficiency by enabling administrative work at worksites and real-time sharing of the details.



##### Proactive use of web conferencing systems

We have reduced travel time by meeting via the web. This has led to the effective use of the time freed up and better coordination between worksites and branch offices/the head office.



##### Encouraging employees to take annual paid leave

We have strived to establish a workplace environment that makes it easier for employees to take days off such as by setting company-wide “Take Annual Leave Days” on which employees are encouraged to take leave (five times a year), the system that allows employees to take “hourly annual paid leave”, and “office closure days” aimed at creating consecutive holidays.



##### Initiatives to promote the active participation of women

We established an action plan for developing an employment environment in which women can actively participate. We are working to create a workplace environment in which women can work comfortably and fully demonstrate their capabilities, by promoting work-life balance, carrying out appropriate human resource arrangements, and enhancing parenting and childcare support systems.



#### 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 employee awareness of “putting health first” as well as achieving “a work environment with peace of mind” and “creating a happy and agreeable work environment”.

#### 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, all female employees who gave birth and are raising children have used this system and are thriving upon their return, balancing childcare and work. In addition, as one of initiatives to promote work-life balance, we have introduced an “accumulated annual paid leave system”, which allows employees to accumulate 10 days per year, a maximum of 40 days of annual paid leave, which will expire in two years. Employees are making use of these leave days on various occasions, such as for attending children’s school events, nursing children, and taking childcare support leave due to spouse’s childbirth.

## Coexistence with Local Communities

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 mid-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 activity utilizing its expertise in working in high places and facility checks at welfare facilities. In addition, we have cooperated in community activities, such as by donating volunteer patrol cars equipped with blue revolving lights, crime-prevention equipment, and emergency goods to cope with disasters. Moreover, in December 2019, as part of a project in commemoration of its 75th anniversary, the entire Kyudenko Group conducted cleaning activities at places including beaches, rivers, and parks in each region. This year marked the 52nd round of such activities, which have become familiar as a core of the Kyudenko Group's social contribution activities.



A community program, dedicating contributing activities to the local community

Cleaning a beach in December 2019

## Sports

### Kyudenko Track and Field Team

Backed by a 67-year history, the Kyudenko Track and Field Team trains daily aiming to win the Men's and Women's All Japan Industrial Teams Ekiden and produce Olympics athletes, with the purpose of "enhancing the corporate image of Kyudenko", "boosting employee morale", and "contributing to society", based on close ties with the local community.

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 45 consecutive years (the longest record of all participating teams) and has participated in the All Japan Industrial Teams Women's Ekiden (Miyagi) 28 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.

<Number of current members: 13 (long-distance) and 1 (jump) in total of 14 men and 11 women (long-distance), 25 members in total>

#### Enhancing the corporate image of Kyudenko

##### Participation in Marathon Grand Championship

Competitor Otsuka participated in the Tokyo 2020 Olympic Games Trial for Men's Marathon held on Sunday, September 15, 2019. He achieved an impressive 4th place (2 hours, 11 minutes, 58 seconds), securing an offer for the position of the first substitute.

#### Contributing to local community

##### Sports Class for Children

As part of "a community program, dedicating contributing activities to the local community", members of the Kyudenko Track and Field Team provide local-based sports events to children every April. The planned 10th round of the event in this year had to be cancelled due to the spread of COVID-19. Every year, we coordinate with the track and field teams in Fukuoka City and the track and field team of Fukuoka University for the event, attended by about 300 children.

Major achievements in recent years			
2015	World Championships (Beijing)	10,000m (Paul Tanui, 3rd place), marathon (Kazuhiro Maeda)	
2016	Rio 2016 Olympics	10,000m (Paul Tanui, 2nd place)	
2017	World Championships (UK)	10,000m (Paul Tanui, 3rd place)	
2019	Marathon Grand Championship	Marathon (Shohei Otsuka, 4th place)	



## Corporate Governance

### Basic policy

In order to establish the "Kyudenko Brand" that is supported and trusted by stakeholders including shareholders, customers and local community, and to realize appropriate and efficient corporate management, the Company upholds the "enhancement of corporate governance" as one of its important management issues, and accordingly will work to thoroughly ensure compliance with laws, regulations and corporate ethics, earnestly work to sustainably improve corporate value, and fulfill its corporate social responsibility.

### Corporate governance system

The Company adopts the organizational form of a company with Audit & Supervisory Board under the Companies Act and establishes a system where the Audit & Supervisory Board, a body independent from execution of operations, monitors and oversees the Board of Directors and Directors. By introducing the Executive Officer system, we separate the "decision-making and oversight function" and the "execution of operations function" of the Board of Directors to reinforce corporate governance as well as to practice efficient and speedy management. In addition, the Executive Officers who executes operations are conferred with necessary authorities to draw a clear line between the "oversight responsibility" of Directors and the "execution responsibility" of Executive Officers. The Company also aims to enhance corporate governance by building an "internal control system" aimed at securing and maintaining the harmony of risk management, efficiency, and compliance in operations.

### System for execution of operations and oversight function of the Board of Directors

The Company adopts the Executive Officer system where the Board of Directors determines important matters and oversees execution

### Organization form: Company with Audit & Supervisory Board

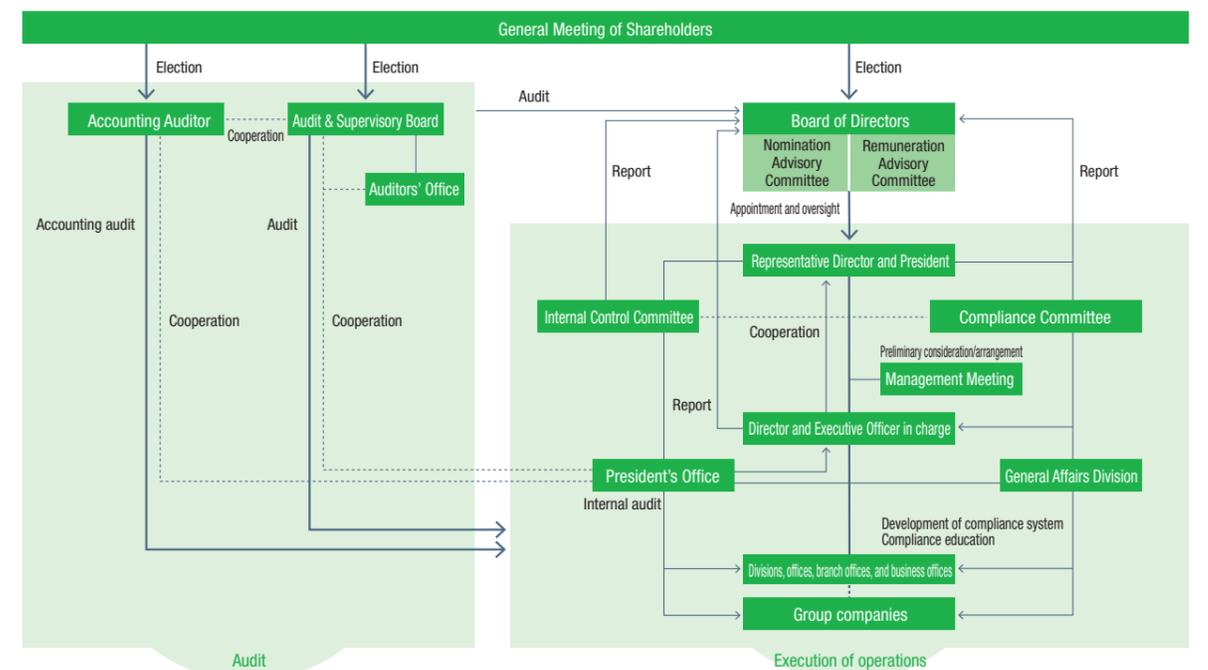
Directors	Number of Directors (of which, Outside Directors)	12 persons (2 persons)
Audit & Supervisory Board Members	Number of Audit & Supervisory Board Members (of which, Outside Audit & Supervisory Board Members)	5 persons (3 persons)
Number of Independent Directors/ Audit & Supervisory Board Members	Directors	2 persons
	Audit & Supervisory Board Members	2 persons

of operations, while the Executive Officers engage in the execution of operations based on decisions made by the Board of Directors.

The Articles of Incorporation stipulate that the number of Directors of the Company shall be 15 or less; the election of Directors shall be adopted a majority vote of the shareholders in attendance who hold one-third or more of the voting rights of shareholders entitled to exercise voting rights; and such election shall not be made by cumulative voting. The Company has two Outside Directors, who are designated as Independent Directors.

The Company, in principle, holds a meeting of the Board of Directors every month, and also establishes the Remuneration Advisory Committee and Nomination Advisory Committee, consisting of Directors including Independent Outside Directors, as an advisory body to secure transparency in decision-making and independence and objectivity of functions of the Board of Directors. The Management Meeting is held once a week to discuss the process and details of the management judgments concerning matters which require prior discussion and matters on important business execution to be deliberated at the meetings of the Board of Directors.

### Overview of corporate governance system



The Compliance Committee and Internal Control Committee are also established to supplement the functions of the Board of Directors. The Meeting of Branch Office General Managers is 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 11 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 submitted to the Board of Directors.

### 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 illegality 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, 2020)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.

The Company has also concluded an audit contract for internal control pursuant to the Financial Instruments and Exchange Act.

### Internal audit

The 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 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.

The General Affairs Division serves as a division in charge of compliance to formulate and amend Compliance Regulations and manuals, continuously conduct compliance education, as well as manage and operate a compliance desk that allows officers and employees to make a report directly. Any information received at this compliance desk is investigated, analyzed and organized, and then reported to the Compliance Committee chaired by Representative Director and President as well as the Board of Directors. The Compliance Committee Establishment Regulations provide for confidentiality of personal information concerning provision of information and the reporting party, and the fact of provision of information, as well as prohibition of unfair treatment for provision of information and the reporting party.

The Regulations on the Protection of Personal Information are also established with a basic policy which encourages active and proactive initiatives by clarifying procedures for protection of personal information, ensuring a responsible system and offering educations for employees in line with “Act on the Protection of Personal Information”, “Basic Policy on the Protection of Personal Information”, “Cabinet Order to Enforce the Act on the Protection of Personal Information”, and guidelines by ministries and agencies.

### 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\\_guideline.html](https://www.kyudenko.co.jp/ir/governance/cg_guideline.html) (Japanese)

### Outside Directors/Audit & Supervisory Board Members

The number of Directors of the Company is 12, 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 more than half of Audit & Supervisory Board Members. Although independence is not required for Outside Audit & Supervisory Board Members, the independence is evaluated if necessary based on the

“Independence Standards for Outside Directors/Audit & Supervisory Board Members”.

In order for Outside Directors/Audit & Supervisory Board Members to properly execute their roles and operations, the holding of concurrent positions as officers of other listed companies shall be limited to the minimum extent, and their concurrent positions are described in the Corporate Governance Report and notice of general meeting of shareholders. The Company has entered into an agreement with all Outside Directors and Outside Audit & Supervisory Board Members to limit their liability for damages pursuant to Article 423, Paragraph 1 of the Companies Act to the amount stipulated by laws and regulations.

### Independence Standards for Outside Directors/Audit & Supervisory Board Members

An Outside Director or Outside Audit & Supervisory Board Member (hereinafter referred to as “Outside Director/Audit & Supervisory Board Member”) is determined to be independent by the Company if none of the following attributes applies to:

**the Outside Director/Audit & Supervisory Board Member himself/herself, his/her spouse, or his/her relative within the second degree of kinship:**

- (1) A person who is an executive of the Company or a group company of the Company or was an executive of the Company or a group company of the Company within the past 10 years prior to his/her appointment as an Outside Director/Audit & Supervisory Board Member.
- (2) A person who is an executive of a corporation that is a business partner of the Company, and in any of the most recent three past fiscal years of the Company, has made payments to the Company representing more than 2% of non-consolidated net sales of the Company in that fiscal year; or a person who is an executive of a financial institution, which provides indispensable financing to the Company, and cannot be easily replaced because of the Company’s reliance on the financing from such institution.
- (3) A person who is an executive of a corporation of which the Company is a business partner, and in any of the most recent three past fiscal years of the Company, has received payments from the Company representing more than 5% of non-consolidated net sales of such corporation in its most recent fiscal year.
- (4) A person who received remuneration exceeding 10 million yen directly from the Company in any of the most recent three past fiscal years of the Company for providing professional services concerning law, accounting, tax affairs, or consulting services to the Company (excluding compensation as a Director or an Audit & Supervisory Board Member of the Company) (If the recipient of such remuneration is an organization, a person who is affiliated with such organization)
- (5) A person who belongs to an organization or an entity that received a donation or aid exceeding 10 million yen per year on average over the most recent three past fiscal years of the Company.

### Establishment of voluntary committees, structure of committee members and description of Chairperson

	Name of Committee	Number of Committee members (persons)	Number of full-time Committee members (persons)	Number of Internal Directors (persons)	Number of Outside Directors (persons)	Number of Outside experts (persons)	Number of other Committee members (persons)	Chairperson of Committee
Voluntary committee equivalent to Remuneration Committee	Remuneration Advisory Committee	5	0	3	2	0	0	Internal Director
Voluntary committee equivalent to Nomination Committee	Nomination Advisory Committee	5	0	3	2	0	0	Internal Director

- (6) A person who is an executive of a corporation, etc. that is a shareholder of the Company which substantially owns 10% or more of the voting rights of the Company.



### 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 for 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 amount of base remuneration for the purpose of promoting value sharing with shareholders as part of incentives to reflect the Company’s medium- to 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 corporate group consisting of the Company and its subsidiaries.

- 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 and seek consultation from.
- (5) When the General Affairs Division receives a report or whistleblowing 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.
- (6) We stipulate that any unfair treatment in terms of personnel affair, salaries and disturbance of the working environment for provision of information or a reporting party to the Kyudenko Group Compliance Desk is prohibited.
- (7) 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 risk of loss

- (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 chaired by Representative Director and President. In addition, the Directors in charge, etc. deliberate and determine countermeasures to report to the Board of Directors.

#### 4. System to ensure Directors’ efficient execution of their duties

- (1) The regulations on organization and administrative authority stipulate matters to be shared by each department/division, and basic roles, duties and authority, etc. of each position.
- (2) The Management Meeting consisting of Directors, etc. appointed by Representative Director and President is established for conducting preliminary discussions to facilitate the agenda of the Board of Directors meeting and to achieve efficient execution of operations.
- (3) The Board of Directors formulates the Mid-term Management Plan and implements IT-based management of monthly/quarterly financial results.

#### 5. The Company’s system to ensure compliance with laws and regulations, and the Articles of Incorporation in the execution of duties by Directors and employees of subsidiaries

- (1) The Company and its subsidiaries under the Company’s direct management (hereinafter referred to as “Subsidiaries, etc.”) work on nurturing compliance awareness for both Directors and employees based on the “Group Compliance Manual” established by the Company.
- (2) Any important compliance issues arising from the Subsidiaries, etc., are deliberated by the Compliance Committee of the Company, and the results are reported to the Board of Directors of the Company.
- (3) The Company has the Kyudenko Group Compliance Desk which allows employees of the Subsidiaries, etc. in Japan to make a report directly to the Company upon detection of compliance issues.

#### 6. The Company’s system regarding management of risk of loss of 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) Internal Control Department, President’s Office of the Company, 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.

#### 7. 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 Group’s strategies.

#### 8. 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.

- (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 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 other meetings including Management Meeting to share important decisions and reported matters of the Company.
- (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 Kyudenko Group Compliance Desk
  - iv) Other important matters of the Company
- (3) 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 damage the Company, they may directly report it to Audit & Supervisory Board Members.

#### 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 Kyudenko Group Compliance Desk 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

#### Disclosure 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.

#### Enhancement 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 and the Board of Directors 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.

Any forward-looking information stated herein are based on judgments by the Group as of the end of the fiscal year under review.

With the recognition of possible occurrence of these risks, the Group makes efforts to avoid the occurrence and appropriately and quickly respond to them in case of the occurrence.

The following factors are specific examples of major expected risks in continuing the Group's business, but not limited thereto.

##### 1. Economic conditions, etc.

Given that facility works of the Group are subject to capital investment trends of Kyushu Electric Power Transmission and Distribution Co., Inc., as well as domestic private companies and governmental agencies, restraint of such capital investment may affect the Group's business performance, etc.

In power distribution line work, the Group continues to work on the improvement of systems and contracts that enable more efficient and stable maintenance of power distribution networks in close communication with Kyushu Electric Power Transmission and Distribution Co., Inc. In general construction, the Group is working on increasing projects that are less affected by changes in economic conditions such as small-scale prime construction contracts through community-based sales activities and

maintenance and renewal contracts for projects it worked on. The Group also strives for the expansion of customers and diversification of construction types.

##### 2. Changes in costs of construction materials and labor

When costs of construction materials and labor significantly increase, and such costs are not able to be reflected in contract prices, the increased costs may affect the Group's business performance, etc.

For large-scale works that span long periods of time, the Group always applies front loading, ordering materials, selecting contractors and making arrangements at early stages of projects, in order to avoid risks. For costs of construction materials, the Group seeks economies of scale by using its dedicated material purchasing company Q-mast Co., Ltd. and accumulates expertise in material procurement in the Group to propose, for example, alternative materials. For labor costs, the Group is increasing the number of in-house technicians while developing multi-skilled workers to reduce risks arising from external factors.

##### 3. Credit 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.

The Company checks long-term accounts receivable at monthly meetings of Branch Office General Managers to avoid trade receivables from becoming bad debts. The Company practices a short-term, performance-based billing on a regular basis to reduce risks and holds a company-wide collection campaign twice a year to raise awareness about collection management.

##### 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.

In general, facility works, excluding power distribution line work, do not require large capital investment. When expanding into new areas, the Group usually rents facilities. For power distribution line work, the Group holds real estate in the entire Kyushu region and responds to emergency works and others. However, as new capital investments have been largely completed in prior periods, the Company now invests only in maintenance and upgrade of existing facilities and works associated with office relocation.

##### 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 include 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 by effectively utilizing its management resources and network. These businesses may affect the Group's business performance in case of changes in the business environment, such as the advancement of competition with competitors.

##### 6. Risk associated with renewable energy generation business

As projects in the renewable energy generation business generally require a long period of time, any significant changes in the business environment or occurrence of material disasters or accidents in business operations may lead to a decrease in profitability. In addition, projects not in operation yet, including the Ukujima mega solar plant, may affect the Group's business performance, etc. as a result of a delay in business plans due to the occurrence of unexpected issues.

The Group adopts projects after conducting sufficient preliminary study and consideration, and for major power plants, it takes measures to avoid or minimize expected risks, such as by concluding insurance contracts.

##### 7. Risk associated with overseas business

In overseas business activities, any changes in political or economic conditions or amendments to laws, regulations, and rules in local countries may affect the Group's business performance, etc.

To speed up information collection and crisis management, the Group has established a regional headquarters in Singapore and its Japanese staff works to ensure risk management.

##### 8. Retirement benefit obligation

When the performance results of pension plan assets of the Group differ from assumptions, actuarial differences are expensed over a certain period from the following year of occurrence. As such, any deterioration in yields or decline in discount rates for pension plan assets may affect the Group's business performance, etc.

The Pension Management Committee evaluates investment products every year while making efforts to maximize the investment efficiency in consideration of expected returns and risks. The Group works with external consultants to build a medium-term portfolio that reflects a duration from premium collection to benefit payment.

##### 9. Occurrence of natural disasters and epidemic of plague

When large-scale natural disasters or epidemic of plague occur, suspension or significant delay of construction work due to disrupted supply chains or business closure requests from authorities, damage to the Group's facilities or decrease in the number of workers may affect the Group's business performance, etc.

##### 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.

To completely eliminate this risk, the Group has set "Reform of Governance" as a priority theme of the Mid-term Management Plan to create a clean and transparent corporate culture.

## Interview with Outside Directors

To enhance the effectiveness of corporate governance and the Board of Directors, we will work to further improve the cooperation between the Board of Directors and concerned bodies and strengthen the functions of Outside Directors to advise and oversee management.

**Q** In the previous year's interview, some of the Outside Directors pointed out the need for livelier discussions. How do you see the deliberations that are currently taking place at the Board of Directors meetings?

**Watanabe** I think the effectiveness of the Board of Directors meetings has increased significantly. For example, since the beginning of 2020, we have started to receive information on questions and answers exchanged at the Management Meeting, which is a body that holds working-level discussions on important agenda items that require discussion prior to the Board of Directors meetings. The Investment and Loan Committee chaired by Vice President Kazuyuki Ishibashi has also shared with us its discussion process at its meetings. So, my honest impression is that it has become easier for Outside Directors to participate in discussions.

**Kuratomi** As Director Watanabe said, since we now have more information about the discussion processes at concerned bodies, I believe that the meetings of the Board of Directors have become livelier, especially since last year. We, Outside Directors, also have more opportunities to gain a deeper understanding of the Company's situation. Nevertheless, although the level of deliberations and agenda items is rising, I believe it can be enhanced further by including topics, for example, on CSR and safety in the discussions at the Board of Directors meetings.

**Watanabe** Safety and compliance have been the hottest topics. We should discuss more on these issues. As we said earlier, since we now have a broader view on the Company's situation, going forward, we would like to provide more advice and recommendations on a wider range of management topics from an outside perspective.

**Kuratomi** In terms of enhancing the effectiveness of the Board of Directors, it is important to bring up CSR, a fundamental component of management, as a discussion topic. For this purpose, it would be nice if the Company would give us, Outside Directors, the opportunities to visit work sites, in order to see for ourselves from an objective perspective and make sound decisions. We cannot understand the whole picture just by reading papers. Looking at people working hard at work sites or engaging in training will enable us to make relevant recommendations and comments from an outside perspective.

**Q** Please let us know your take on the new Mid-term Management Plan that started in FY2020.

**Watanabe** The targets set in the plan are aggressive, but attainable. To attain them, however, the Company needs to identify cross-departmental issues and share them among departments. This requires a process in which each department clearly understands its targets, thinks through what needs to be done to attain them, and doing it together. In that sense, the most important thing in pursuing the Mid-term Management Plan might be to take the challenging targets as opportunities to grow, and increase the resilience of members and organizations by tackling and overcoming various difficulties in achieving them.

**Kuratomi** I would like to give credit to the Company for continuing to uphold "establishment of the management base" as a main theme of the new Mid-term Management Plan, despite the solid success in the previous plan. Director Watanabe said that building the resilience of members and organizations is

### Outside Director **Akiyoshi Watanabe**

June 1996	Director, TOYOTA MOTOR CORPORATION
June 1998	Director, TOYOTA MOTOR KYUSHU, INC. (part-time)
June 2001	Managing Director, TOYOTA MOTOR CORPORATION
June 2002	Representative Director and President, TOYOTA MOTOR KYUSHU, INC.
June 2008	Representative Director and Chairman, TOYOTA MOTOR KYUSHU, INC.
June 2011	Advisor to TOYOTA MOTOR KYUSHU, INC.
June 2011	Director (part-time), the Company (to the present)



a key for successfully carrying out the new Mid-term Management Plan. I totally agree with his view. Pursuit of economic value should not be the utmost goal. Doing "what Kyudenko should do" and achieving "establishment of the management base" will naturally lead the Company to the defined targets. So, the first and foremost goal should be "establishment of the management base." From that perspective, I believe it would have been even better if the Company had included qualitative index in the plan to evaluate how well it utilizes its people, an important asset within the management base.

**Q** "Reform of Governance" is one of the three reforms prescribed in the new Mid-term Management Plan. What is your view on Kyudenko's governance and compliance?

**Watanabe** Kyudenko still has many issues in this arena. Compliance should be at the center of its management. This requires the Company to focus more on how to cultivate a corporate culture that respects compliance. It may sound harsh, but its corporate culture might have served as a root cause of the recent misconduct. After the incident, an investigation committee in which I and Director Kuratomi took part developed measures to prevent recurrence. In order that those recurrence measures will not be reduced to a formality, we intend to follow up on them to make sure that they stay effective and advise Directors to surely report to the Board of Directors meetings, from the standpoint of an Outside Director.

**Kuratomi** As represented by the move to strengthen the Corporate Governance Code, the business environment as a whole is changing rapidly. In this context, however, I think there are still some gaps not only between Kyudenko and society, but also between the industry as a whole to which Kyudenko belongs and society in terms of governance and compliance. What should the Company do to fill these gaps? As Director Watanabe said, the Company has already carried out a thorough

investigation and formulated a plan to prevent recurrence. The next step would be to follow the PDCA (plan-do-check-act) cycle, sharing lessons learned with employees and raising the level of the whole process even further. I believe the Company must follow a flow like this even more thoroughly.

**Q** Kyudenko will celebrate its 100th anniversary in 2044. Toward "100 Years of Sustainability," what are the issues that Kyudenko must tackle and what is your expectation of the Company?

**Watanabe** Looking at the current situation holistically, I think it is the best timing for executives and employees of Kyudenko to together create long-term visions by questioning themselves "what the Company should aim for" and "what they want the company to be" over the next 24 years to the 100th anniversary. Precisely because we live in an uncertain time, I would like the younger employees to envision what they want the company to be and go for it because they are the ones who will be playing a central role when the Company marks its 100th anniversary. Of course, there will be many twists and turns. But I believe they will tackle them with agility and a fresh mindset and overcome them with the best possible solutions at the time. I hope they keep moving forward with the long-term vision leading to the 100th anniversary as their guiding principle.

**Kuratomi** Considering the recent movements in terms of sustainability, I think Kyudenko's business and the digitalization trend go together well. The nation-wide digital transformation (DX) accelerated by the planned creation of the Digital Agency will also benefit Kyudenko. With experts in the field, Kyudenko has a potential to become a brand synonymous with DX in the Kyushu region. In October 2020, the Company established the DX Promotion Department, an organization dedicated to working on DX. Since the promotion of DX can lead to increased productivity and the realization of construction works that contribute to SDGs, we see it as a favorable and promising trend.

### Outside Director **Sumio Kuratomi**

June 2008	Director and Executive Officer, General Manager, City 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)
June 2016	Director (part-time), the Company (to the present)



## Management Team of Kyudenko

### Directors



**Matsuji Nishimura**  
Director and Chairman



**Naofumi Sato**  
Representative Director and President



**Hideki Takei**  
Representative Director and Vice President Executive Officer  
Representative, Tokyo Head Office



**Kazuyuki Ishibashi**  
Director and Vice President Executive Officer  
Responsible for overall business administration and CSR



**Masaaki Jono**  
Director and Vice President Executive Officer  
Responsible for overall technology and overall sales



**Yasuhiro Yamamoto**  
Director and Senior Managing Executive Officer  
General Manager, Sales Div.



**Yasuhiro Kashima**  
Director and Managing Executive Officer  
Responsible for the President's Office, human resources and labor affairs, general affairs, compliance, and internal control



**Keizo Fukui**  
Director and Managing Executive Officer  
Responsible for corporate strategic planning and finance



**Takahiro Hokahori**  
Director and Senior Executive Officer  
General Manager, Electric Power Div.  
Responsible for safety



**Kazuhiro Suyama**  
Director and Senior Executive Officer  
General Manager, Technology Div.  
Responsible for procurement



**Akiyoshi Watanabe**  
Director (part-time)



**Sumio Kuratomi**  
Director (part-time)

### Audit & Supervisory Board Members



**Isamu Ogata**  
Audit & Supervisory Board Member



**Shinji Kato**  
Audit & Supervisory Board Member



**Yasuyuki Fukushima**  
Audit & Supervisory Board Member (part-time)



**Michiaki Uriu**  
Audit & Supervisory Board Member (part-time)



**Yukinori Michinaga**  
Audit & Supervisory Board Member (part-time)

### Executive meeting arrangements

To prevent the spread of COVID-19, we are taking the following measures:

- Arrange meeting rooms to practice social distancing (e.g., avoid physical contact among participants, avoid placing seats directly facing each other)
- Use larger venues than normal meeting rooms
- Divide the venue into multiple rooms and live-broadcast the meetings online
- Ensure sanitization at entry points, mask wearing, and ventilation



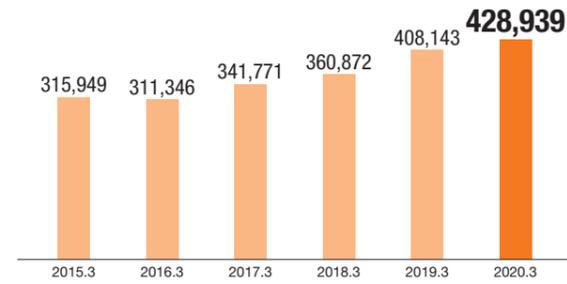
Board of Directors meeting



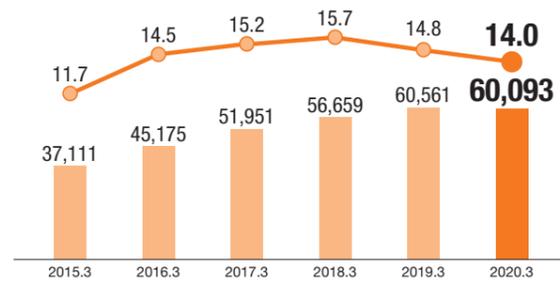
Branch Office General Managers meeting

# Financial and Non-financial Highlights

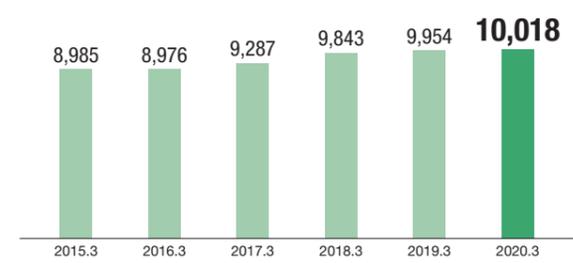
Sales (consolidated) (unit: million yen)



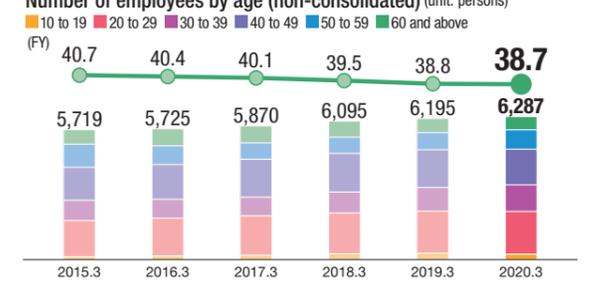
Gross profit (consolidated) (unit: million yen) Gross profit ratio (consolidated) (unit: %)



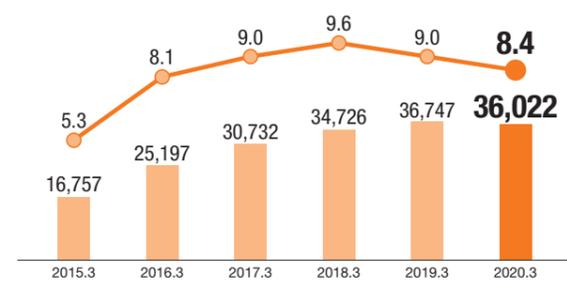
Number of employees (consolidated) (unit: persons) (FY)



Average age of employees (non-consolidated) (unit: years of age)



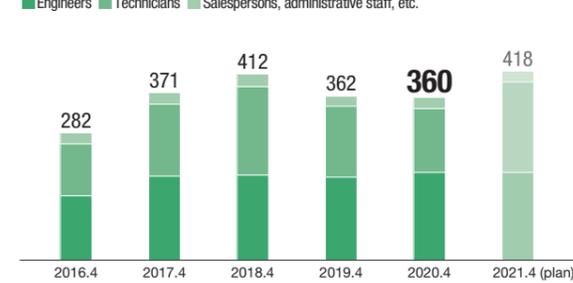
Operating profit (consolidated) (unit: million yen) Operating profit ratio (consolidated) (unit: %)



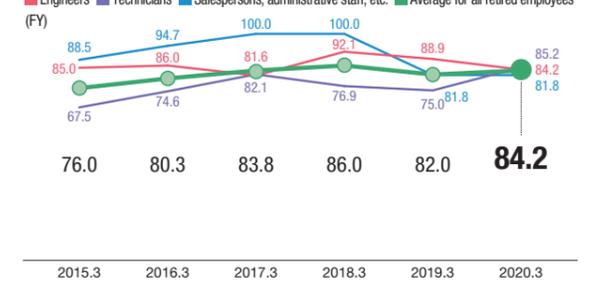
Ordinary profit (consolidated) (unit: million yen) Ordinary profit ratio (consolidated) (unit: %)



Results of periodic recruitment (non-consolidated) (unit: persons)



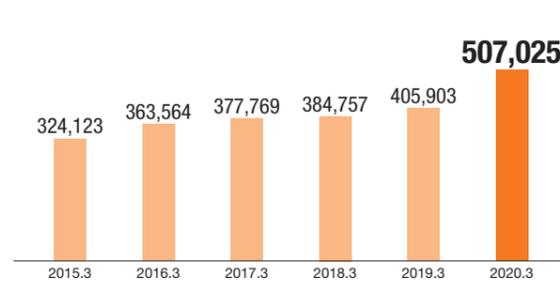
Re-employment rate of retired employees (non-consolidated) (unit: %) (FY)



Profit attributable to owners of parent (consolidated) (unit: million yen) Ratio of profit attributable to owners of parent (consolidated) (unit: %)



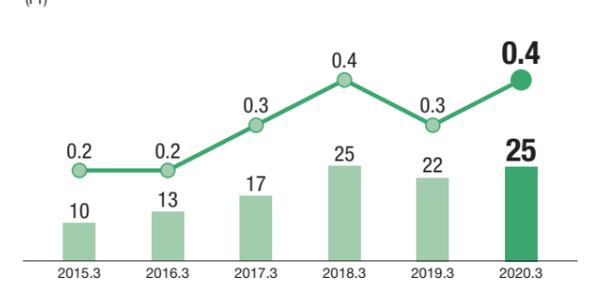
Orders (consolidated) (unit: million yen)



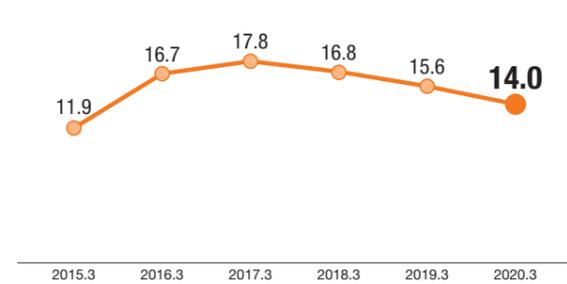
Number of female employees (unit: persons) and their ratio (unit: %) (non-consolidated) (FY)



Number of employees posted overseas (unit: persons) and their ratio (unit: %) (non-consolidated) (FY)



ROE (consolidated) (unit: %)



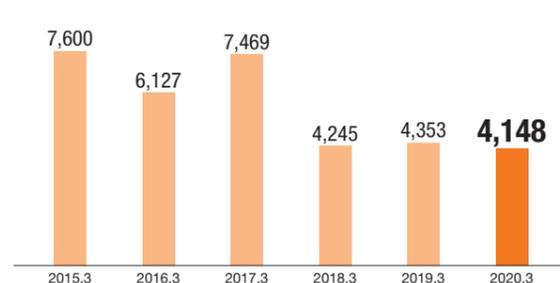
ROIC (consolidated) (unit: %)



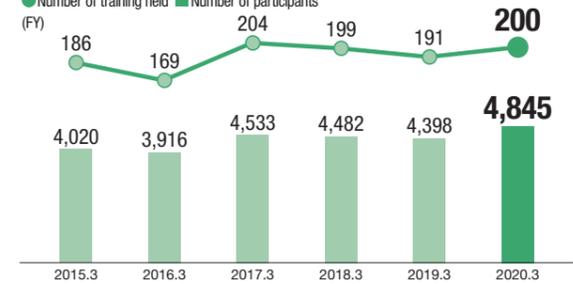
Cash dividends and dividend ratio (consolidated)



Capital investment (consolidated) (unit: million yen)



Number of training held at Kyudenko Academy (unit: times) and number of participants (unit: persons) (FY)



## 10-year Financial Summary

Financial item	(Unit: Million Yen)									
	2011.3	2012.3	2013.3	2014.3	2015.3	2016.3	2017.3	2018.3	2019.3	2020.3
Sales	248,577	246,660	239,282	279,310	315,949	311,346	341,771	360,872	408,143	428,939
Operating profit	6,186	1,821	4,371	7,136	16,757	25,197	30,732	34,726	36,747	36,022
Ordinary profit	7,874	3,278	5,744	8,908	18,163	27,551	32,187	37,342	39,924	38,643
Profit attributable to owners of parent	3,776	1,351	2,882	3,681	11,517	17,901	22,297	25,296	26,691	26,245
Capital investment	4,935	7,046	6,034	14,226	7,606	6,127	7,469	4,245	4,353	4,148
Depreciation and amortization	3,327	3,303	3,631	4,305	5,262	5,475	5,449	5,512	6,074	5,961
Research and development costs	266	263	275	313	288	255	235	286	326	290
Cash flows from operating activities	754	6,267	4,871	12,767	19,117	10,776	14,187	30,016	26,054	38,222
Cash flows from investing activities	(3,796)	(622)	(6,103)	(14,456)	(11,816)	(13,597)	(17,951)	(3,830)	(11,298)	(12,136)
Free cash flow	(3,041)	5,645	(1,231)	(1,688)	7,300	(2,820)	(3,763)	26,185	14,755	26,086
Cash dividends paid	743	733	730	733	1,190	2,295	3,732	5,635	7,108	7,099
Net assets	92,386	92,720	95,950	94,438	104,658	113,199	141,503	164,139	182,176	197,442
Total assets	219,207	195,393	211,944	225,727	254,861	261,985	300,261	324,919	357,271	368,482
Interest-bearing debt	25,512	8,619	15,966	25,319	33,939	31,986	36,128	20,078	19,189	17,854
	(Unit: yen)									
Net profit per share	51.05	18.41	39.46	51.95	174.54	272.45	327.22	356.89	375.17	370.00
Net assets per share	1,245.70	1,251.69	1,300.23	1,405.38	1,555.33	1,693.45	1,995.00	2,269.48	2,534.46	2,761.07
Cash dividends per share	10	10	10	13	25	45	70	90	100	100
Operating profit ratio (%)	2.5	0.7	1.8	2.6	5.3	8.1	9.0	9.6	9.0	8.4
Net profit margin (%)	1.5	0.5	1.2	1.3	3.6	5.7	6.5	7.0	6.5	6.1
Gross profit margin (%)	9.3	7.7	9.1	9.1	11.7	14.5	15.2	15.7	14.8	14.0
Return on equity (ROE) (%)	4.2	1.5	3.1	3.9	11.9	16.7	17.8	16.8	15.6	14.0
Return on asset (ROA) (%)	1.7	0.6	1.4	1.6	4.7	6.9	7.9	8.1	7.8	7.2
Return on invested capital (ROIC) (%)	3.1	1.0	2.5	3.9	8.5	11.9	13.0	13.2	13.1	11.7
Equity ratio (%)	41.7	47.0	44.8	41.1	40.3	42.4	46.6	49.7	50.5	53.1
Total asset turn over (times)	1.1	1.1	1.1	1.2	1.3	1.2	1.2	1.1	1.1	1.2
Payout ratio (%)	19.6	54.3	25.3	25.0	14.3	16.5	21.4	25.2	26.7	27.0

# Report on Financial Results and Financial Analysis

## (1) Overview of financial results for the year ended March 31, 2020

Looking at the environment surrounding the construction industry in the year ended March 31, 2020, the shortage of construction workers associated with tight construction schedules arose as a serious issue, amid a situation where works on large-scale projects for the Tokyo 2020 Olympic and Paralympic Games that were scheduled for delivery by the end of the fiscal year were reaching a peak.

As for the Group as well, a decline in profit margin became evident due to factors including the appreciation of labor costs in response to the tightening of the construction labor market and the occurrence of additional labor costs associated with construction schedule delays, mainly for large-scale projects in the metropolitan area with long construction schedules.

In such a business environment, the Group has defined this year, the final year of the Mid-term Management Plan (covering five years from FY2015 to FY2019), as a year of "completion and summarization." After verifying and analyzing the results up to this point and sorting out issues, the Group worked to transform itself into a company capable of achieving sustainable growth.

In addition, the Group devoted its energies to analyzing the causes of the profit margin decline and implementing measures for improvement, in addition to taking initiatives that include the expansion of business fields and areas, enhancement of profitability, improvement of the probability of receiving orders, and the strengthening of on-site capabilities. In terms of orders received, orders from government and municipal offices that centered on small- and medium-sized projects decreased due to designation suspension and business suspension orders that the Group received as a result of the legal violations of its employees. However, by combining the Group's knowhow in construction related to renewable energy and community-based sales capabilities, the Group was able to receive an order for an ultra-large-scale solar power plant project, whose per-project order amount was the largest on record, and initiated its construction work.

Results by business segment are as follows.

### Facility work

Sales increased by 19,179 million yen (4.9% increase) to 407,506 million yen as compared to the year ended March 31, 2019, due to the steady progress of the opening amount of work in hand, which increased year on year.

Segment income (operating profit) decreased by 1,179 million yen (3.4% decrease) to 33,770 million yen as compared to the year ended March 31, 2019, reflecting factors, including a decline in profit margin for large-scale projects.

### Other business

Sales increased by 1,616 million yen (8.2% increase) to 21,432 million yen as compared to the year ended March 31, 2019, due to factors such as an increase in sales business of construction-related materials and equipment.

Segment income (operating profit) increased by 339 million yen (19.5% increase) to 2,077 million yen as compared to the year ended March 31, 2019, with the increase in sales from business of construction-related materials and equipment sale.

## (2) Overview of financial position as of March 31, 2020

### Overview of assets, liabilities and net assets

#### Assets

Current assets increased by 10,001 million yen to 216,269 million yen as compared to March 31, 2019, as a result of factors such as an increase in cash on hand and in banks.

Fixed assets increased by 1,209 million yen to 152,212 million yen as compared to March 31, 2019, as a result of factors such as an increase in investments in securities.

As a result, total assets increased by 11,210 million yen to 368,482 million yen as compared to March 31, 2019.

#### Liabilities

Current liabilities increased by 578 million yen to 142,723 million yen as compared to March 31, 2019, as a result of factors such as an increase in advances received on uncompleted construction contracts.

Long-term liabilities decreased by 4,633 million yen to 28,316 million yen as compared to March 31, 2019, as a result of factors such as a decrease in liability for retirement benefits.

As a result, total liabilities decreased by 4,055 million yen to 171,039 million yen as compared to March 31, 2019.

### Net assets

Total net assets increased by 15,266 million yen to 197,442 million yen as compared to March 31, 2019, 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, 2020

Cash and cash equivalents (hereinafter referred to as "Cash") as of March 31, 2020 increased by 14,771 million yen to 54,964 million yen from March 31, 2019.

### Cash flows from operating activities

Cash provided by operating activities was 38,222 million yen (an increase of 12,168 million yen in cash inflow as compared to the year ended March 31, 2019).

This was mainly due to profit before income taxes and notes and accounts receivable on completed construction contracts collected exceeding notes and accounts payable on construction contracts settled and income taxes paid.

### Cash flows from investing activities

Cash used in investing activities was 12,136 million yen (an increase of 838 million yen in cash outflow as compared to the year ended March 31, 2019).

This was mainly due to purchase of investments in securities and purchase of property and equipment.

### Cash flows from financing activities

Cash used in financing activities was 11,250 million yen (an increase of 2,229 million yen in cash outflow as compared to the year ended March 31, 2019). This was mainly due to cash dividends paid.

## (4) Future outlook

As for the future of the construction industry, no major decline in construction demand had been assumed, based on factors including the continuously steady office market conditions, private capital investment following the introduction of 5G, and initiatives led by the Japanese government to increase national resilience and develop infrastructure. However, due to the spread of COVID-19 and the

postponement of the Tokyo 2020 Olympic and Paralympic Games, the Group assumes that certain issues concerning construction work delays and the securing of proper construction work periods will arise. These include a delay and review of the launch of new urban development projects and their construction periods, a shortage of construction workers and an increase in labor costs or material procurement delays associated with work style reform and a rise in the number of persons infected with COVID-19. There are also concerns for the downsizing and postponement of capital investment plans in response to a significant deterioration of business confidence in the service and other industries and sluggish production activities in the manufacturing industry.

Based on its awareness for such an environment, the Group will work to win orders and advance construction works with the aim of improving its profit margin. For small- and medium-sized projects, the Group will work to expand its customer base by proactively undertaking design and proposal activities for customers. For large-scale projects, the Group will identify target projects, taking construction periods and human resources into consideration, and work to improve the profit margin and work efficiency by continuing specific measures including front-loading, which is to examine measures for improving the entire working process during the stage before order receipt and during the initial stage of construction work. For power distribution line work, the Group will communicate closely with Kyushu Electric Power Transmission and Distribution Co., Inc., and promote work efficiency improvement and work style reform. At the same time, the Group will develop a construction system in agreement with plans for medium- and long-term investments in power distribution facilities.

(unit: million yen, lower row is composition ratio)

	The year ended March 31, 2019	The year ended March 31, 2020			
		Results	Year-on-year comparison	Plan	Progress
Sales	408,143 (100.0%)	428,939 (100.0%)	105.1%	418,000 (100.0%)	102.6%
Gross profit	60,561 (14.8%)	60,093 (14.0%)	99.2%	62,700 (15.0%)	95.8%
Operating profit	36,747 (9.0%)	36,022 (8.4%)	98.0%	38,000 (9.1%)	94.8%
Ordinary profit	39,924 (9.8%)	38,643 (9.0%)	96.8%	40,700 (9.7%)	94.9%
Profit attributable to owners of parent	26,691 (6.5%)	26,245 (6.1%)	98.3%	27,200 (6.5%)	96.5%
Net profit per share	375.17 yen		370.00 yen		382.31 yen

(unit: million yen, lower row is composition ratio)

	March 31, 2019	March 31, 2020	Increase/decrease	Major reason for increase/decrease	
Assets	Current assets	206,268 (57.7%)	216,269 (58.7%)	10,001	Cash on hand and in banks +14,834
	Fixed assets	151,002 (42.3%)	152,212 (41.3%)	1,209	Investments in securities +2,257
	Total assets	357,271 (100.0%)	368,482 (100.0%)	11,210	
Liabilities	Current liabilities	142,144 (39.8%)	142,723 (38.7%)	578	Advances received on uncompleted construction contracts +10,531, notes payable, accounts payable on construction contracts and other accounts payable (14,776)
	Long-term liabilities	32,949 (9.2%)	28,316 (7.7%)	(4,633)	Long-term debt (1,769)
	Total liabilities	175,094 (49.0%)	171,039 (46.4%)	(4,055)	
Total net assets	182,176 (51.0%)	197,442 (53.6%)	15,266	Retained earnings +18,241	
Total liabilities and net assets	357,271 (100.0%)	368,482 (100.0%)	11,210		

## Consolidated Balance Sheet

	(Unit: million yen)	
	March 2019	March 2020
<b>Assets</b>		
<b>Current assets</b>		
Cash on hand and in banks	41,017	55,851
Notes receivable, accounts receivable on completed construction contracts and other accounts receivable	150,612	139,746
Short-term investments	20	1,007
Costs of uncompleted construction	5,106	7,285
Merchandise	1,765	1,527
Raw materials and supplies	979	1,145
Other current assets	6,791	9,723
Allowance for doubtful accounts	(23)	(18)
<b>Total current assets</b>	<b>206,268</b>	<b>216,269</b>
<b>Fixed assets</b>		
<b>Property and equipment</b>		
Buildings and structures	66,155	69,346
Machinery, vehicles, tools, furniture and fixtures	41,095	40,709
Land	28,874	28,911
Leased assets	6,126	7,043
Construction in progress	1,757	772
Accumulated depreciation	(60,259)	(64,158)
<b>Total property and equipment</b>	<b>83,750</b>	<b>82,625</b>
<b>Intangible assets</b>		
Goodwill	343	182
Other intangible assets	986	1,465
<b>Total intangible assets</b>	<b>1,329</b>	<b>1,648</b>
<b>Investments and other assets</b>		
Investments in securities	53,772	56,030
Long-term loans receivable	1,179	1,209
Asset for retirement benefits	1,646	847
Deferred tax assets	5,720	6,539
Other	5,291	4,844
Allowance for doubtful accounts	(1,688)	(1,534)
<b>Total investments and other assets</b>	<b>65,922</b>	<b>67,938</b>
<b>Total fixed assets</b>	<b>151,002</b>	<b>152,212</b>
<b>Total assets</b>	<b>357,271</b>	<b>368,482</b>

	(Unit: million yen)	
	March 2019	March 2020
<b>Liabilities</b>		
<b>Current liabilities</b>		
Notes payable, accounts payable on construction contracts and other accounts payable	88,360	73,584
Electronically recorded obligations	21,094	27,894
Short-term borrowings	1,990	1,799
Income taxes payable	8,412	6,257
Advances received on uncompleted construction contracts	12,909	23,440
Provision for loss on construction contracts	—	12
Other current liabilities	9,377	9,734
<b>Total current liabilities</b>	<b>142,144</b>	<b>142,723</b>
<b>Long-term liabilities</b>		
Long-term debt	13,660	11,890
Lease obligations	2,596	3,016
Provision for retirement benefits for directors and audit and supervisory board members	324	337
Liability for retirement benefits	13,936	10,714
Other long-term liabilities	2,432	2,357
<b>Total long-term liabilities</b>	<b>32,949</b>	<b>28,316</b>
<b>Total liabilities</b>	<b>175,094</b>	<b>171,039</b>
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Common stock	12,561	12,561
Capital Surplus	13,012	12,982
Retained earnings	159,401	177,642
Treasury stock	(10)	(8)
<b>Total shareholders' equity</b>	<b>184,965</b>	<b>203,179</b>
<b>Accumulated other comprehensive loss</b>		
Unrealized holding gain on securities	3,585	745
Unrealized loss on hedging instruments	(423)	(540)
Translation adjustments	179	212
Retirement benefit liability adjustments	(7,988)	(7,985)
<b>Total accumulated other comprehensive loss</b>	<b>(4,647)</b>	<b>(7,567)</b>
<b>Non-controlling interests</b>	<b>1,858</b>	<b>1,831</b>
<b>Total net assets</b>	<b>182,176</b>	<b>197,442</b>
<b>Total liabilities and net assets</b>	<b>357,271</b>	<b>368,482</b>

## Consolidated Statement of Income

	(Unit: million yen)	
	FY2018	FY2019
Net sales		
Construction contracts	388,327	407,506
Other	19,816	21,432
<b>Total net sales</b>	<b>408,143</b>	<b>428,939</b>
Cost of sales		
Construction contracts	331,391	351,520
Other	16,191	17,325
<b>Total cost of sales</b>	<b>347,582</b>	<b>368,845</b>
Gross profit		
Construction contracts	56,935	55,986
Other	3,625	4,106
<b>Total gross profit</b>	<b>60,561</b>	<b>60,093</b>
Selling, general and administrative expenses	23,813	24,071
Operating profit	36,747	36,022
Non-operating income		
Interest income	62	66
Dividend income	564	662
Equity in earnings of affiliates	754	685
Gain on investments in partnership	976	1,117
Rent income	312	323
Other	1,251	570
<b>Total non-operating income</b>	<b>3,921</b>	<b>3,426</b>
Non-operating expenses		
Interest expenses	372	385
Extra retirement payments	80	60
Provisions of allowance for doubtful accounts of subsidiary	153	92
Compensation expenses	—	129
Other	137	137
<b>Total non-operating expenses</b>	<b>744</b>	<b>804</b>
Ordinary profit	39,924	38,643
Extraordinary income		
Gain on sales of property and equipment	63	6
Gain on sales of investments in securities	40	241
<b>Total extraordinary income</b>	<b>104</b>	<b>247</b>
Extraordinary loss		
Loss on disposal and sales of fixed assets	553	172
Loss on sales of investments in securities	15	0
Impairment loss on investments in securities	186	294
Loss on valuation of utility rights	13	—
<b>Total extraordinary loss</b>	<b>768</b>	<b>467</b>
Profit before income taxes	39,260	38,423
Income taxes – current	12,001	11,805
Income taxes – deferred	569	295
<b>Total income taxes</b>	<b>12,570</b>	<b>12,100</b>
Profit	26,689	26,322
Profit (loss) attributable to non-controlling interests	(1)	76
Profit attributable to owners of parent	26,691	26,245

# Consolidated Statement of Cash Flows

(Unit: million yen)

	FY2018	FY2019
<b>Cash flows from operating activities</b>		
Profit before income taxes	39,260	38,423
Depreciation and amortization	6,074	5,961
Increase (decrease) in allowance for doubtful accounts	575	(13)
Decrease in liability for retirement benefits and provision for retirement benefits for directors and audit and supervisory board members	(3,295)	(3,319)
Increase in provision for loss on construction contracts	—	12
Loss on valuation of utility rights	13	—
Gain on investments in partnership	(976)	(1,117)
Interest and dividend income	(626)	(729)
Interest expenses	372	385
Foreign exchange loss	22	46
Equity in earnings of affiliates	(541)	(306)
(Gain) loss on sales of property and equipment, net	(63)	25
Loss on disposal of fixed assets	553	140
Impairment loss on investments in securities	185	294
Gain on sales of investments in securities	(24)	(240)
(Increase) decrease in notes and accounts receivable on completed construction contracts	(23,007)	11,011
(Increase) decrease in costs of uncompleted construction contracts	1,585	(2,302)
(Decrease in inventories)	3,597	71
Increase (decrease) in notes and accounts payable on construction contracts	10,751	(7,981)
Increase in advances received on uncompleted construction contracts	6,073	10,678
Increase in long-term accounts payable	20	26
Increase (decrease) in consumption taxes, net	(1,896)	1,566
Other, net	(2,866)	(976)
Subtotal	35,786	51,657
Interest and dividend income received	604	762
Interest expenses paid	(384)	(385)
Income taxes paid	(9,952)	(13,812)
Net cash provided by operating activities	26,054	38,222
<b>Cash flows from investing activities</b>		
Payments into time deposits	(644)	(1,014)
Proceeds from withdrawal of time deposits	488	954
Purchase of property and equipment	(2,877)	(3,998)
Proceeds from sales of property and equipment	211	279
Payments of disposal of property, plant and equipment	(501)	(78)
Purchase of investments in securities	(9,334)	(8,649)
Proceeds from sales of investments in securities	2,405	1,076
Payments of long-term loans receivable	(289)	(381)
Collection of long-term loans receivable	181	222
Other, net	(938)	(546)
Net cash used in investing activities	(11,298)	(12,136)
<b>Cash flows from financing activities</b>		
Net increase (decrease) in short-term borrowings	(348)	3
Proceeds from long-term debt	7,496	—
Repayments of long-term debt	(8,040)	(1,963)
Purchase of treasury stock	(1)	(998)
Cash dividends paid	(7,108)	(7,099)
Cash dividends paid to non-controlling shareholders	(6)	(4)
Proceeds from share issuance to non-controlling shareholders	—	8
Repayments to non-controlling shareholders	(22)	(22)
Purchase of subsidiaries' shares not resulting in changes in scope of consolidation	(0)	(46)
Other, net	(988)	(1,125)
Net cash used in financing activities	(9,021)	(11,250)
Effect of exchange rate changes on cash and cash equivalents	(48)	(2)
Net increase in cash and cash equivalents	5,686	14,833
Cash and cash equivalents at the beginning of the year	34,505	40,192
Increase (decrease) in cash and cash equivalents resulting from changes in accounting period of consolidated subsidiaries	1	(61)
Cash and cash equivalents at the end of the year	40,192	54,964

# Corporate Profile

## Corporate Profile

(as of March 31, 2020)

Corporate Name	Kyudenko Corporation	Major Offices	[Japan]
Established	December 1, 1944	Head Office	Kagoshima Branch Office
Head Office	1-23-35 Nanokawa, Minamiku, Fukuoka city, 815-0081 JAPAN Tel: +81-92-523-1691 Fax: +81-92-524-3269	Tokyo Head Office	Kumamoto Branch Office
Capital	12,561 million yen	Fukuoka Branch Office	Nagasaki Branch Office
Number of Employees	(Consolidated) 10,018 (Non-consolidated) 6,287	Kitakyushu Branch Office	Saga Branch Office
Construction Business License	Approved by Minister of Land, Infrastructure, Transport and Tourism (Sp.29) No.1659	Oita Branch Office	Kansai Branch Office
	Electrical Contracting Work	Miyazaki Branch Office	Okinawa Branch Office
	Civil Engineering Business		Uku Project Development Office
	Telecommunications		
	Architectural and Construction Business		
	Engineering		
	Firefighting Facilities Work		
	Paving Work		
	Plumbing Work		
	Scaffolding and Excavation Business		
	Machinery, Equipment, and Facility Work		
	Steel Structure Work		
	Water Supply Facilities Work		
	Interior Finishing Business		
	Sanitation Facilities Work		

## Kyudenko Group (major subsidiaries)

(as of March 31, 2020)

Construction work	Regional Headquarters in South East Asia
Meikousha Co., Ltd.	Electrical and plumbing work
Kakusokukeisou Co., Ltd.	Electrical work
Jinnouchikoumutenn Co., Ltd.	Civil engineering, power transmission line, and electrical work
Fukuoka densetsu Co., Ltd.	Electrical and plumbing work
Fukuto densetsu Co., Ltd.	Electrical, telecommunications, and facility work
Chikugo densetsu Co., Ltd.	Electrical and telecommunications work
Fukusetsu Co., Ltd.	HVAC and plumbing work
Kitasetsu Co., Ltd.	Electrical, HVAC and plumbing work
Oita densetsu Co., Ltd.	Electrical work
Fusokogyo Co., Ltd.	Facility work and air conditioning equipment sales
Miyaei Co., Ltd.	Electrical and plumbing work
Minamikyushu densetsu Co., Ltd.	Electrical work
Kaei densetsu Co., Ltd.	Electrical work
Kyukinsetsu subikogyo Co., Ltd.	Facility work
Yuei densetsu Co., Ltd.	Electrical work
Kuma densetsu Co., Ltd.	Electrical, plumbing, firefighting facilities, and telecommunications work
Higo-setubi Co., Ltd.	HVAC and plumbing work
Choei Co., Ltd.	Electrical, plumbing, machinery, equipment, and facility work
Chohoku densetsu Co., Ltd.	Electrical, plumbing, telecommunications, water supply facilities, and firefighting facilities work
Kyusetsukogyo Co., Ltd.	Facility and plumbing work
Ariake densetsu Co., Ltd.	Electrical, telecommunications, civil engineering, and plumbing work
Kyutie Co., Ltd.	Electrical work
Syueidensetsu Co., Ltd.	Electrical facility work
Sanyudensetsu Co., Ltd.	Electrical facility, telecommunications, firefighting facilities, and plumbing work
Kyukousogosetsubi Co., Ltd.	Facility work
Ergotech Co., Ltd.	Facility work
Koteradengyo Co., Ltd.	Electrical facility work
Kawachikogyo Co., Ltd.	Facility, plumbing, and electrical work
Seiwakogyo Co., Ltd.	HVAC work
Ryuhou Engineering Corporation	Electrical and plumbing work
Kyulien environment improving Co., Ltd.	Environmental measurement and analysis, and design and construction of electrical, plumbing, and sanitary facility
Asia projects engineering Pte. Ltd.	Construction, installation, and maintenance work for Power, Oil & Gas plants, EPC work, and district cooling facilities
Kyudenko vietnam Co., Ltd.	Electrical, plumbing, HVAC and sanitary facility work, and consulting services on construction technology
Kyudenko malaysia Sdn. Bhd.	Design and construction works of electrical, HVAC and sanitary facility, and environmental energy
Kyudenko (Thailand) Co., Ltd.	Design and construction works of electrical, HVAC facility, and consulting service on energy saving
Kyudenko south east asia Pte. Ltd.	Regional Headquarters for Subsidiaries in South East Asia
Quatec corporation Co., Ltd.	Design
Setsubihoshu center Co., Ltd.	Maintenance of buildings and environmental facilities
Q-mast Co., Ltd.	Sales of industrial materials, machinery, and equipment for electric and HVAC facility
Rearun Co., Ltd.	Manufacture and sales of high-efficiency lighting equipment
Shibushi mega solar power generation Co., Ltd.	Supply of electricity generated by solar power, real estate management and other related business
Kagoshima solar farm Co., Ltd.	Supply of electricity generated by solar power, real estate management and other related business
Natori mega solar kyudenko green kikaku limited liability partnership	Power generation business and electricity sales business using solar power
Kyushudenko home Co., Ltd.	Construction, purchase and sale of real estate, lease brokerage, non-life insurance agency
Automation technology Co., Ltd.	Building information and telecommunication system, and research and development
System Co., Ltd.	Development and sale of transportation service management supporting system equipment
Portal Co., Ltd.	Temporary staffing service, fee-charging employment placement service, education consulting, events, and banquet business
Kyudenko friendly Co., Ltd.	Data conversion of blueprints and documents, printing, copying, bookbinding, business card printing
Net medical center Co., Ltd.	Remote medical image diagnosis support service using telecommunication system
Three in Co., Ltd.	Management of a business hotel, "Hotel Urbic Kagoshima"
Kyudenko hokuzan kanko Co., Ltd.	Management of a golf course, "HOKUZAN Country Club"
Bayside place hakata Co., Ltd.	Management of "Bayside Place Hakata"

## Stock Information

### Stock information

(as of March 31, 2020)

Fiscal year	Every year from April 1 to March 31 in the following year
Annual general meeting of shareholders	Held every year in June
Record date of dividends payment	Year-end March 31 Interim September 30
Method of public notice	Electronic public notice will be posted on the Company's website ( <a href="https://www.kyudenko.co.jp">https://www.kyudenko.co.jp</a> ). 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 Fukuoka Stock Exchange
Stock index	JPX-Nikkei Index 400
Securities code	1959
Category of business	Construction
Trading unit of shares	100 shares
Shareholder registry administrator	Sumitomo Mitsui Trust Bank, Limited 1-4-1 Marunouchi, Chiyoda-ku, Tokyo
Office of administrator	Stock Transfer Agency Business Planning Dept., Sumitomo Mitsui Trust Bank, Limited <a href="http://www.smtb.jp/personal/agency/">http://www.smtb.jp/personal/agency/</a> (Mailing address) Stock Transfer Agency Business Planning Dept., Sumitomo Mitsui Trust Bank, Limited 2-8-4 Izumi, Suginami-ku, Tokyo, 168-0063 (Contact number) Phone 0120-782-031 (toll-free in Japan) [Weekdays 9:00-17:00]

### Status of shares

(as of March 31, 2020)

Total number of authorized shares	250,000,000 shares
Total outstanding shares	70,864,961 shares
Number of shareholders	7,133

### Major shareholders

(as of March 31, 2020)

Name	Number of shares held (thousand shares)	Shareholding ratio (%)
Kyushu Electric Power Company, Incorporated	15,980	22.55
Japan Trustee Services Bank, Ltd. (trust account)	5,230	7.38
THE NISHI-NIPPON CITY BANK, LTD.	3,249	4.58
The Bank of Fukuoka, Ltd.	3,133	4.42
The Master Trust Bank of Japan, Ltd. (trust account)	2,970	4.19
Kyudenko Employees Shareholding Association	2,001	2.82
NORTHERN TRUST CO. (AVFC) RE MONDRIAN INTERNATIONAL SMALL CAP EQUITY FUND, L.P.	1,527	2.15
Kyudenko Labor Union	1,300	1.83
THE BANK OF NEW YORK MELLON 140044	1,253	1.76
Nishi-Nippon Railroad Co., Ltd.	1,142	1.61

Note: Shareholding ratio is calculated excluding treasury stock (18,870 shares).

### Distribution of shares

(as of March 31, 2020)



### 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 securing internal reserves necessary for further business expansion.

With respect to dividends, we will meet the expectations of our shareholders by maintaining continuous and stable dividend payment, based on a consolidated payout ratio target of 25%, comprehensively considering the business environment, performance, and financial condition.

#### Trend of dividends

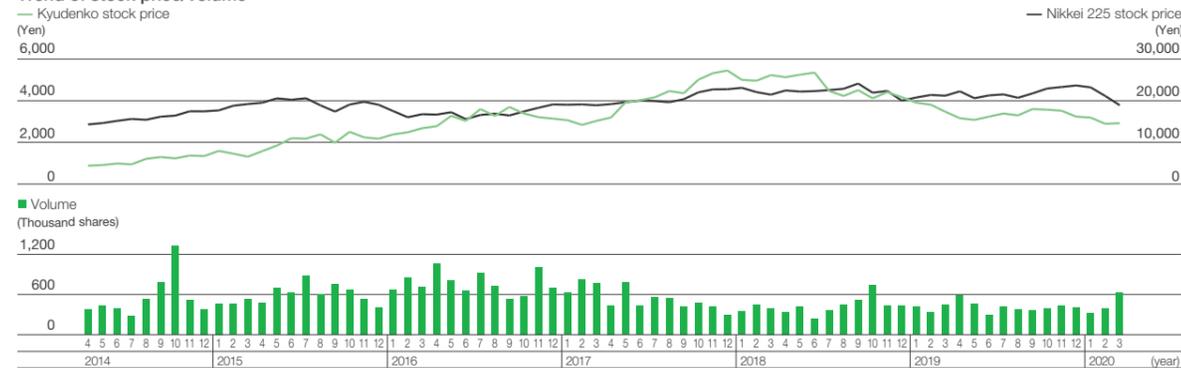
	2016.3	2017.3	2018.3	2019.3	2020.3	2021.3 (forecast)
Interim dividends	20 yen	30 yen	40 yen	50 yen	50 yen	50 yen
Year-end dividends	25 yen	40 yen	50 yen	50 yen	50 yen	50 yen
Total	45 yen	70 yen	90 yen	100 yen	100 yen	100 yen

#### Rating information

(as of March 31, 2020)

Name of rating institution	Name of rating	Rating
Rating and Investment Information, Inc. (R&I)	issuer rating	A <sup>+</sup>

#### Trend of stock price/volume



## List of Reference for Key Information

Contents	Information found in this report	Company website containing related information <a href="https://www.kyudenko.co.jp/company/">https://www.kyudenko.co.jp/company/</a> (Japanese)
Corporate Philosophy	Corporate Philosophy	<b>Corporate information &gt; Corporate Philosophy</b> <a href="https://www.kyudenko.co.jp/company/philosophy.html">https://www.kyudenko.co.jp/company/philosophy.html</a>
Management strategy	Message from the President	<b>Corporate information &gt; Greetings</b> <a href="https://www.kyudenko.co.jp/company/greeting.html">https://www.kyudenko.co.jp/company/greeting.html</a>
	Details of Mid-term Management Plan	
Business features and strengths	Investment in Business and Human Resources and Financial Strategies	<b>Business fields</b> <a href="https://www.kyudenko.co.jp/service/">https://www.kyudenko.co.jp/service/</a>
	Business of Kyudenko	
Creating and increasing corporate value	Performance by Business Category	<b>IR information &gt; Performance trend</b> <a href="https://www.kyudenko.co.jp/ir/trend.html">https://www.kyudenko.co.jp/ir/trend.html</a>
	Basic Concept of CSR	<b>CSR &gt; CSR management &gt; Kyudenko CSR structure</b> <a href="https://www.kyudenko.co.jp/csr/management/system.html">https://www.kyudenko.co.jp/csr/management/system.html</a>
Initiatives for Safety	Value Creation Process	<b>Kyudenko initiatives &gt; Initiatives for safety</b> <a href="https://www.kyudenko.co.jp/approach/safety/index.html">https://www.kyudenko.co.jp/approach/safety/index.html</a>
	Initiatives for Safety	
Relationship with stakeholders	Workplace and Labor Environment	<b>CSR &gt; Workplace and labor environment</b> <a href="https://www.kyudenko.co.jp/csr/workplace/index.html">https://www.kyudenko.co.jp/csr/workplace/index.html</a>
	Coexistence with Local Communities	<b>CSR &gt; Coexistence with local communities</b> <a href="https://www.kyudenko.co.jp/csr/local_sybiosis/index.html">https://www.kyudenko.co.jp/csr/local_sybiosis/index.html</a> <b>Kyudenko initiatives &gt; social contribution and environmental activities</b> <a href="https://www.kyudenko.co.jp/approach/philanthropy/">https://www.kyudenko.co.jp/approach/philanthropy/</a>
Corporate governance	Corporate Governance	<b>IR information &gt; Corporate governance</b> <a href="https://www.kyudenko.co.jp/ir/governance/">https://www.kyudenko.co.jp/ir/governance/</a>
	Interview with Outside Directors	
Financial data	Financial and Non-financial Highlights	<b>IR information &gt; Financial results (securities reports and financial results)</b> <a href="https://www.kyudenko.co.jp/ir/financial/">https://www.kyudenko.co.jp/ir/financial/</a>
	Data Section	<b>IR information &gt; Performance trend</b> <a href="https://www.kyudenko.co.jp/ir/trend.html">https://www.kyudenko.co.jp/ir/trend.html</a>

# Kyudenko Corporation

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