

Integrated Report

KYUDENKO REPORT 2019

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.**



1. Introduction

| | |
|-------------------------------|-----------|
| • Corporate Philosophy | 01 |
| • Message from the President | 03 |
| • Management Team of Kyudenko | 09 |

2. Growth and Development of the Kyudenko Group

| | |
|--|-----------|
| (1) 75 Years of Kyudenko | 11 |
| (2) Business of Kyudenko | 13 |
| (3) Performance by Business Category | 15 |
| i) Electrical work | |
| ii) Heating, Ventilation, and Air Conditioning (HVAC) and sanitary facility work | |
| iii) Power distribution line work | |
| iv) Renewable energy generation plant work | |
| v) Non-facility work | |
| (4) Overseas Business of Kyudenko | 21 |
| (5) Business Locations | 22 |
| (6) Corporate Value Creation Model | 23 |
| (7) Progress of Mid-term Management Plan | 25 |
| (8) Six Strategies of Differentiation | 25 |
| (9) Investment in Business and Human Resources and Financial Strategies | 27 |
| (10) Financial and Non-financial Highlights | 29 |
| Special Feature Creating optimal harmony of "People," "Environment" and "Engineering Skill" as an integrated utilities engineering service | 31 |

"Kyudenko EMS" which can distribute renewable energy stably

The institution to human resource development for our brilliant future by polishing know-how, technical skill and spirit

Supporting various aspects of life by protecting infrastructure throughout Kyushu

3. ESG...Foundation to Support Value Creation

| | |
|--|-----------|
| (1) Corporate Governance | 36 |
| (2) Basic Concept of CSR | 43 |
| (3) Initiatives for Safety | 44 |
| (4) Workplace and Labor Environment | 45 |
| (5) Coexistence with Local Communities | 46 |
| (6) Sports | 46 |
| (7) Interview with Outside Directors | 47 |

4. Data Section

| | |
|--|-----------|
| (1) 10-year Financial Summary | 49 |
| (2) Report on Financial Results and Financial Analysis | 51 |
| (3) Consolidated Balance Sheet | 53 |
| (4) Consolidated Statement of Income | 54 |
| (5) Consolidated Statement of Cash Flows | 55 |
| (6) Corporate Profile | 56 |
| (7) Stock Information | 57 |
| (8) List of Reference for Key Information | 58 |

Disclaimer regarding forward-looking statements

This Kyudenko Report 2019 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 42, but factors that may affect the results are not limited to those described therein.



Message from the President

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

Matsuji Nishimura
Representative Director and President

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

The Kyudenko Group will mark the 75th anniversary of its foundation on December 1, 2019.

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

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

In the recent 25 years, we were able to expand our business scope and further enhance the Kyudenko brand amid the lost 20 years, Japan's prolonged stagnation after the collapse of the bubble economy and its following breakthrough. Specifically, in a continued severe management environment with a sharp decrease in construction demand, we made efforts to reinforce our cost competitiveness and technical capabilities as well as strengthen the quality and quantity of human resources, which is the biggest management resource in the construction industry, and made steady progress toward the creation of a corporation that can respond to labor shortages associated with the recent recovery in construction demand and the aging society.

Looking back at any period of our history, the Kyudenko Group has always moved forward to take on the challenge of new technologies, business fields and sales areas to solve the inconveniences and issues faced by customers. I believe this attitude enabled the Group to grow together with people in the region. In terms of the environment, we have taken full advantage of our technical capabilities to resolve social issues, such as public hazards and air pollution during the high economic growth period, and for the reduction of

carbon dioxide emissions and use of fossil fuels by utilizing natural energy.

With the Corporate Philosophy of the Kyudenko Group - "We contribute to society through providing agreeable environmental solution," "We keep challenging for sustainable development through our engineering strength and create a new value," and "We aim to create mutual respecting environment in Kyudenko which utilize and develop employees' personality," the Group has a basic

management policy to fulfill a social mission as an integrated utilities engineering service company which engages in the design and installation of electrics, HVAC and sanitary, and telecommunications, and become a company growing together with customers and the local community. I believe that the sources of ongoing creation of new value in the long term are personnel with reliable technical capabilities, and the essence of strength of the Kyudenko Group lies in the harmonization of people and technology.

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

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

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

Over the last five years, approximately 1,000 staff, equivalent to 10% of the total, joined the Group. The Kyudenko Group has firmly held a policy that "engineers are not fixed costs but management resources essential to boost financial results and the Company's growth", which led the Group to acquire personnel prior to other companies in the period of economic recovery. The Group continued to recruit people even during the period of economic slowdown, which led to earning trust from schools and people in the

local community, and this fact continues to be one of the strengths of the Kyudenko Group in the current period of labor shortage. Staff employed in the first fiscal year of the Mid-term Management Plan have become more reliable after experiencing five years of service. I expect them to support the future growth of the Group.

Based on the Mid-term Management Plan, we have enhanced our cost competitiveness by combining our sales force, technological force and on-site capabilities so that we can win the competition.

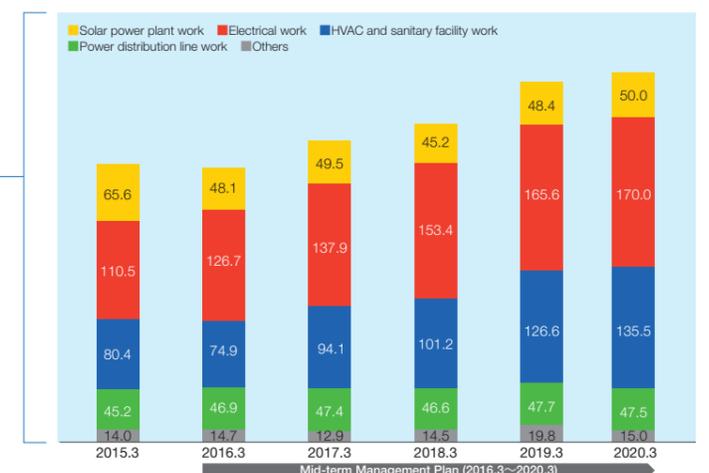
As the construction industry is a moving industry where a work site moves from here to there, a physical and psychological distance tends to arise between the management of head office/branch offices and on-site staff. In order to resolve this issue, the Technology Management Department and Team were established in the head office and branch offices to increase the engagement of the management with work sites. Review meetings for construction works were held several times with involvement by the management from the quotation stage until the follow-up stage after the completion/handover to facilitate company-wide sharing of know-how and visualization of work sites. Enhancing the transparency in work sites and costs is highly significant in terms of compliance as well.

Meanwhile, new issues were found for FY2019.

Plan for March 2020 (Consolidated)

| | March 2019 Result | Plan for March 2020 |
|---|-------------------|---------------------|
| Sales | 408.1 | 418.0 |
| Operating profit | 36.7 | 38.0 |
| Ordinary profit | 39.9 | 40.7 |
| Profit attributable to owners of parent | 26.6 | 27.2 |
| Orders | 405.9 | 425.0 |

Road map of sales plan (Billion Yen)



Message from the President

Regarding the financial results for FY2018, the profit margin decreased by approximately 1% compared to the previous year. While the work style reform is being promoted, construction schedules are becoming extremely tight due to the rush for completion of construction works associated with the Tokyo 2020 Olympic and Paralympic Games, and thus we must enhance our productivity. Affected by labor shortages in construction and manufacturing sites, unit costs for labor and materials are increasing, and it has therefore become increasingly important to manage detailed

working process and procure staff and materials at the earliest possible stage. Due to the decrease in the profit margin, the Kyudenko Group promptly held a meeting for profit margin measures in April, attended by general managers and managers of Technology Departments of all branch offices. A range of large and small issues were identified at the meeting, and it was decided that measures to solve these issues shall be shared every month. Although various types of new issues may arise in the future, we will identify them at an early stage to address them speedily.

material prices. Small-scale works, in which such risks are small, will therefore highly contribute to stable management.

With regard to construction of solar power plants, while the number of projects already reached its peak, there are still multiple ultra-large-scale projects under development. The Kyudenko Group has established a business development-based business model, which engages in both facility construction and businesses such as PFI (Private Finance Initiative) and renewable energy generation businesses to differentiate from other facility work operators. While conducting planning and development in alliance with

other industries such as energy and leasing, we strive not only to acquire construction work orders but to gain returns through investments. Such management stance and technologies capable of providing one-stop construction services for overall facility have been appreciated by our alliance partners, bringing us information for construction of solar power plants, which already came to an end at other companies. As this business model is also effective for other renewable energy related businesses including wind power and biomass, and decentralized energy plans, our involvement in these businesses is also increasing every year.

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

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

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

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

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

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

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

Currently, we are working on the dissemination of the Kyudenko EMS. This Kyudenko EMS is a globally patented system that combines renewable energy generation facilities

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

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

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

In terms of safety, there have been many disasters, and in some cases, valuable lives of our coworkers were lost. When we analyze the reasons for past accidents in detail, we always discover things that make us say "again?". Why does the same tragedies happen again and again? Do people forget the shock of accidents of their colleagues?

At an education facility called the Kyudenko Academy, the Kyudenko Group established a permanent facility "Safety

Heritage Facility" to relive the experience of past disasters. The exhibition includes painful videos and pictures, and contents of pre-work meetings, and the overall Group is making efforts not to let the past failures fade away.

In terms of sanitation, the Group places health of employees as one of its important management resources. Recognizing that support for health enhancement activities led by employees and organizational promotion of health activities are essential to corporate growth, the Group adopted the Kyudenko's "Health Management Declaration". 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. The Kyudenko Group will reinforce the health management and health enhancement activities for its employees.



Message from the President

Q What kind of employees do you seek for and what is the importance of human resources?

As I mentioned before, the Kyudenko Group has steadily strengthened its human resources, which are our greatest management resources. We are proud that the number of our new recruits is ranked number one in the construction industry, surpassing leading general contractors. Amid the recent clamor about labor shortages and difficulty in recruitment, our capability for steadily employing competent staff centered in Kyushu is the outcome of our ongoing business activities rooted in the region, and I strongly feel that we have to respond to the trust placed in us by people in the region by nurturing our staff to become independent Kyudenko men/women.

The idea that underlies our human resources development is our desire to nurture Kyudenko Group employees who have imaginative minds to think from the perspectives of customers, people of the local community and coworkers in the course of their daily work and to develop self-established persons who can think and act on their own. The Company also strongly encourages employees to contribute to society with an awareness that they represent Kyudenko.

Under the philosophy that “employees are the greatest assets”, the Kyudenko Group established and opened the Kyudenko Academy as an institution for human resource development of the Kyudenko Group in 2012. The academy conducts a wide range of trainings to nurture well-balanced person in terms of all aspects of knowledge, physical strength and mental strength.

The Kyudenko Group has a relatively high percentage of students who join the Company after graduating high school, compared to other companies. Accordingly, the academy's program for new recruits offers training focused on principles and manners as a member of society, including training in greetings and basic actions. The program guides employees the first step toward becoming a person with excellent personality through cultivating the mindset for ensuring safety, enhancing teamwork and building a healthy body and mind.

Q Could you give a message to stakeholders?

Thanks to all of you, Kyudenko has grown with its customers, business partners, local communities, employees and shareholders over as long as 75 years. Going forward, we aim for an optimal harmony of “People”, “Environment” and “Engineering Skill”, and take the challenge and solve all issues of society to remain a helpful corporation trusted by

Even after joining the Company, a range of training programs are conducted in a timely manner to reinforce the internal network and develop employees who can realize company-wide optimization by overseeing the overall company from a management perspective, including a younger generation elder training, qualification acquisition training, training for management candidates and training for next-generation leaders.

In recent years, we especially focus on the recruitment and development of new graduates for technicians and professionals who directly engage in construction works. We expect that shortages of construction workers will continue. Although the utilization of foreign workers is an option going forward, retaining and reinforcing human resources with reliable technical capabilities and skills within the Group will continuously facilitate further differentiation of the Kyudenko Group.

As part of the above initiatives, for the purpose of promoting active involvement by women in the construction industry, the Group employed new female recruits, 10 staff in April 2018 and nine staff in April 2019, as site technicians working at electricity sites. In addition, in order to nurture next generation leaders of technicians working on site, we encourage employees to participate in the “Skill Olympics”, where young engineers compete their technical skill levels. To fully support our employees, the academy is equipped with training rooms designed to practice skills for the Skill Olympics. We also work to raise the overall skill level by transferring predecessors' skills and technologies to junior staff.

all of you. In a changing society, we will always question ourselves whether our business activities properly satisfy social needs, and continue to change. We ensure strict compliance with laws and regulations in all business activities so that misconducts will never happen again. We appreciate your continued support.

Corporate governance and violation of compliance

We sincerely extend our apologies to shareholders and relevant parties for much inconvenience caused due to violation of laws and regulations by an employee of the Company concerning bidding of a construction project of Chikujyo town water and waste sewage treatment facility. The Group has taken this situation seriously and has put forth every effort in grasping the fact and detecting the cause at an early stage.

While the Group has worked on strict compliance across all companies from the past, given this incident, it has

established recurrence prevention measures as described below, based on the facts discovered and detection of the causes regarding this event.

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

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

President's Declaration to Stop Misconducts

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

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

Recurrence prevention measures

1. Enhance compliance awareness

- (1) Reform employee's awareness to create a corporate culture in which misconducts can be detected
- (2) Reeducate compliance thoroughly
 - Implement thorough education by “reestablishing the education framework” based on required knowledge on laws and regulations by position and job scope as well as past events.
- (3) Formulate and disseminate “sales representatives action guidelines” thoroughly
 - Clarify actions considered as misconducts in all sales activities, and implement education for sales representatives based on the guidelines.
- (4) Raise awareness for the prevention of misconducts
 - Include a check item such as “a seal for acknowledgement of compliance with laws and regulations” in internal documents for construction bidding.

2. Enhance in-house check functions

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

3. Review of outsourcing order scheme

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

4. Thorough prevention of misconducts at outsourcing companies

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

5. Enhancement of reporting systems and stricter internal disciplinary action

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

Management Team of Kyudenko



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

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

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

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

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

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

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

Matsuji Nishimura
Representative Director and President

Naofumi Sato Director and Chairman

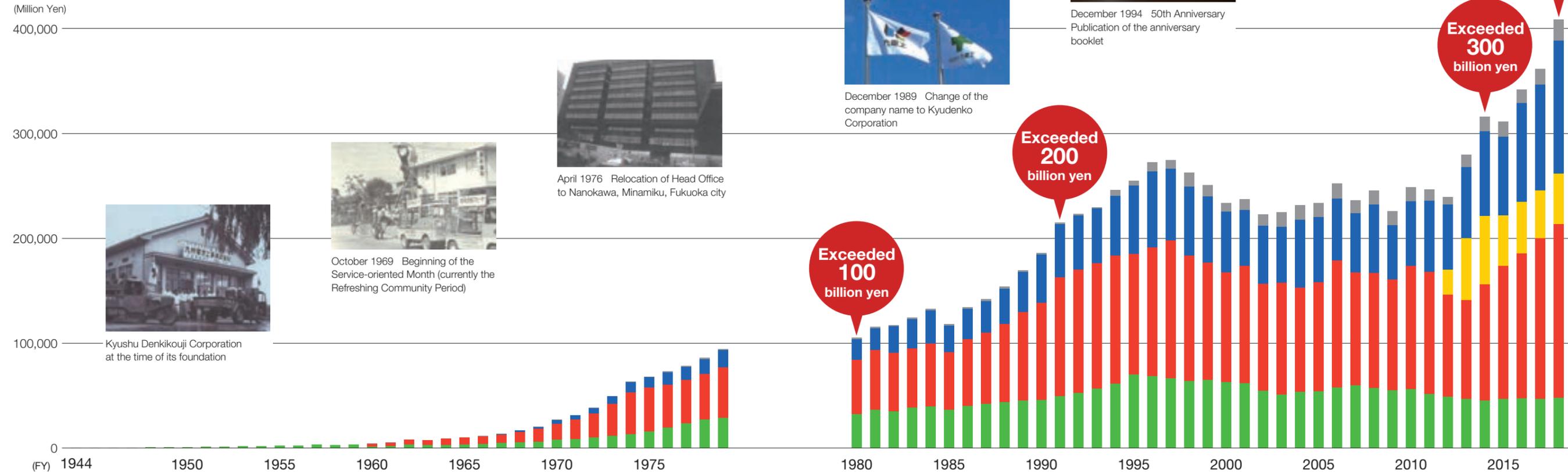
Seiki Ino Representative Director
Vice President Executive Officer, Representative, Tokyo Head Office

Akiyoshi Watanabe Director (part-time)
Independent Director, Outside Director

(1) 75 Years of Kyudenko

Sales

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



Kyushu Denkkouji Corporation at the time of its foundation



October 1969 Beginning of the Service-oriented Month (currently the Refreshing Community Period)



April 1976 Relocation of Head Office to Nanokawa, Minamiku, Fukuoka city



December 1989 Change of the company name to Kyudenko Corporation



December 1994 50th Anniversary Publication of the anniversary booklet



March 2012 Newly established a training center "Kyudenko Academy"

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

Kyudenko was established in December 1944 as "Kyushu Denkkouji Corporation" (former Kyudenko) by integrating fourteen electric work companies in Kyushu.

- December 1944 Established Kyushu Denkkouji Corporation
Paid in capital 2.5 million yen
Head Office 11 Hasuikemachi, Fukuoka city
- October 1945 Opened Tokyo Satellite Office (current Tokyo Head Office)
- June 1947 Concluded an agreement on contracted power distribution line work with Kyushu Haiden Co., Ltd. (current Kyushu Electric Power Company, Incorporated)
- February 1952 Relocated Head Office to Denki Building
- May 1962 Opened a training center (current Kyudenko Academy)
- July 1964 Started operation of HVAC and sanitary facility work
- February 1965 Opened Osaka Office (current Kansai Branch Office)
- March 1968 Opened Nagoya Sales Office (current Nagoya regional office)

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

The Company was listed on the Fukuoka Stock Exchange and Osaka Exchange (second section) in November 1968, and designated to the first section of the Tokyo Stock Exchange and Osaka Exchange in September 1972. In December 1989, the company name was changed to the current "Kyudenko", and it marked the 50th anniversary in 1994.

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

New management stage with expansion into the metropolitan area and overseas

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

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



Origin of our logo

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

The cuboid extending toward the upper right direction symbolizes our will to pursue dynamic growth.

(2) Business of Kyudenko

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

Power Distribution Line Work

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



Sales 47.7 billion yen
Power distribution line and underground distribution line, etc.

HVAC and sanitary facility work

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



Sales 129.1 billion yen
Air conditioning, plumbing and sanitary, etc.



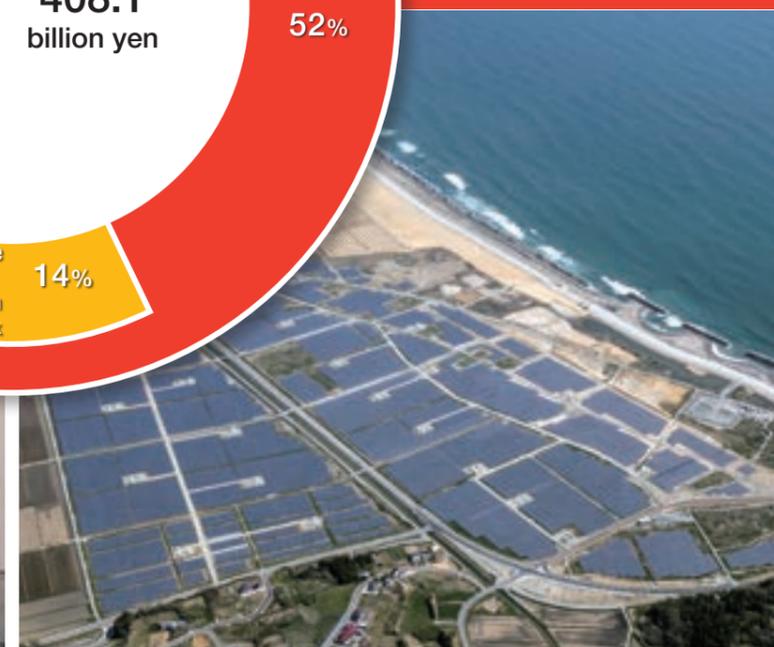
Sales 211.4 billion yen
Electrical, telecommunications and energy, etc.

Electrical work

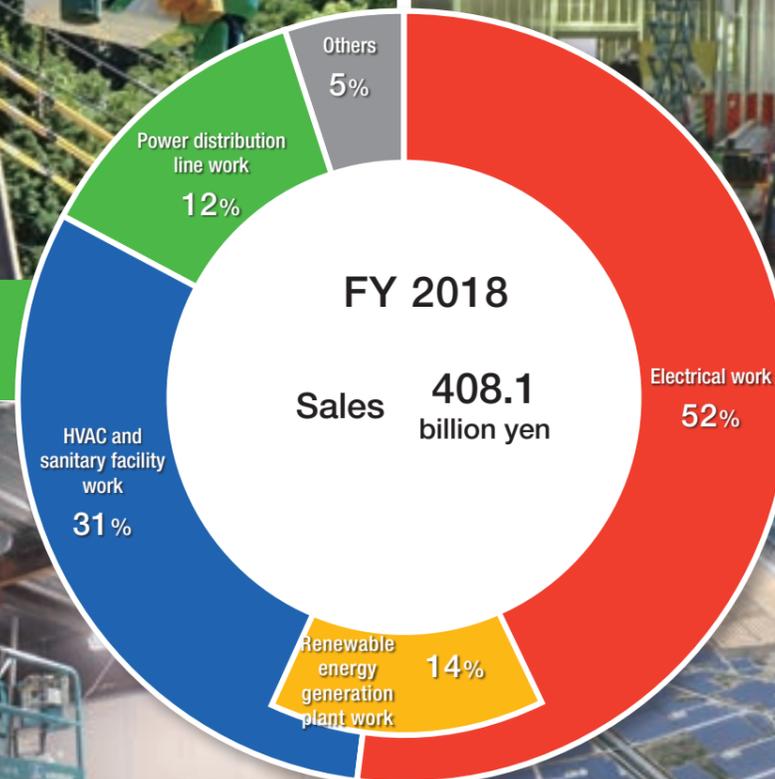
Electrical division installs substation equipment in order to receive electricity from the power company, as well as power source for mechanical equipment, lighting equipment, switches, plugs, low power equipment, anti-disaster facilities and communication facilities, so that they can be used safely and conveniently. Construction managers are responsible for the design and cost calculation of such facilities, preparation of drawings, management of safety, working process, quality and costs for the construction work, while technicians are responsible for the wiring and installation work on site.

Renewable energy generation plant work

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



Sales 57.0 billion yen
Construction of solar, wind, biomass, and other power generation plants



i) Electrical work



Kumamoto Kenmin Television



DaiyaGate Ikebukuro



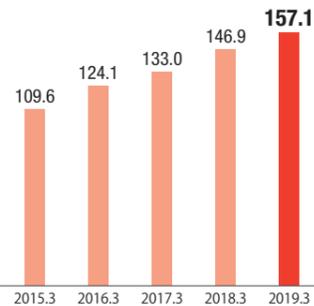
JR Hakata City



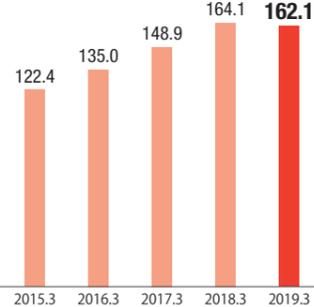
Kindai University Higashiosaka Campus (ACADEMIC THEATER)

ii) HVAC and sanitary facility work

Sales (Billion Yen) [excluding renewable energy work]



Orders (Billion Yen) [excluding renewable energy work]



Business environment/performance trend

- Sales increased by 6.9% year-on-year and orders received decreased by 1.2% year-on-year. Sales progressed steadily on the back of abundant work in hand, while orders received decreased mainly in Kanto.
- Orders received by region were 73.0% in Kyushu, 20.8% in Kanto, Tohoku and Chubu, 5.9% in Kansai, and 0.3% overseas.
- With high technical capabilities and abundant expertise, we offer electrical facilities that people can use safely in various places, such as increasingly complicated and multifunctional office buildings, commercial buildings, factories, educational and cultural facilities, and resort facilities, in order to contribute to society.

Business strategy

- We will work to offer clients highly efficient, stable and safe electric and instrumentation facility at a competitive price and with high quality by promoting IT, considering introduction of advanced technology such as VR and AI, and improving productivity on an ongoing basis.
- We will strengthen our cost competitiveness through "creation of minimum costs", and realize ongoing improvement of the profit margin.
- Construction managers and technicians in over 100 sales offices across Japan will directly grasp issues concerning customers' facilities and respond to their needs comprehensively and speedily by making technical proposals involving the entire electrical, HVAC and sanitary facility divisions.
- We will secure workforce through active recruitment, and nurture a number of technicians who can conduct a set of electrical facilities work in buildings of any size and for any purpose.
- We will further strengthen our initiatives to acquire more orders for hotels, apartments and energy service business, which are areas where there are potential for growth in demand.

Pick-up

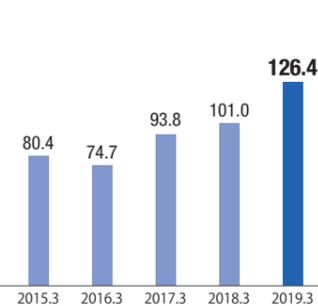
Realization of "Electric/HVAC Paired Construction Management" by nurturing multi-skilled engineers

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

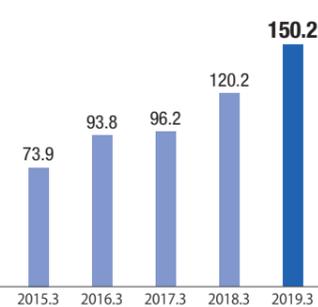


AEON MALL Miyazaki

Sales (Billion Yen) [excluding renewable energy work]



Orders (Billion Yen) [excluding renewable energy work]



Business environment/Performance trend

- Sales increased by 25.2% year-on-year and orders received increased by 24.9% year-on-year. Sales progressed steadily on the back of abundant work in hand, and orders received increased mainly in Kyushu and Kanto.
- Orders received by region were 66.1% in Kyushu, 23.1% in Kanto, Tohoku, and Chubu, 7.3% in Kansai, and 3.5% overseas.
- We provide technical capabilities and expertise to provide services such as HVAC, plumbing, and fire prevention facilities that is environment-friendly, reliable, and high-quality in every building, to allow a safe, comfortable place for everyone.
- With "Security and safety of water", "Carbon dioxide emissions reduction" and "Resource circulation" as key concepts, we provide services in the "wastewater treatment facilities," involving public sewers and factory wastewater, "resource circulation facilities," involving sludge recycling and recycled water treatment, and "water supply facilities," involving water purification plants and reservoirs. We are contributing to society in the field of water-related environmental infrastructure by operating closely with our customers and local community and respond to their needs using our comprehensive capabilities.

Business strategy

- Due to the increasing shortage of technicians in the construction industry, we have resumed the recruitment of directly-managed technicians in the HVAC and sanitary facility work division from FY2014, in order to strengthen our Company's construction capabilities. We are currently building a system to provide high-quality and highly mobile construction under the Kyudenko brand.
- In the water industry, we are developing business by combining advanced technical capabilities, attractive planning capabilities, and proposal capabilities that exceed customer expectations. In addition, to expand orders in the future and accommodate trends such as "energy-saving", "ICT", "low carbon society" and "depopulation", we are working to acquire new technologies by sharing various technology information and collaborating with universities, etc., and build a new pillar of business in the field of environmental infrastructure.

Pick-up

Development of the Great Eco Cooling Tower System

The "Great Eco Cooling Tower System" utilizes our internally developed energy-saving cooling tower. In this system, by lowering the temperature of the cooling water inlet of the freezer below the normal level, even when there is an increase in temperature difference in the cooling water, a decrease in freezer efficiency can be prevented and the amount of circulated water can be reduced as well, resulting in a reduction of cooling water pump power.

In addition, even though the power of the cooling tower fan will increase by lowering the cooling water inlet temperature, we are working to reduce the required power by customizing the tower body, fan blade shape, and volume and distribution of filler material for each project.



(3) Performance by Business Category

iii) Power distribution line work



(3) Performance by Business Category

iv) Renewable energy generation plant work

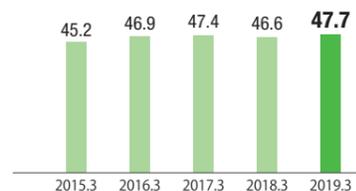


Nanatsu Island Mega SP Station

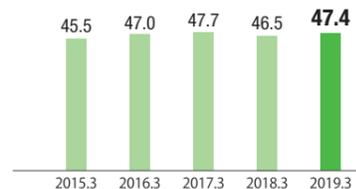


Nagashima Wind Power Generation Plants

Sales (Billion Yen)



Orders (Billion Yen)



Business environment/Performance trend

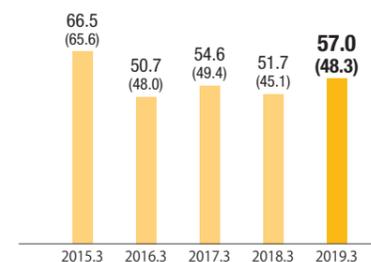
- Sales increased by 2.4% year-on-year and orders received increased by 2% year-on-year.
- In the second half, sales and profit margin increased due to an increase in construction volume.
- We are responding to the frequent natural disasters by leveraging our personnel resources not only in Kyushu but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

Business strategy

- With the full liberalization of electricity retail sales, we aim to further improve construction quality to provide a stable supply of electricity to all customers.
- We aim to strengthen competitiveness and improve profitability through technology development, enhancement of work efficiency, securing workers by improving work environments, and further reducing costs for power system reform.
- Regarding underground distribution line work, we will strive to expand sales and profit by working to acquire orders not only in Kyushu but nationwide by utilizing the expertise we have accumulated thus far.
- By responding promptly to the increasingly powerful natural disasters utilizing our mobilization capabilities, we will work for the early restoration of electricity and contribute to the maintenance of the infrastructure throughout Kyushu.

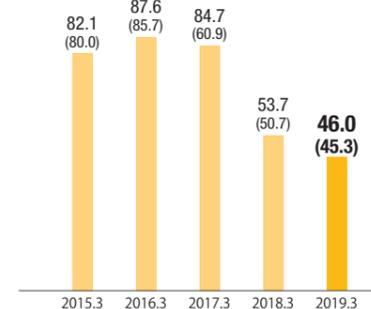
Sales (Billion Yen)

(Figures in lower parentheses represent solar power plant work)



Orders (Billion Yen)

(Figures in lower parentheses represent solar power plant work)



Business environment/Performance trend

- Sales increased by 10.1% year-on-year and orders received decreased by 14.4% year-on-year. Sales progressed steadily on the back of abundant work in hand, and orders received decreased mainly in Kyushu.
- Orders received by region were 30.4% in Kyushu, 59.5% in Kanto, Tohoku and Chubu, and 10.1% in Kansai.
- We will improve operational efficiency by promoting the restructuring of operations, such as reviewing O&M (operation and maintenance) inspection methods and utilizing IT.
- We are thoroughly managing the progress of large-scale renewable energy businesses and working closely with power companies with a sufficient margin in the construction period. We are also working to secure monthly expected power generation volume.

Business strategy

- To prevent further global warming, we are promoting the installation and construction of clean natural energy generation facilities aimed at reducing CO₂ emissions.
- We are constructing a tight connection with partners in other industries as a result of appreciation of abilities to develop deals and judge investments.
- There is a huge volume of information on large deals requiring much time for development, and we see an increase in orders directly nominated from partners.
- After newly constructing power generation plants, we aim to acquire orders for maintenance work under long-term contracts and realize stable power generation, while seeking to gain demand for replacing power conditioning systems 10 years later and replacement demand 20 years later.
- Looking ahead to the next stage, we will aim to expand our pipelines by participating in a multi-industry community for the implementation of an offshore wind farm project.

Pick-up

“Non-power outage method” and “indirect hot-line work technique” that maintain convenience and realize worker safety

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



Pick-up

Completion of Nanatsu Island Biomass Power Generation Plant

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



The output scale of this power generation plant is 49,000kW, the largest in the prefecture, with an annual power generation forecast of approximately 337,000MWh, equivalent to the amount consumed by approximately 77,000 households. By using palm kernel shells, wood pellets, and domestic lumber obtained from thinning, we provide environmentally friendly renewable energy generation, which not only aims for a stable supply of electricity, but also contributes to reducing approximately 200,000 tons of CO₂ annually.

v) Non-facility work

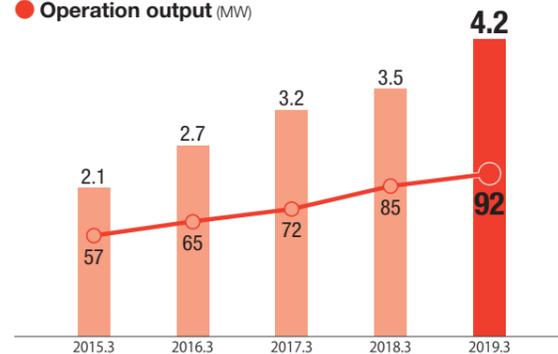
Renewable energy generation business

We construct, own, and operate solar power and wind power generation plants and engage in the business of selling electricity using the Feed-in Tariff (FIT) scheme. We also jointly participate in the business of generating and selling solar power, wind power and biomass power through equity investment and anonymous partnership.

Solar power generation

■ Sales (Billion Yen)

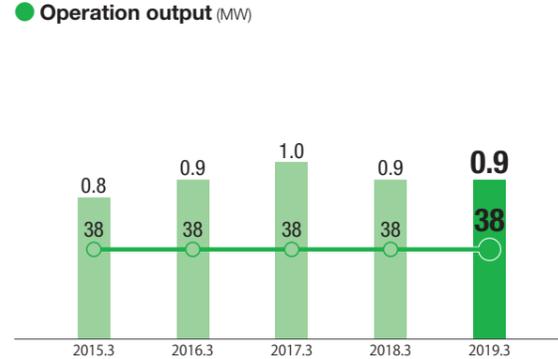
● Operation output (MW)



Wind power generation

■ Sales (Billion Yen)

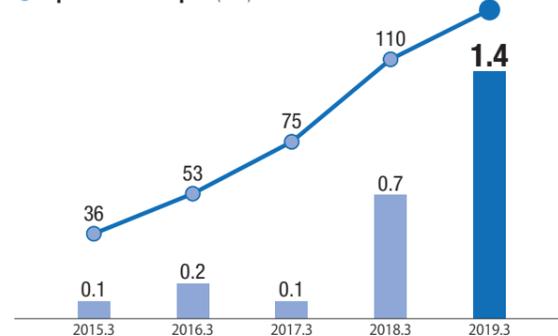
● Operation output (MW)



Equity investment

■ Non-operating income (Billion Yen)

● Operation output (MW)



Main initiatives

April 2018

Participation in floating solar power generation business in Taiwan

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

May 2018

Conclusion of basic agreement on renewable energy generation business

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

September 2018

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

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

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

Material Sales (Q-mast)

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



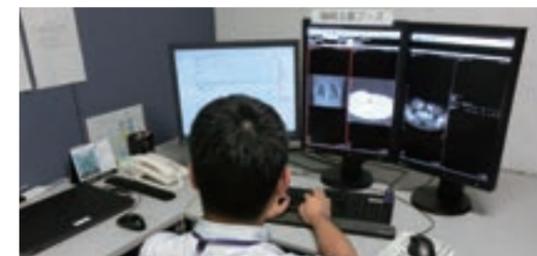
Olive Business

Kyudenko is taking on the challenge to enter the sixth industry, both in Japan and abroad, to contribute to the further development of the agricultural industry in Kyushu region, and by establishing a new business model, it is also contributing to society. Under the Amakusa Olive Orchard AVILO brand, we sell the olive oil at shops and online.



Medical Support Business (Net Medical Center)

We provide a series of medical services in which CT and MRI image data are received via telecommunication lines by contracted medical institutions, where radiologists analyze the data and send a report of the analysis to the patient's medical facility.



Urban Development (Bayside Place Hakata)

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



Hotel Business (Hotel Urbic Kagoshima)

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



Golf business (Hokuzan Country Club)

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



(4) Overseas Business of Kyudenko

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

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

APECO in Singapore is a plant engineering company invested in 2013 and will celebrate its 50th anniversary

this year. APECO is a leading engineering and maintenance company serving diversified industries, including the power & energy, petrochemical, and water utility industries.

About seven years have passed since the establishment of local subsidiaries in Malaysia, Vietnam and Thailand, and the companies are receiving orders from Japanese manufacturers and general contractors for such work as construction of new factories and renovations, steadily building up a track record of construction work.



Vietnam

Singapore (APECO)

Thailand

The main business of Kyulien Environment Improving Co., Ltd. in Taiwan is the environmental measurement and analysis of exhaust gas and wastewater released from factories and waste disposal facilities. It is the first company in Taiwan to receive an environmental substances' measurement and inspection license from the Taiwanese Government and has earned the trust of customers with its high-quality services.

In April 2018, we set up a Representative Office in Indonesia. Kyudenko has developed "Kyudenko EMS," an energy management system that can convert renewable energy, such as solar power and wind power, whose output is extremely changeable, into a stable form for

utilization. We are conducting demonstration projects in Sumba Island, Indonesia, and are working to spread Kyudenko's EMS technology throughout Indonesia, an island country.

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

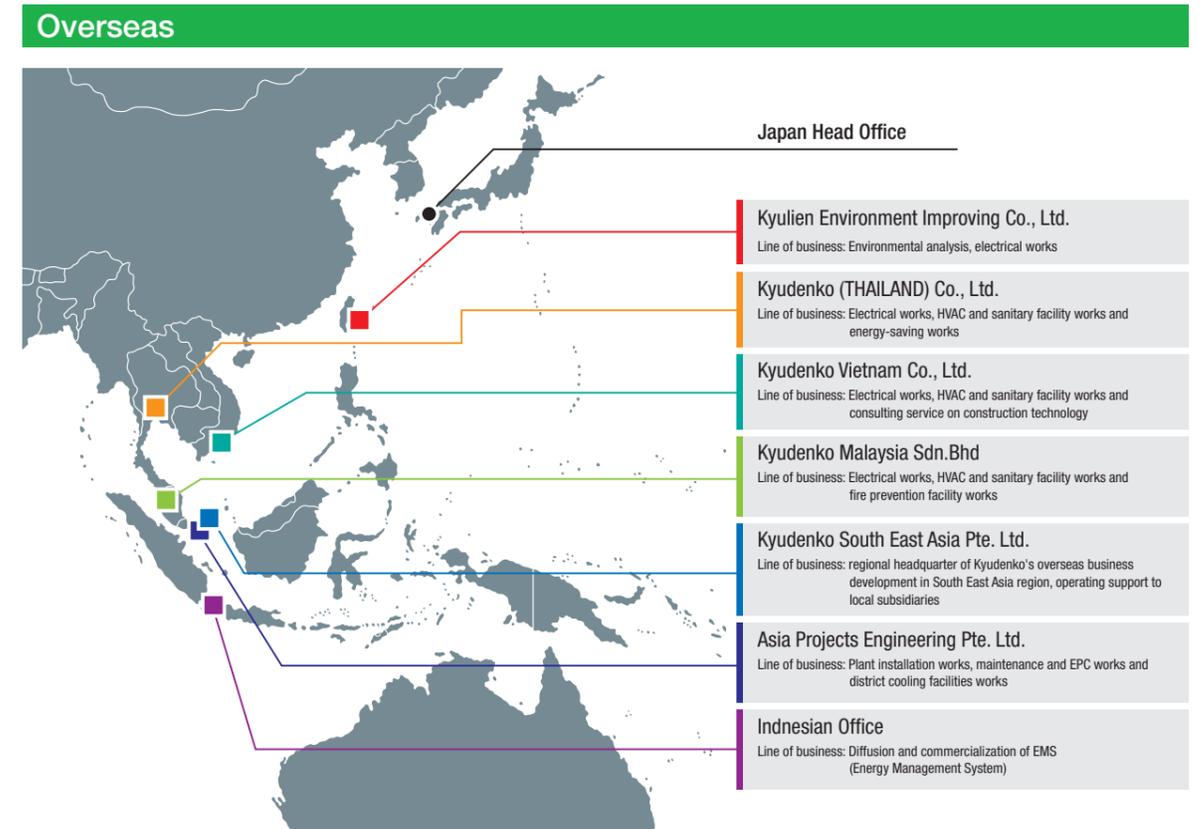
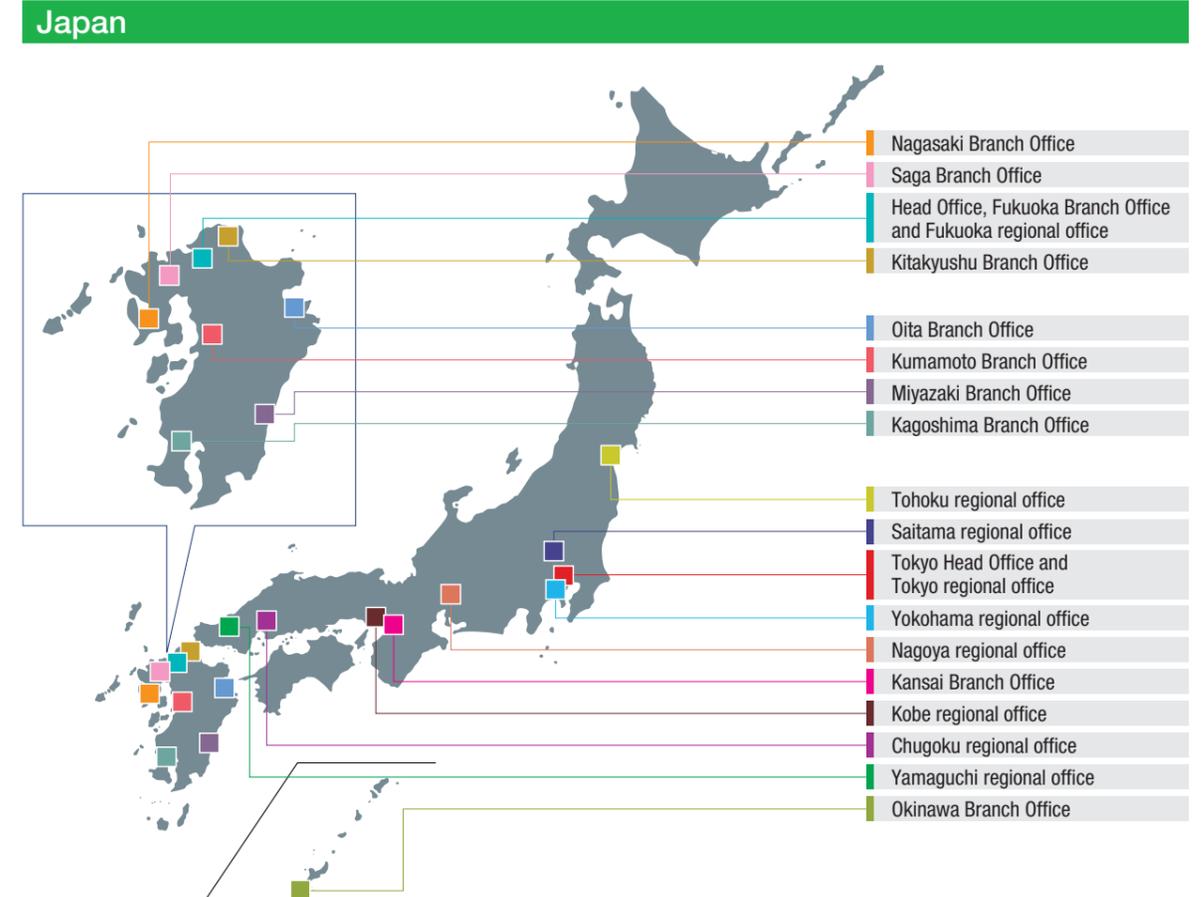
By bringing together the technical capabilities accumulated in Japan and the technical capabilities possessed in each country abroad, we would like to further develop business overseas.



Kyulien

Malaysia

(5) Business Locations



(6) Corporate Value Creation Model

Corporate Philosophy

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

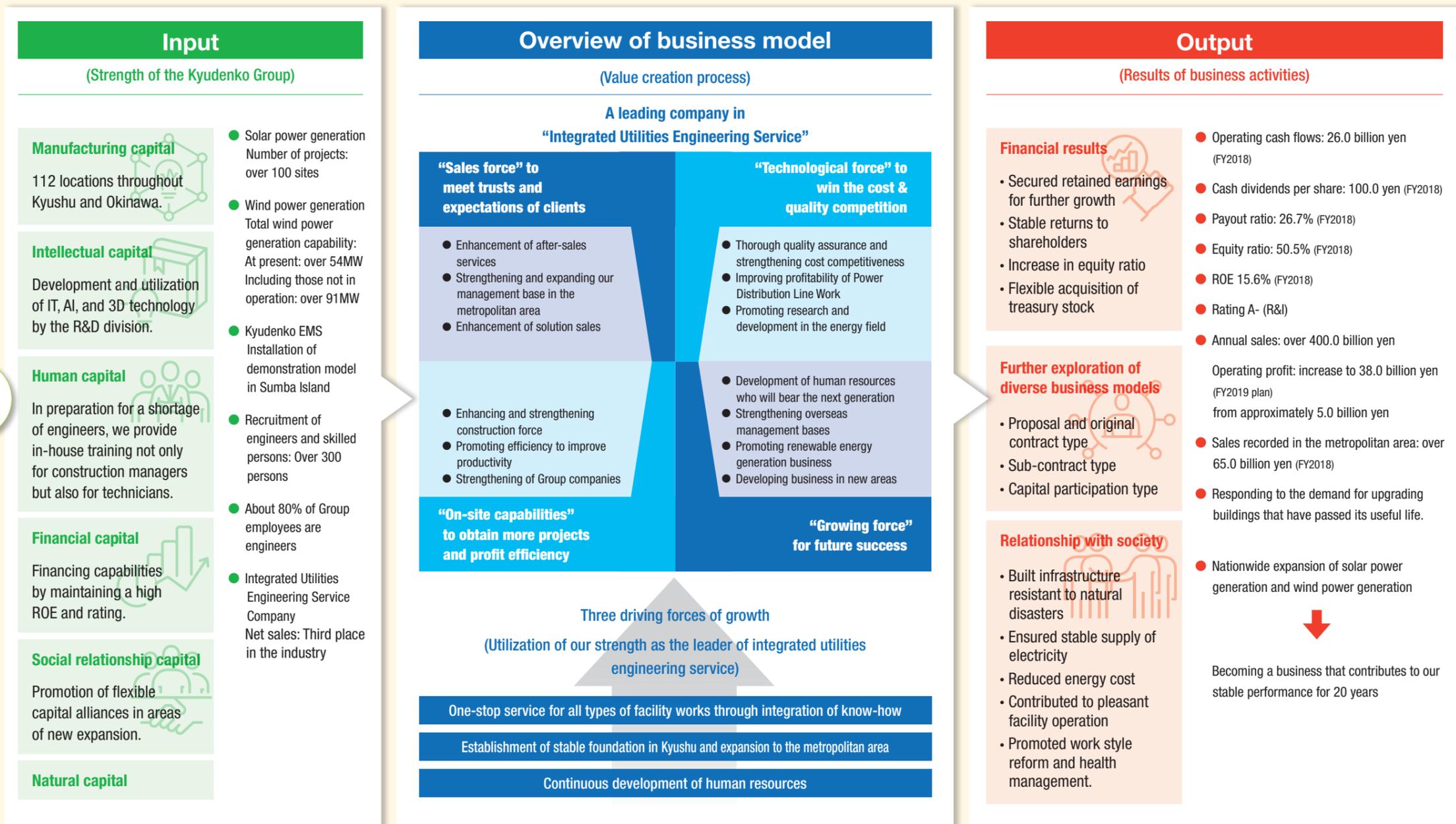
“We keep challenging for sustainable development through our engineering strength and create a new value.”

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

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

Social challenges and business challenges

- Shortage of construction workers
- Increase in costs of construction materials and labor
- Damage caused by increasing natural disasters
- Expectations for renewable energy
- Issue of useful live of buildings constructed during the period of high economic growth
- Long working hours becoming a social issue
- Enhancement of pension assets
- etc.



Corporate Governance (Supporting the overall Group management)

(7) Progress of Mid-term Management Plan

Taking on Challenges to Make the Next Leap Forward

~To the next growth stage~

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



(8) Six Strategies of Differentiation

Strategy 1 Utilizing technologies of Integrated Utilities Engineering Service

One-stop construction of all types of facility works

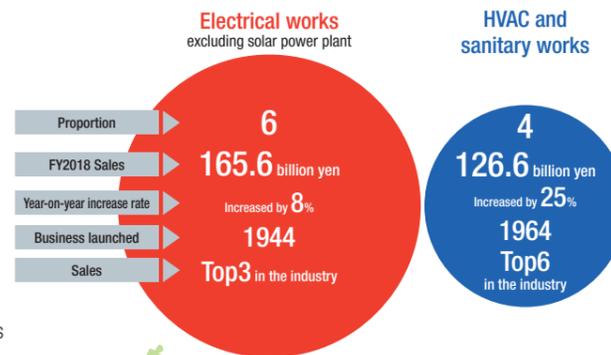
- Customers do not need to meet with multiple companies.
- In the construction of energy facilities and renovation work, which mainly consists of facility work, we engage in direct contract work instead of construction.

Integrating expertise in electrical work and HVAC and sanitary works

- Total solutions that realize energy saving.

Cost reduction through management of working process of entire facility

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



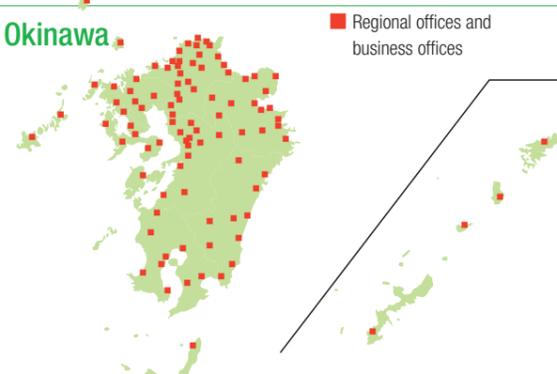
Strategy 2 Building a solid foundation in Kyushu and Okinawa

112 business bases throughout Kyushu and Okinawa

Placed engineers and technicians of electrical works and HVAC and sanitary works at each business base. Developed services for maintenance and solution-driven sales.

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

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



Strategy 3 Expansion of business areas and acceptance of brand

Promote expansion and strengthening of business areas

Conduct capital tie-ups with companies seeking local-based business operations in the metropolitan area and new areas and companies possessing technology that can complement Kyudenko.

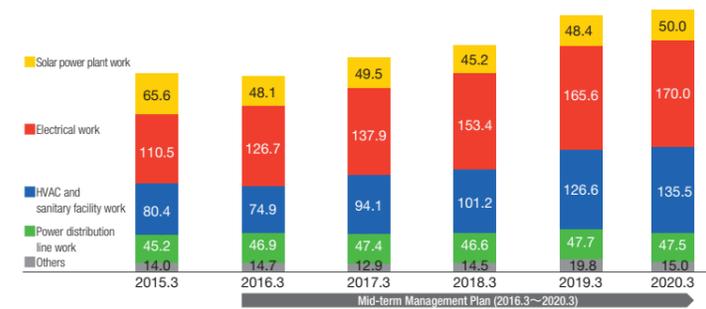
Strengthening of organizations in areas outside Kyushu

| Year | Organization |
|------|--|
| 2008 | Reorganized organizations in the metropolitan area and established Tokyo Headquarters |
| 2012 | Reorganized Osaka Branch Office to Kansai Branch Office to expand its business territory |
| 2012 | Established Tohoku regional office |
| 2014 | Reorganized Yokohama business office to Yokohama regional office |
| 2015 | Established Nagoya regional office |
| 2017 | Reorganized Saitama business office to Saitama regional office |

New participant companies of the Kyudenko Group (in construction)

| Year of participation | Name of Company | Location | Sales for FY2018 | Employees | |
|-----------------------|-----------------|--------------------|-------------------------|--------------------|-----|
| 1 | 2014 | Koteradengyo | Osaka | 1,932 million yen | 50 |
| 2 | 2014 | Kakusokukeisou | Fukuoka | 1,153 million yen | 57 |
| 3 | 2015 | Kawachikougyou | Osaka | 1,488 million yen | 18 |
| 4 | 2015 | Shoedensetsu | Chiba | 983 million yen | 28 |
| 5 | 2016 | Kyusetukougyou | Nagasaki | 571 million yen | 9 |
| 6 | 2017 | Jinnouchikoumutenn | Yoshinogari-machi, Saga | 450 million yen | 34 |
| 7 | 2018 | Sanyudensetsu | Koriyama | 857 million yen | 47 |
| 8 | 2018 | Ergotech | Yokohama | 10,427 million yen | 144 |
| 9 | 2018 | Seiwakougyou | Mito | 1,763 million yen | 36 |

Road map of sales plan (Billion Yen)



Numerical target of Mid-term Management Plan (consolidated)

| | |
|------------------------|-------------------|
| Sales | 400.0 billion yen |
| Gross Profit Ratio | over 15.0 % |
| Operating Profit Ratio | over 9.0 % |
| ROE | over 14.0 % |

Strategy 4 Recruitment and development of human resources

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

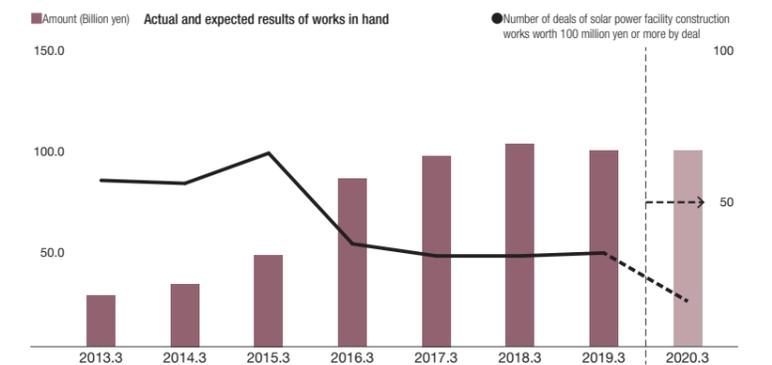
- To prepare for a shortage of skilled persons in the future, provide in-house training for not only construction managers but also technicians.

Planned year-end workforce until FY2020 March

| | FY2015 | FY2016 | FY2017 | FY2018 | FY2019 (plan) | Increase or decrease in plan |
|---|--------|--------|--------|--------|---------------|------------------------------|
| Electrical work department | 1,728 | 1,826 | 2,090 | 2,203 | 2,228 | About +500 |
| HVAC work department | 921 | 990 | 1,052 | 1,107 | 1,160 | About +240 |
| Year-end workforce of electrical and HVAC | 2,649 | 2,816 | 3,142 | 3,310 | 3,388 | About +740 |
| Power distribution line department | 1,869 | 1,816 | 1,741 | 1,669 | 1,647 | About -220 |
| Other | 1,394 | 1,408 | 1,418 | 1,420 | 1,433 | About +40 |
| Employees of Kyudenko (non-consolidated) | 5,912 | 6,040 | 6,301 | 6,399 | 6,468 | About +560 |
| Employees of the Group | 8,976 | 9,287 | 9,843 | 9,954 | 10,000 | About +1,000 |

Strategy 5 Growth of solar power plant work

- We constructed a tight connection with partners in other industries as a result of appreciation of abilities to develop deals and judge investments.
- There is a huge volume of information on large deals requiring much time for development, and we now expect orders directly nominated from partners. (The following expectations exclude the Ukujima project.)
- We seek to gain demand for replacing power conditioning systems 10 years later and replacement demand 20 years later as a direct constructor.



Strategy 6 Cultivation of diverse business models

| Business model | Characteristics | Target | Strengths of Kyudenko |
|---|---|---|--|
| A Proposal and original contract type Increasing market share while keeping a firm foothold in Kyushu and Okinawa | <ul style="list-style-type: none"> One-stop construction of electricity, air and water facilities Sales of solutions Attersales services | Ordinary companies: offices, commercial facilities, plants, hospitals and others | <ul style="list-style-type: none"> Engineers' proposal capability Network of business offices Co-existence with local communities |
| B Sub-contract type Expanding to Kansai, Tokai, Tohoku and Chugoku in addition to the metropolitan area | <ul style="list-style-type: none"> Subcontract from general contractors New construction => Maintenance | General contractors Design offices | <ul style="list-style-type: none"> Ability to collect workforce Ability of direct construction Cost competitiveness |
| C Capital participation type Nationwide renewable energy development and energy service operations PFI | <ul style="list-style-type: none"> Capital participation in operations Participation as contractors Securing profits of constructors | Public sector, landowners, trading companies, developers, energy companies and others | <ul style="list-style-type: none"> Experiences and know-how One-stop construction of electricity, air and water facilities Differentiation from competitors (possible to make independent management judgments) Credibility from regions and presence in the regions |



(9) Investment in Business and Human Resources and Financial Strategies

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

Hironori Higaki

Representative Director, Vice President,
Responsible for overall business administration

Previous Financial and investment activities and their results

Since the start of the second Abe administration in December 2012, the Japanese economy has been generally doing well, and supported by our strong performance as well, we have expanded our business operations. In the process, we have taken various financial measures to sustainably increase our corporate value beyond 2020.

The first is improving the current ratio of shares by acquiring treasury stock from major shareholders. In November 2013, we acquired and canceled approximately 10% of outstanding shares of Kyushu Electric Power Company, our parent company. At the same time, we commenced full-fledged investor relations (IR) activities and since then we have worked to deepen dialogue with the stock market.

The second measure is the issuance of domestic convertible bonds, aiming to diversify funding methods and shareholder composition. The stock price of the convertible bonds issued in February 2015 rose significantly and finished conversion before maturity. In addition, prior to the issuance, we obtained a BBB+ rating from R&I.

The third is the construction of a strong financial base that is necessary to advance active investment. As mentioned earlier, the enhancement of capital from the conversion of the bonds and the improvement of balance sheets due to strong business performance resulted in a dramatic increase of ROE and credit rating rose from BBB+ to A-.

While taking such measures, we have made the following investments to realize the differentiation of Kyudenko.

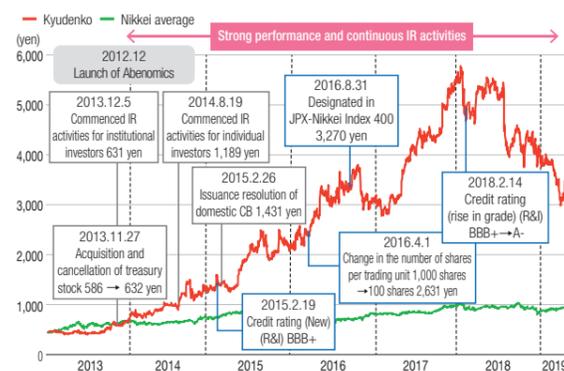
The first is the expansion of investment in the renewable energy generation business. Thus far, we have invested approximately ¥35 billion in the construction of renewable energy generation plants. In addition, we have jointly established power generation companies with leasing companies and solar panel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

The second is investment toward business area expansion and diversification of integrated utilities engineering service. We have proceeded in capital participation mainly in companies running local-based business operations in the Kanto and Kansai area and companies possessing technology that can complement the integrated utilities engineering works of Kyudenko.

The third is investment in the reconstruction of business offices and branch offices to further strengthen the sales base in Kyushu and Okinawa, and construction of educational, dormitory, and recreational facilities for training young employees and enhancing company benefits.

The above investments were carried out after an appropriate institutional decision was made, taking into account the return on investment and magnitude of risk.

Financial measures and review of Kyudenko's stock price (yen)



Investment in solar power plants

| | Deals operated by group | | | Deals through investment in equity | | |
|--------------------|-------------------------|--|--|------------------------------------|--|--|
| | Number of power plants | Generation capacity (the entire operation) | Generation capacity (that equal to the equity) | Number of power plants | Generation capacity (the entire operation) | Generation capacity (that equal to the equity) |
| In operation | 49 | 92MW | 87MW | 43 | 368MW | 116MW |
| Under construction | - | - | - | 8 | 280MW | 77MW |
| Plan | - | - | - | 1 | 50MW | 20MW |
| Total | 49 | 92MW | 87MW | 52 | 698MW | 213MW |

Investment in wind power plants

| | Deals operated by group | | | Deals through investment in equity | | |
|--------------------|-------------------------|--|--|------------------------------------|--|--|
| | Number of power plants | Generation capacity (the entire operation) | Generation capacity (that equal to the equity) | Number of power plants | Generation capacity (the entire operation) | Generation capacity (that equal to the equity) |
| In operation | 5 | 38MW | 38MW | 3 | 73MW | 15MW |
| Under construction | - | - | - | 2 | 72MW | 34MW |
| Plan | - | - | - | - | - | - |
| Total | 5 | 38MW | 38MW | 5 | 145MW | 49MW |

Deals operated by the Group are depreciated using the declining balance method and electricity sales revenue are recorded as net sales - other. For deals through equity investment, solar power is depreciated by the straight line method, wind power is depreciated by the declining balance method, and equity equivalent of profit is recorded as non-operating income.

Future financial and investment strategies and issues

We recognize the following financial issues faced by Kyudenko.

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

We are also aware of issues such as the gradual increase in the ratio of net assets, a gradual decrease in ROE, and a deterioration in capital efficiency due to the rapid increase in capital resulting from improved business performance.

Meanwhile, we are planning to increase investments to continuously raise corporate value. Previous investments involved in business development have mainly been in the form of facility works, maintenance, and participation in business operations through investments in renewable energy generation companies and PFI companies.

In the future, in addition to these, we would like to strengthen investments in urban development, such as companies that supply energy to local areas and also strengthen alliances with companies in other industries.

We are also considering capital participation and alliances with companies that expand the range of integrated utilities engineering works, including plants.

To improve operation flow from the perspective of increasing operational efficiency, we will promote IT investment, development of construction methods, and introduction of new equipment that will contribute to work style reform and improve productivity. In regard to IT, we believe investment is necessary to utilize the massive amount of construction data possessed by the Company. In comparison to other large facility work operators, Kyudenko has a higher proportion of mid-and small-sized deals, with nearly 100,000 construction projects per year. This data is an important management resource not found in other companies and contributes to Kyudenko's differentiation.

Investment strategies for further growth

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

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

In addition, we will consider investments in overseas business expansion.

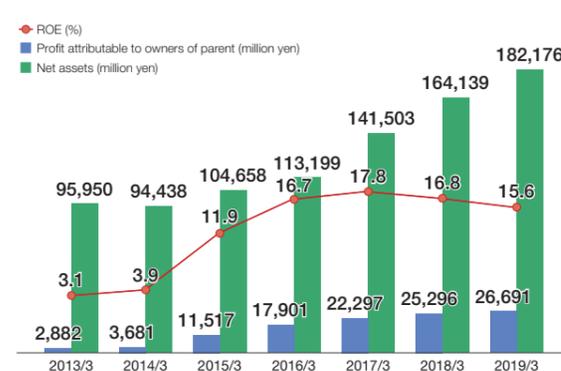
Stable shareholder returns

With regard to profit distribution, we will strive to maintain an appropriate financial structure and shareholder returns while securing internal reserves necessary for strengthening our management base and further business expansion to improve business performance.

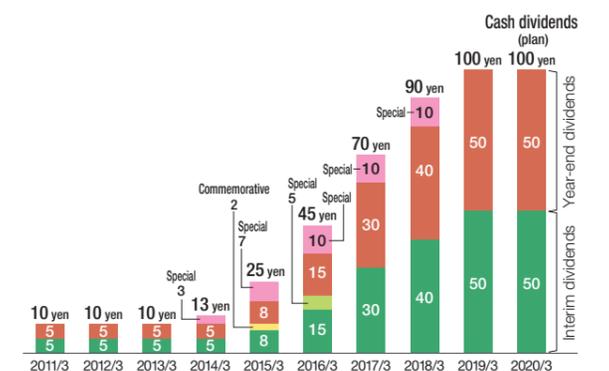
Taking into account factors such as the business environment, performance results, and financial conditions, we will respond to our shareholder's expectations by continuously paying stable dividends with a consolidated dividend ratio of 25%.

In addition, we intend to conduct share buyback as part of a flexible capital policy corresponding to changes in the business environment.

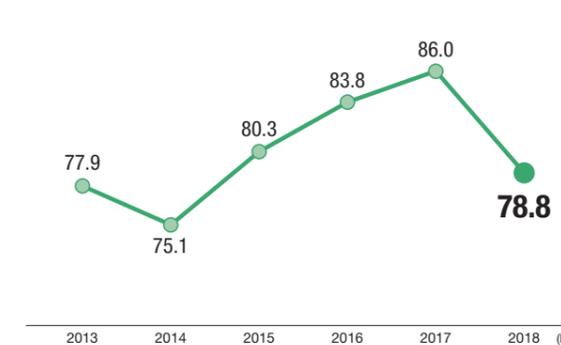
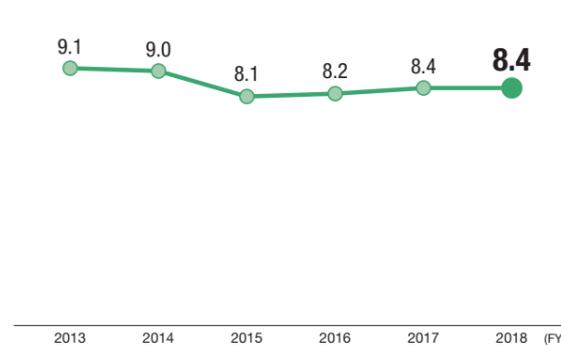
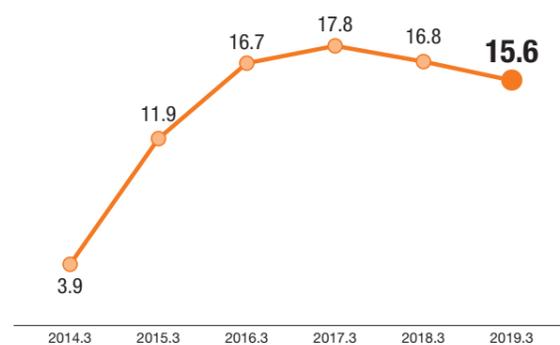
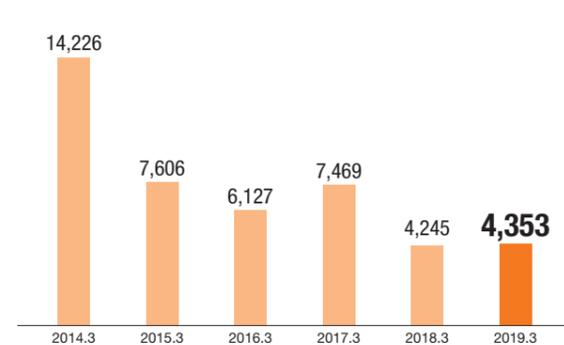
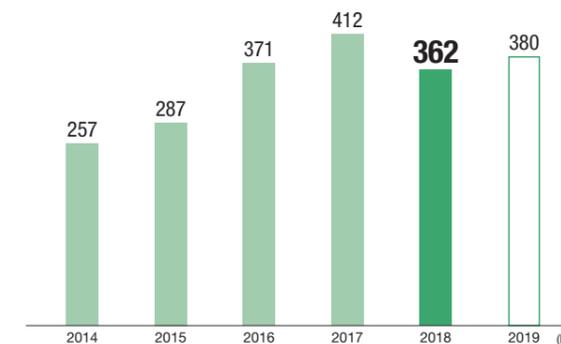
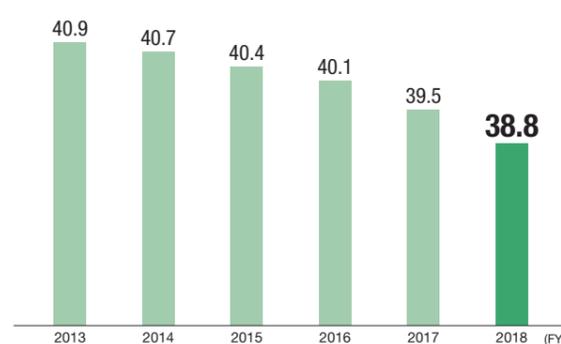
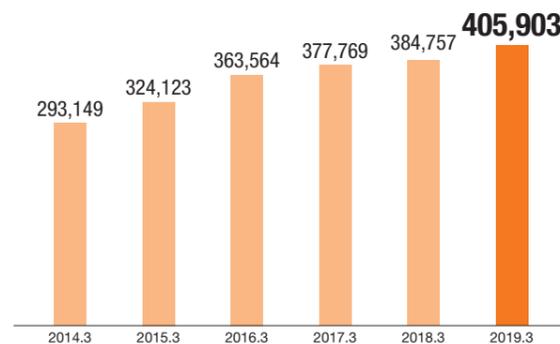
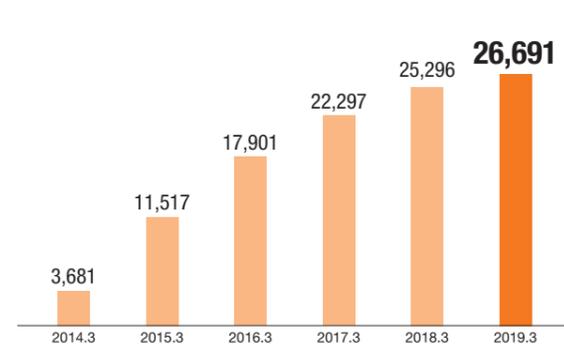
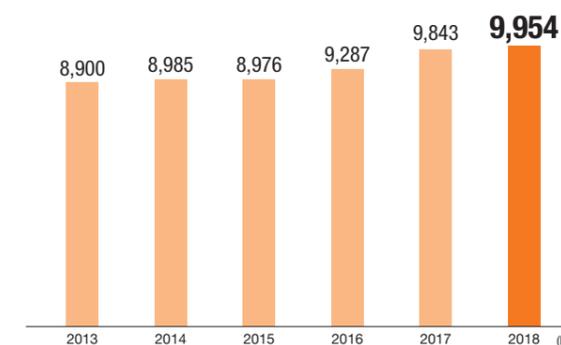
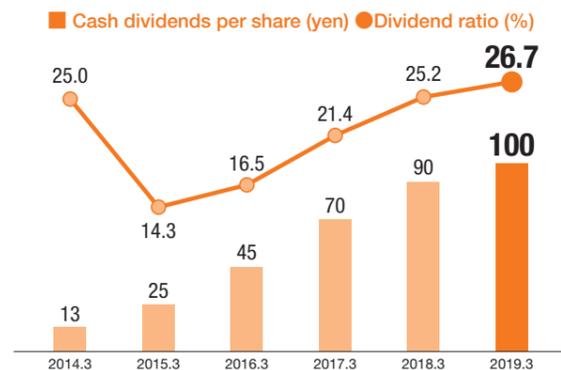
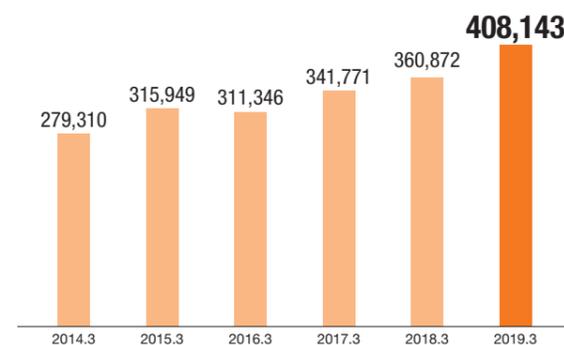
Trends in ROE



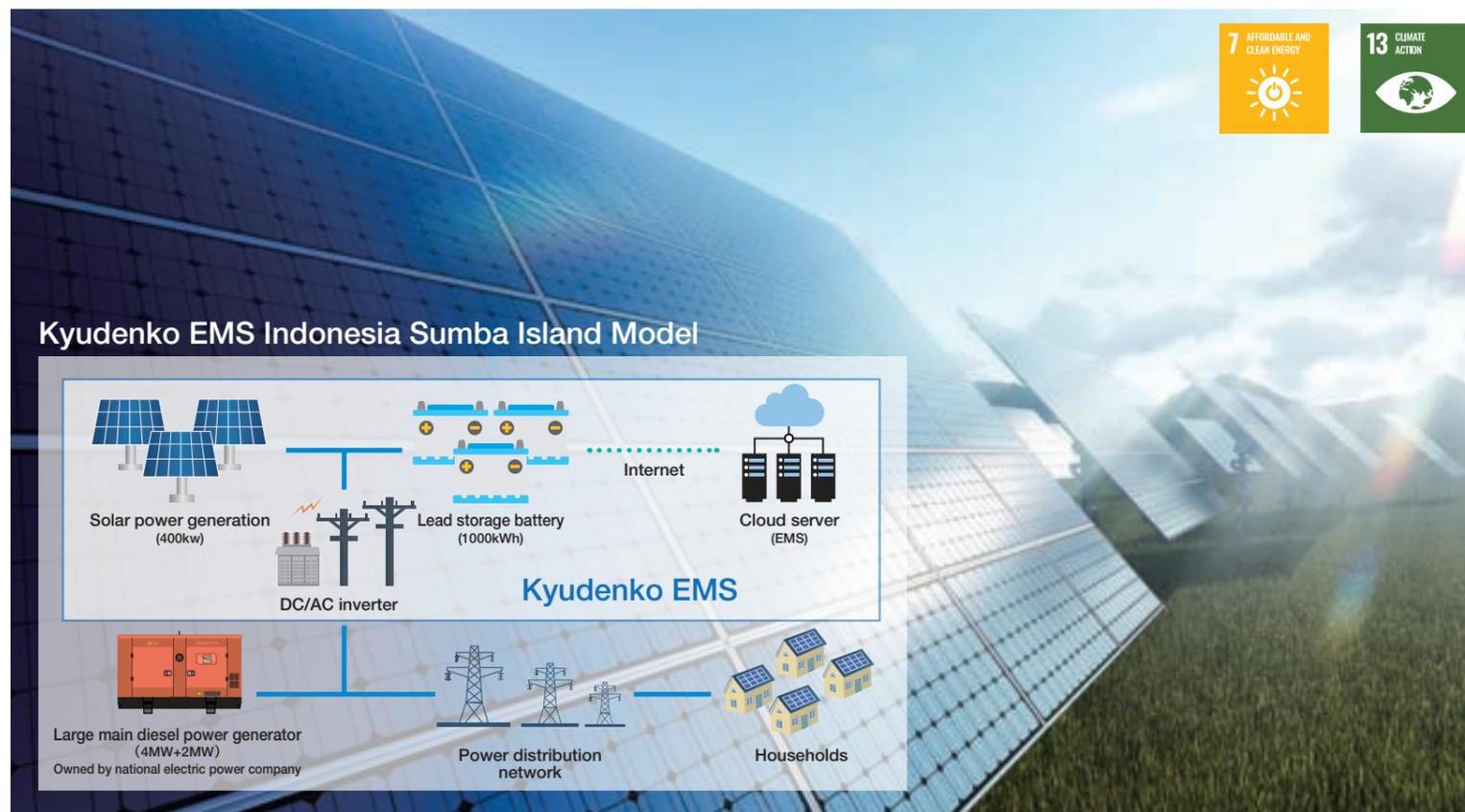
Cash dividends



(10) Financial and Non-financial Highlights



“Kyudenko EMS” which can distribute renewable energy stably



The Kyudenko Group and SDGs

The Kyudenko Group has solved various social problems, including global environmental issues through the proposal, design and construction of energy-saving, clean energy facilities, reclaimed water treatment facilities, and disaster-resistant infrastructure, based on the corporate philosophy of creating optimal harmony of “People,” “Environment” and “Engineering Skill”. Solving social problems is a business opportunity to utilize the traditional core management resources of the Kyudenko Group, and we believe that the Kyudenko Group can play a major role in achieving the SDGs. The EMS operation of Kyudenko has been introduced as an example of Climate Change Adaptation Good Practice by the Ministry of Economy, Trade and Industry.

● What is Kyudenko EMS?

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.

“Kyudenko EMS” is an energy management system that can convert and utilize renewable energy such as solar power and wind power, whose output is extremely changeable, into a stable form for utilization.

For example, on islands where the main power system is far away, even if a solar power plant is introduced, 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.

In such places, there is a need for a system that can provide a stable supply of renewable energy and in the case of remote islands, a system that can be monitored and operated remotely.

“Kyudenko EMS” can be a decisive solution to the needs of developing countries.



● Technology features

- 1 The energy source for Kyudenko EMS is compatible with different power sources, such as wind power generation and solar power generation, and the individual control device including storage batteries are autonomously distributed, so the failure of one control device will not affect the operation of other control devices.
- 2 Kyudenko EMS’s hybrid power generation control is performed by a DC circuit (DC 380V), making frequency and power factor control easier and reducing loss compared to AC control. A stable supply is possible for AC output (voltage, power factor, frequency).
- 3 Kyudenko EMS acquires data from smart meters and digitized remaining battery power data from BMU (Battery Monitoring Unit), calculates the balance between demand and supply and issues input/output commands from SPM (Smart Power Manager).
- 4 Kyudenko EMS incorporates a check/rotation control in its system to extend the life of the lead storage battery and is equipped with a lead storage battery for cycle use that can extend battery life until the replacement time of other equipment is reached (about 15 years). This feature has dramatically extended the life of lead storage batteries, which usually run out in several years, to about 11 to 18 years.



● Commercialization overseas

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

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

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

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

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



2. Growth and Development of the Kyudenko Group

The institution to human resource development for our brilliant future by polishing know-how, technical skill and sprit



Kyudenko Academy

The academy is located in nature-filled Kiyama-cho in Saga Prefecture. We have set the academy as the symbol of human resource development, based on our belief that employees are the greatest assets, and their development leads to raising corporate value. In addition to teaching advanced expert knowledge, technologies and skills, Kyudenko utilizes a special facility called “Hougakuan” for cultivating mental discipline and another facility called “Safety Heritage Facility” for safety culture building, in order to conduct an integrated training that covers the aspects of the spirit, technique, and physical strength.



In the land of 11,000m², we have a skill-training building, a skill practice building and a dormitory building where a maximum of 350 people can stay over in. On the disasters such as typhoons, this plays a role as a restoration activity base and an important role for a community level social infrastructural development.



● Safety Heritage Facility

All Employees Aim For Zero-accident

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.



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

● Hougakuan

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

National Skill Olympics and World Skill Olympics



The 43rd World Skill Olympic awards ceremony (Competitor Seto: far right)



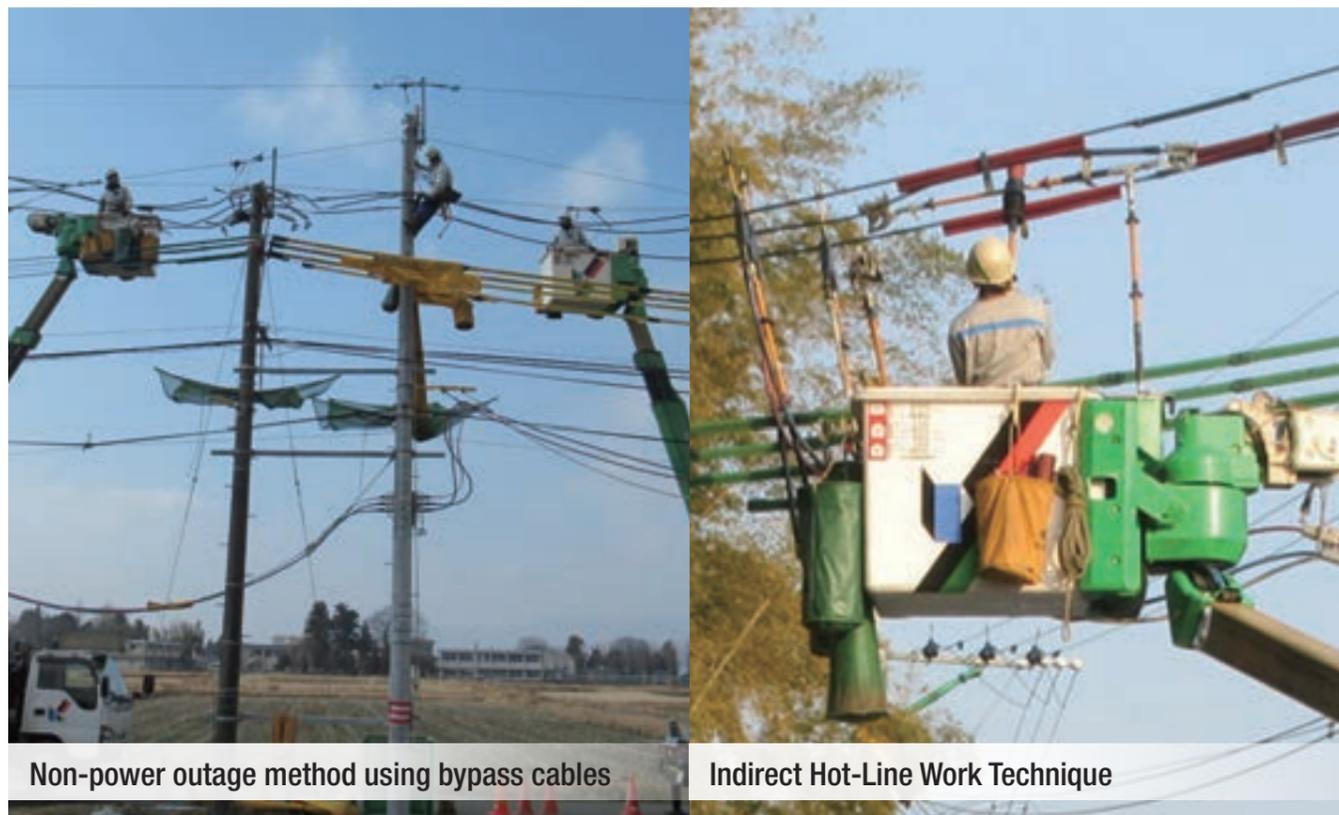
The 44th World Skill Olympic, during production of competition assignment (Competitor Inoue)

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

In recent years, Kyudenko has won a gold medal, a silver medal, and a spirit award in the field of electrical installations at the 51st national competition held in 2013.

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

At the 54th national competition held in 2016, six competitors participated and five competitors received a gold medal, a silver medal, two bronze medals, and a spirit award. The gold medalist, Inoue, has participated in the 44th World Skill Olympic held in UAE in 2017 as a representative of Japan, and has won a spirit award (fifth place).



Non-power outage method using bypass cables

Indirect Hot-Line Work Technique

Supporting various aspects of life by protecting infrastructure throughout Kyushu

We have made social contributions by reducing disasters through work safety improvements, realizing a stable supply of electricity across Kyushu through zero work power outages and improving work environments. Examples of such contributions include the non-power outage method (a work method that uses bypass cables and generators to cut power only in the work section without causing power outages for customers), fully introduced in 1985, and the establishment of the indirect hot-line work technique (a work method in which workers use an indirect tool called a hotstick and do not need to touch high voltage power lines directly), introduced in 1988 ahead of the entire country.



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

In the Kumamoto Earthquake in 2016, we mobilized a total of approximately 3,500 workers within one week of the earthquake and worked day and night. As a result, we contributed to the early restoration of electricity.

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

(1) Corporate Governance

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

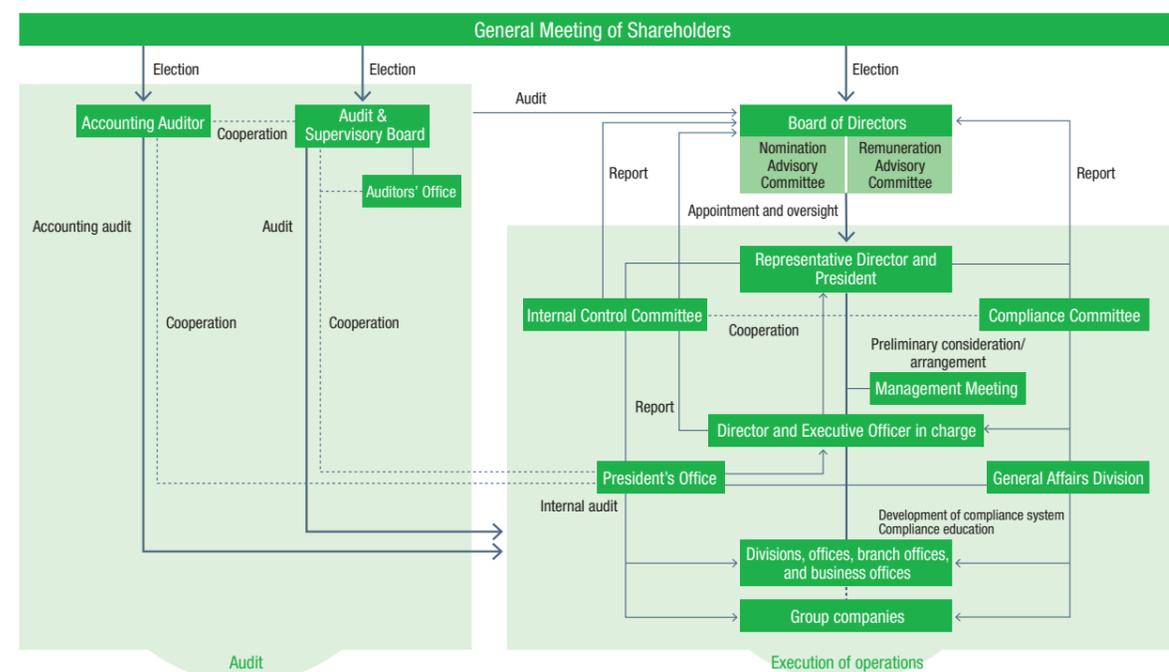
| | | |
|--|---|------------------------|
| Directors | Number of Directors (of which, Outside Directors) | 11 persons (2 persons) |
| Audit & Supervisory Board Members | Number of Audit & Supervisory Board Members (of which, Outside Audit & Supervisory Board Members) | 5 persons (3 persons) |
| Number 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, which is established as a subordinate body to the Board of Directors, 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 meeting of the Board of Directors.

Overview of corporate governance system



(1) Corporate Governance

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 nine times a year.

Remuneration Advisory Committee

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

Nomination Advisory Committee

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

System of audit by Audit & Supervisory Board Members

Audit & Supervisory Board Members attend the Board of Directors meetings and other important meetings to express objective and fair opinions for overall management, and continuously conduct validation audits, including audit on illegality in the execution of operations by Directors and the appropriateness of risk

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 | 4 | 1 | 0 | 0 | internal Director |
| Voluntary committee equivalent to Nomination Committee | Nomination Advisory Committee | 5 | 0 | 4 | 1 | 0 | 0 | internal Director |

management measures, in accordance with audit policies and plans stipulated by the Audit & Supervisory Board. They also study the status of operations and assets of the subsidiaries to monitor and supervise the overall Group. The Audit & Supervisory Board receives reports on important matters for audit to be discussed or resolved, and is held at least every three months in principle, and whenever necessary. (11 meetings were held in the fiscal year ended March 31, 2019) The Audit & Supervisory Board has three Outside Audit & Supervisory Board Members, and two of them are designated as Independent Audit & Supervisory Board Members.

The Auditors’ Office is established to assist duties of Audit & Supervisory Board Members and the Audit & Supervisory Board, and designated employees are assigned to the Office so that efficient audit activities by Audit & Supervisory Board Members can be conducted. The Audit & Supervisory Board receives an advanced notice on personnel transfer of designated employees from the Director responsible for human resources, etc., and may request for change of the designated employees by submitting the reason.

Accounting audit

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

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

Internal audit

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



Audit & Supervisory Board Member, Isamu Ogata
 Audit & Supervisory Board Member, Shinji Kato
 Audit & Supervisory Board Member (part-time), Yuzo Sasaki
 Audit & Supervisory Board Member (part-time), Yasuyuki Fukushima
 Audit & Supervisory Board Member (part-time), Yukinori Michinaga

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, all of which is reported to the Compliance Committee chaired by Representative Director and President. The Compliance Committee Operational 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 (Japanese)

Outside Directors/Audit & Supervisory Board Members

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

In addition to legal requirements, the Company establishes and discloses its own “Independence Standards for Outside Directors/Audit & Supervisory Board Members”, and the Independent Outside Directors are elected based on the Independence Standards.

The number of Audit & Supervisory Board Members is five, of which three are elected as Outside Audit & Supervisory Board Members. Outside Audit & Supervisory Board Members account for

(1) Corporate Governance

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.
- (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.

(1) Corporate Governance

(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) 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 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 March 31, 2019.

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 Company, Incorporated, as well as domestic private companies and governmental agencies, restraint of such capital investment may affect the Group's business performance, etc.

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.

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.

4. Risk associated with the Group's assets

The Group holds assets such as real estate and securities related to business activities, and any significant decrease in the market value

of the assets held or profitability of real estate for commercial use may affect the Group's business performance, etc.

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

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

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

6. Risk associated with renewable energy generation business

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

7. Risk associated with overseas business

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

8. Retirement benefit obligation

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

9. Occurrence of natural disasters

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

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

The Group is subject to restrictions under various laws and regulations including the Construction Business Act, and any administrative dispositions, etc., in case of conflict with these laws and regulations may affect the Group's business performance, etc.

In March and April 2019, four employees of the Company were prosecuted for violation of laws and regulations upon general competitive bidding for the construction project of Chikuijo town water and waste sewage treatment facility. An administrative disposition may be imposed depending on the conviction.

(2) 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.

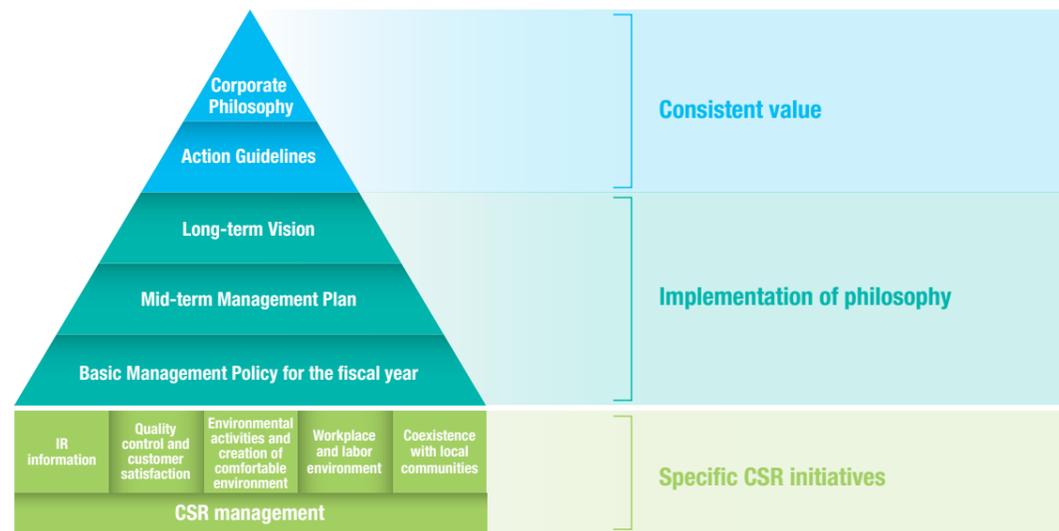
Toward “specific CSR initiatives” with “consistent values” and “implementation of philosophy”

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

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

Action Guidelines

- We will create the future environment with a new perspective**
- We will enhance technological force with creativity and ingenuity**
- We will appropriately accept and respond to customers’ voice**
- We will embrace teamwork in work**
- We will create a vibrant and bright workplace**

(3) Initiatives for Safety

“Safety” takes precedence over everything

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

FY2019 Basic Plan for Safety and Health Management

| | | | |
|-------------------------|---|--------------------------|---|
| Basic Philosophy | Safety takes precedence over everything ‘Safety and health are the foundation for management and a major premise of all activities’ | 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’. |
| Goal | Zero-accident | 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. Promoting work style reform |
| Slogan | Safety of fellow workers, everyone’s health Let’s find and reduce risk in the workplace | | |

Safety education facility “Safety Heritage Facility”

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

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



Hazard Experience Training Facility

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

To prevent accidents, gaining knowledge on safety and health through lectures is important, but increasing the ability to perceive hazards is also essential.

At this facility, we aim to raise safety awareness and improve the ability to avoid hazards by experiencing hazards that can occur in the field. Combining this with education at the “Safety Heritage Facility”, the effects of further safety and health activities can be expected.



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

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

While planning for company-wide expansion of safety measures in line with mandatory chemical risk assessment, a poisoning

accident occurred at the Company, presumably caused by chemical exposure. A presentation was given on the difficulty of bringing awareness to workers regarding the toxic and hazardous nature of chemicals and safety measures that were implemented when conducting the same type of construction as the accident. The presentation was very well received and given a huge round of applause at the end.



(4) Workplace and Labor Environment

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

Charter of Human Resources Development

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

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

Charter of Human Resources Development

- 1. Purpose of human resources development**
Employees are assets; the purpose is to develop and utilize employees' abilities.
- 2. Method and content of human resources development**
Stimulate character development and improve capabilities through work experience and education.
- 3. Evaluating human resources development**
Appropriately evaluate efforts for human resources development.
- 4. Responsibility of managers and employees**
Being responsible for the development of subordinates and junior employees, provide education and support to them.
- 5. Attitude of employees**
Be responsible for one's development and always take on challenges.

Promoting Health and Productivity Management

We consider our employees' health to be an important management resource, and in FY2018, we established the "Health and Productivity Management Declaration". We actively initiate support for our employees' proactive health promotion activities and

promote organizational health activities in order to raise awareness of "putting health first" and "creating a work environment with peace of mind" and "creating a happy and agreeable work environment".



Initiatives for "work style reform"

In FY2017, we set up the "Promotion Committee for Work Style Reform", an organizational body under the direct control of the President, and we are working on various initiatives, such as the introduction of new leave systems, establishment of days in which taking annual leaves is encouraged and no overtime days, promotion of diverse work styles, and building a workplace support system to standardize operations.

Initiatives for childcare support

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

In addition to the special paid leave of three days given when an employee's spouse gives birth, there is a system called, "Childcare

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.

support leave due to spouse's childbirth", in which employees can use their accumulated annual paid leave for one month after their spouse gives birth.

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

(5) Coexistence with Local Community

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

A community program, dedicating contributing activities to the local community

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



(6) Sports

Kyudenko Track and Field Team

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

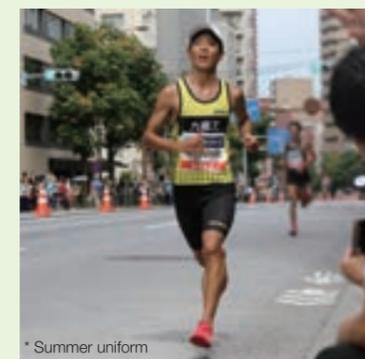


Passed on tradition
Official uniform

| | | |
|---------------------------|-----------------------|----|
| Number of current members | Men (long-distance) | 14 |
| | Women (long-distance) | 11 |
| | Jumpers | 3 |
| | Total | 28 |

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, and achieved an impressive 4th place (2 hours, 11 minutes, 58 seconds).



* Summer uniform

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. Being the ninth time this year, we coordinated with the track and field teams in Fukuoka City and the track and field team of Fukuoka University. About 300 children join this event every year.



We also promote other social contribution activities through sports, including the Kendo Team and Judo Team.

(7) Interview with Outside Directors

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

Q What is your impression of the deliberation of the Board of Directors meetings?

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

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

Q What are some improvement measures to further liven up the Board of Directors meeting and enhance its effectiveness?

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

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

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

Q How do you evaluate the contents and current progress of the Mid-term Management Plan that is being carried out?

Watanabe Regarding the Mid-term Management Plan, each Officer in charge has set up a working group while constantly checking the status of individual measures and achievement status of KPIs, and extracting issues to achieve the goals. I believe that such enthusiasm and attention to detail is reflected in the current steady achievements of the highly-set goals.

Kuratomi I received a strong impression that very high goals are set that express the Company's willingness to grow. The current achievement status is also transitioning

steadily. I think it is proof that Kyudenko has come to possess real ability. Then, what is the essence of that ability? I think it is Kyudenko's daily operations and human resources. The foundation of being solid in those areas and also having a network is a major factor in reaching the current growth stage. In addition, I also appreciate that the "recruitment and development of human resources" is being carried out as one of the differentiation strategies in preparation for the future. The gathering of truly excellent human resources will support big growth in the future.

Q What is the status of building a risk management system?

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

Kuratomi If I may add to what Director Watanabe said, because the scale of the Company is expanding at such a rapid pace, concurrent with this growth, I believe setting up structures and systems to prevent fraud will become more important in the future. The Company cannot meet the expectations of society with growth that is

based solely on scale and figures and not supported by healthy sustainable growth. The joy that employees get from contributing to society by working hard to achieve high-quality work will become one of the factors supporting the future growth of Kyudenko.

Q What are other issues or themes that Kyudenko should work on?

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

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



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

Outside Director **Sumio Kuratomi**

| | |
|-----------|--|
| June 2008 | Director and Executive Officer, General Manager, 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) |

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

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) |



(1) 10-year Financial Summary

| Financial item | (Unit: Million Yen) | | | | | | | | | |
|---|---------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| | 2010.3 | 2011.3 | 2012.3 | 2013.3 | 2014.3 | 2015.3 | 2016.3 | 2017.3 | 2018.3 | 2019.3 |
| Sales | 225,891 | 248,577 | 246,660 | 239,282 | 279,310 | 315,949 | 311,346 | 341,771 | 360,872 | 408,143 |
| Operating profit | 5,442 | 6,186 | 1,821 | 4,371 | 7,136 | 16,757 | 25,197 | 30,732 | 34,726 | 36,747 |
| Ordinary profit | 7,007 | 7,874 | 3,278 | 5,744 | 8,908 | 18,163 | 27,551 | 32,187 | 37,342 | 39,924 |
| Profit attributable to owners of parent | 4,102 | 3,776 | 1,351 | 2,882 | 3,681 | 11,517 | 17,901 | 22,297 | 25,296 | 26,691 |
| Capital investment | 4,838 | 4,935 | 7,046 | 6,034 | 14,226 | 7,606 | 6,127 | 7,469 | 4,245 | 4,353 |
| Depreciation and amortization | 2,851 | 3,327 | 3,303 | 3,631 | 4,305 | 5,262 | 5,475 | 5,449 | 5,512 | 6,074 |
| Research and development costs | 269 | 266 | 263 | 275 | 313 | 288 | 255 | 235 | 286 | 326 |
| Cash flows from operating activities | 10,972 | 754 | 6,267 | 4,871 | 12,767 | 19,117 | 10,776 | 14,187 | 30,016 | 26,054 |
| Cash flows from investing activities | (3,062) | (3,796) | (622) | (6,103) | (14,456) | (11,816) | (13,597) | (17,951) | (3,830) | (11,298) |
| Free cash flow | 7,909 | (3,041) | 5,645 | (1,231) | (1,688) | 7,300 | (2,820) | (3,763) | 26,185 | 14,755 |
| Cash dividends paid | 892 | 743 | 733 | 730 | 733 | 1,190 | 2,295 | 3,732 | 5,635 | 7,108 |
| Net assets | 90,409 | 92,386 | 92,720 | 95,950 | 94,438 | 104,658 | 113,199 | 141,503 | 164,139 | 182,176 |
| Total assets | 212,562 | 219,207 | 195,393 | 211,944 | 225,727 | 254,861 | 261,985 | 300,261 | 324,919 | 357,271 |
| Interest-bearing debt | 25,278 | 25,512 | 8,619 | 15,966 | 25,319 | 33,939 | 31,986 | 36,128 | 20,078 | 19,189 |
| | (Unit: yen) | | | | | | | | | |
| Net profit per share | 55.12 | 51.05 | 18.41 | 39.46 | 51.95 | 174.54 | 272.45 | 327.22 | 356.89 | 375.17 |
| Net assets per share | 1,202.57 | 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 |
| Cash dividends per share | 12 | 10 | 10 | 10 | 13 | 25 | 45 | 70 | 90 | 100 |
| Operating profit ratio (%) | 2.4 | 2.5 | 0.7 | 1.8 | 2.6 | 5.3 | 8.1 | 9.0 | 9.6 | 9.0 |
| Net profit margin (%) | 1.8 | 1.5 | 0.5 | 1.2 | 1.3 | 3.6 | 5.7 | 6.5 | 7.0 | 6.5 |
| Gross profit margin (%) | 9.8 | 9.3 | 7.7 | 9.1 | 9.1 | 11.7 | 14.5 | 15.2 | 15.7 | 14.8 |
| Return on equity (ROE) (%) | 4.7 | 4.2 | 1.5 | 3.1 | 3.9 | 11.9 | 16.7 | 17.8 | 16.8 | 15.6 |
| Return on asset (ROA) (%) | 1.8 | 1.7 | 0.6 | 1.4 | 1.6 | 4.7 | 6.9 | 7.9 | 8.1 | 7.8 |
| Return on invested capital (ROIC) (%) | 2.8 | 3.1 | 1.0 | 2.5 | 3.8 | 8.8 | 12.1 | 13.3 | 13.4 | 13.4 |
| Equity ratio (%) | 42.1 | 41.7 | 47.0 | 44.8 | 41.1 | 40.3 | 42.4 | 46.6 | 49.7 | 50.5 |
| Total asset turn over (times) | 1.0 | 1.1 | 1.1 | 1.1 | 1.2 | 1.3 | 1.2 | 1.2 | 1.1 | 1.1 |
| Payout ratio (%) | 21.8 | 19.6 | 54.3 | 25.3 | 25.0 | 14.3 | 16.5 | 21.4 | 25.2 | 26.7 |

(2) Report on Financial Results and Financial Analysis

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

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

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

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

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

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

Results by business segment are as follows.

Facility work

Sales increased by 41,924 million yen (12.1% increase) to 388,327 million yen as compared to the year ended March 31, 2018, due to the impact of companies that became consolidated subsidiaries on

March 31, 2018, in addition to the steady progress of the opening amount of work in hand.

As sales increased, segment income (operating profit) increased by 1,676 million yen to 34,949 million yen as compared to the year ended March 31, 2018.

Other business

Sales increased by 5,347 million yen (37.0% increase) to 19,816 million yen as compared to the year ended March 31, 2018, due to factors such as an increase in sales business of construction-related materials and equipment. Segment income (operating profit) increased by 2 million yen to 1,738 million yen as compared to the year ended March 31, 2018, with the increase in sales from business of construction-related materials and equipment sale.

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

Overview of assets, liabilities and net assets

Assets

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

Fixed assets increased by 4,968 million yen to 151,002 million yen as compared to March 31, 2018, as a result of factors such as an increase in investments in securities.

As a result, total assets increased by 32,352 million yen to 357,271 million yen as compared to March 31, 2018.

Liabilities

Current liabilities increased by 11,922 million yen to 142,144 million yen as compared to March 31, 2018, as a result of factors such as an increase of notes payable, accounts payable on construction contracts and other accounts payable.

Long-term liabilities increased by 2,392 million yen to 32,949 million yen as compared to March 31, 2018, as a result of factors such as an increase in long-term debt.

As a result, total liabilities increased by 14,314 million yen to 175,094 million yen as compared to March 31, 2018.

Net assets

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

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

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

Cash flows from operating activities

Cash provided by operating activities was 26,054 million yen (a decrease of 3,962 million yen in cash inflow as compared to the year ended March 31, 2018).

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

Cash flows from investing activities

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

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

Cash flows from financing activities

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

(4) Future outlook

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

In the construction industry, despite concerns of a decline in the willingness to make capital investments in the manufacturing

industry, construction demand is expected to remain strong due to improvements in the office market and private capital investment following the introduction of 5G and the government's "Three-year emergency countermeasures for preventing and reducing disaster damage and increasing resiliency of Japan". In the medium term, market expansion is expected from events such as the Expo 2025 Osaka, Kansai. Meanwhile, anticipated issues include the intensification of sales competition to secure construction work looking ahead to after the Tokyo 2020 Olympic and Paralympic Games, a shortage of construction workers, increase in construction material costs and labor costs, and ensuring appropriate construction periods and work delays associated with "work style reform".

The Group expects an increase in rebuilding and renewal demand of buildings constructed during the period of high economic growth in urban areas. In local Fukuoka, due to the deregulation of floor-area ratio and building height, orders of large-scale redevelopment have started for Tenjin Big Bang and the waterfront. In power distribution line work, the Company will consider how to make work more efficient and adapted to the times ahead of the separation of power generation and distribution of power companies scheduled for April 2020.

Following the prosecution of employees involved in the Chikujo town water and waste sewage treatment facility, there were multiple designation suspension measures for each period from multiple municipalities. In regard to the impact on the business results of the year ending March 31, 2020, it is necessary to include the possibility that the total amount of orders received for government contract construction work of approximately 25 billion yen will be halved. Meanwhile, in the year ending March 31, 2020, solar power plant work is expected to increase from the opening of the fiscal year, so the Company will strive to cover the decline in government construction work with such private-sector construction.

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

| | The year ended March 31, 2018 | The year ended March 31, 2019 | | | |
|---|----------------------------------|-------------------------------|-------------------------|--------------------------|------------|
| | | Results | Year-on-year comparison | Plan (April 27, 2018) | Progress |
| Sales | 360,872 (100.0%) | 408,143 (100.0%) | 113.1% | 385,000 (100.0%) | 106.0% |
| Gross profit | 56,659 (15.7%) | 60,561 (14.8%) | 106.9% | 63,000 (16.4%) | 96.1% |
| Operating profit | 34,726 (9.6%) | 36,747 (9.0%) | 105.8% | 38,000 (9.9%) | 96.7% |
| Ordinary profit | 37,342 (10.3%) | 39,924 (9.8%) | 106.9% | 41,000 (10.6%) | 97.4% |
| Profit attributable to owners of parent | 25,296 (7.0%) | 26,691 (6.5%) | 105.5% | 28,000 (7.3%) | 95.3% |
| Net profit per share | 356.89 yen | | 375.17 yen | | 393.57 yen |

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

| | March 31, 2018 | March 31, 2019 | Increase/decrease | Major reason for increase/decrease | |
|----------------------------------|-----------------------|---------------------|---------------------|------------------------------------|--|
| Assets | Current assets | 178,884 (55.1%) | 206,268 (57.7%) | 27,383 | Notes receivable and other accounts receivable +23,001 |
| | Fixed assets | 146,034 (44.9%) | 151,002 (42.3%) | 4,968 | Investments in securities +5,146 |
| | Total Assets | 324,919 (100.0%) | 357,271 (100.0%) | 32,352 | |
| Liabilities | Current liabilities | 130,222 (40.1%) | 142,144 (39.8%) | 11,922 | Electronically recorded obligations +8,088 |
| | Long-term liabilities | 30,557 (9.4%) | 32,949 (9.2%) | 2,392 | Long-term debt +4,676 |
| | Total liabilities | 160,780 (49.5%) | 175,094 (49.0%) | 14,314 | |
| Total net assets | 164,139 (50.5%) | 182,176 (51.0%) | 18,037 | Retained earnings +19,591 | |
| Total liabilities and net assets | 324,919 (100.0%) | 357,271 (100.0%) | 32,352 | | |

(3) Consolidated Balance Sheet

| | | (Unit: million yen) | | | | (Unit: million yen) | |
|---|----------------|---------------------|---|----------------------------|----------------|---------------------|------------|
| | | March 2018 | March 2019 | | | March 2018 | March 2019 |
| Assets | | | | Liabilities | | | |
| Current assets | | | | Current liabilities | | | |
| Cash on hand and in banks | 35,189 | 41,017 | Notes payable, accounts payable on construction contracts and other accounts payable | 85,732 | 88,360 | | |
| Notes receivable, accounts receivable on completed construction contracts and other accounts receivable | 127,610 | 150,612 | Electronically recorded obligations | 13,006 | 21,094 | | |
| Short-term investments | 26 | 20 | Short-term borrowings | 7,584 | 1,990 | | |
| Costs of uncompleted construction | 6,826 | 5,106 | Income taxes payable | 6,239 | 8,412 | | |
| Merchandise | 897 | 1,765 | Advances received on uncompleted construction contracts | 6,918 | 12,909 | | |
| Raw materials and supplies | 5,444 | 979 | Other current liabilities | 10,741 | 9,377 | | |
| Other current assets | 2,906 | 6,791 | Total current liabilities | 130,222 | 142,144 | | |
| Allowance for doubtful accounts | (17) | (23) | Long-term liabilities | | | | |
| Total current assets | 178,884 | 206,268 | Long-term debt | 8,983 | 13,660 | | |
| Fixed assets | | | Lease obligations | 2,597 | 2,596 | | |
| Property and equipment | | | Provision for retirement benefits for directors and audit and supervisory board members | 406 | 324 | | |
| Buildings and structures | 65,757 | 66,155 | Liability for retirement benefits | 15,746 | 13,936 | | |
| Machinery, vehicles, tools, furniture and fixtures | 39,515 | 41,095 | Other long-term liabilities | 2,822 | 2,432 | | |
| Land | 28,484 | 28,874 | Total long-term liabilities | 30,557 | 32,949 | | |
| Leased assets | 6,345 | 6,126 | Total liabilities | 160,780 | 175,094 | | |
| Construction in progress | 1,718 | 1,757 | Net assets | | | | |
| Accumulated depreciation | (56,657) | (60,259) | Shareholders' equity | | | | |
| Total property and equipment | 85,164 | 83,750 | Common stock | 12,555 | 12,561 | | |
| Intangible assets | | | Capital Surplus | 12,853 | 13,012 | | |
| Goodwill | 500 | 343 | Retained earnings | 139,809 | 159,401 | | |
| Other intangible assets | 943 | 986 | Treasury stock | (8) | (10) | | |
| Total intangible assets | 1,443 | 1,329 | Total shareholders' equity | 165,209 | 184,965 | | |
| Investments and other assets | | | Accumulated other comprehensive loss | | | | |
| Investments in securities | 48,625 | 53,772 | Unrealized holding gain on securities | 4,261 | 3,585 | | |
| Long-term loans receivable | 932 | 1,179 | Unrealized loss on hedging instruments | (570) | (423) | | |
| Asset for retirement benefits | 353 | 1,646 | Translation adjustments | 306 | 179 | | |
| Deferred tax assets | 5,955 | 5,720 | Retirement benefit liability adjustments | (7,757) | (7,988) | | |
| Other | 4,678 | 5,291 | Total accumulated other comprehensive loss | (3,759) | (4,647) | | |
| Allowance for doubtful accounts | (1,119) | (1,688) | Non- controlling interests | 2,689 | 1,858 | | |
| Total investments and other assets | 59,427 | 65,922 | Total net assets | 164,139 | 182,176 | | |
| Total fixed assets | 146,034 | 151,002 | Total liabilities and net assets | 324,919 | 357,271 | | |
| Total assets | 324,919 | 357,271 | | | | | |

(4) Consolidated Statement of Income

| | | (Unit: million yen) | |
|--|----------------|---------------------|---------------|
| | | FY2017 | FY2018 |
| Net sales | | | |
| Construction contracts | 346,403 | 388,327 | |
| Other | 14,468 | 19,816 | |
| Total net sales | 360,872 | 408,143 | |
| Cost of sales | | | |
| Construction contracts | 292,664 | 331,391 | |
| Other | 11,547 | 16,191 | |
| Total cost of sales | 304,212 | 347,582 | |
| Gross profit | | | |
| Construction contracts | 53,738 | 56,935 | |
| Other | 2,921 | 3,625 | |
| Total gross profit | 56,659 | 60,561 | |
| Selling, general and administrative expenses | | 21,932 | 23,813 |
| Operating income | | 34,726 | 36,747 |
| Non-operating income | | | |
| Interest income | 83 | 62 | |
| Dividend income | 564 | 564 | |
| Equity in earnings of affiliates | 310 | 754 | |
| Gain on investments in partnership | 641 | 976 | |
| Rent income | 326 | 312 | |
| Insurance and dividend income | 606 | 443 | |
| Other | 895 | 808 | |
| Total non-operating income | 3,427 | 3,921 | |
| Non-operating expenses | | | |
| Interest expenses | 411 | 372 | |
| Extra retirement payments | 88 | 80 | |
| Provisions of allowance for doubtful accounts of subsidiary | 151 | 153 | |
| Other | 161 | 137 | |
| Total non-operating expenses | 812 | 744 | |
| Ordinary profit | | 37,342 | 39,924 |
| Extraordinary income | | | |
| Gain on sales of property and equipment | 516 | 63 | |
| Gain on sales of investments in securities | 263 | 40 | |
| Gain on bargain purchase | 183 | — | |
| Gain on liquidation of subsidiary | 0 | — | |
| Total extraordinary income | 965 | 104 | |
| Extraordinary loss | | | |
| Impairment loss on fixed assets | 831 | — | |
| Loss on disposal and sales of fixed assets | 318 | 553 | |
| Loss on sales of investments in securities | — | 15 | |
| Impairment loss on investments in securities | 7 | 185 | |
| Loss on valuation of utility rights | 1 | 13 | |
| Loss on valuation of shares of associates | — | 0 | |
| Total extraordinary loss | 1,158 | 768 | |
| Profit before income taxes | | 37,148 | 39,260 |
| Income taxes – current | | 10,856 | 12,001 |
| Income taxes – deferred | | 789 | 569 |
| Total income taxes | | 11,645 | 12,570 |
| Profit | | 25,502 | 26,689 |
| Profit (loss) attributable to non-controlling interests | | 206 | (1) |
| Profit attributable to owners of parent | | 25,296 | 26,691 |

(5) Consolidated Statement of Cash Flows

(Unit: million yen)

| | FY2017 | FY2018 |
|---|----------|----------|
| Cash flows from operating activities | | |
| Profit before income taxes | 37,148 | 39,260 |
| Depreciation and amortization | 5,512 | 6,074 |
| Impairment loss on fixed assets | 831 | — |
| Increase in allowance for doubtful accounts | 107 | 575 |
| Decrease in liability for retirement benefits and provision for retirement benefits for directors and audit and supervisory board members | (3,634) | (3,295) |
| Increase (decrease) in provision for loss on construction contracts | (214) | — |
| Loss on valuation of utility rights | 1 | 13 |
| Gain on investments in partnership | (641) | (976) |
| Interest and dividend income | (648) | (626) |
| Interest expenses | 411 | 372 |
| Foreign exchange (gain) loss | (35) | 22 |
| Equity in earnings of affiliates | (310) | (541) |
| Gain on sales of property and equipment, net | (509) | (63) |
| Loss on disposal of fixed assets | 318 | 553 |
| Impairment loss on investments in securities | 7 | 185 |
| Gain on sales of investments in securities | (263) | (24) |
| Gain on bargain purchase | (183) | — |
| Gain on liquidation of subsidiary | (0) | — |
| Increase in notes and accounts receivable on completed construction contracts | (17,939) | (23,007) |
| (Increase) decrease in costs of uncompleted construction contracts | 76 | 1,585 |
| (Increase) decrease in inventories | (1,500) | 3,597 |
| Increase in notes and accounts payable on construction contracts | 15,598 | 10,751 |
| Increase (decrease) in advances received on uncompleted construction contracts | (3,098) | 6,073 |
| Increase in long-term accounts payable | 9 | 20 |
| Increase (decrease) in consumption taxes, net | 3,594 | (1,896) |
| Other, net | 5,711 | (2,866) |
| Subtotal | 40,349 | 35,786 |
| Interest and dividend income received | 629 | 604 |
| Interest expenses paid | (398) | (384) |
| Income taxes paid | (10,562) | (9,952) |
| Net cash provided by operating activities | 30,016 | 26,054 |
| Cash flows from investing activities | | |
| Payments into time deposits | (406) | (644) |
| Proceeds from withdrawal of time deposits | 168 | 488 |
| Purchase of property and equipment | (4,092) | (2,877) |
| Proceeds from sales of property and equipment | 710 | 211 |
| Payments of disposal of property, plant and equipment | (113) | (501) |
| Purchase of investments in securities | (3,278) | (9,334) |
| Proceeds from sales of investments in securities | 3,140 | 2,405 |
| Purchase of subsidiaries' shares resulting in changes in scope of consolidation | (168) | — |
| Payments of long-term loans receivable | (929) | (289) |
| Collection of long-term loans receivable | 92 | 181 |
| Other, net | 1,046 | (938) |
| Net cash used in investing activities | (3,830) | (11,298) |
| Cash flows from financing activities | | |
| Net increase (decrease) in short-term borrowings | (14,872) | (348) |
| Proceeds from long-term debt | 6,187 | 7,496 |
| Repayments of long-term debt | (6,549) | (8,040) |
| Purchase of treasury stock | (7) | (1) |
| Cash dividends paid | (5,635) | (7,108) |
| Cash dividends paid to non-controlling shareholders | (1) | (6) |
| Repayments to non-controlling shareholders | (20) | (22) |
| Purchase of subsidiaries' shares not resulting in changes in scope of consolidation | (1) | (0) |
| Other, net | (881) | (988) |
| Net cash used in financing activities | (21,783) | (9,021) |
| Effect of exchange rate changes on cash and cash equivalents | 84 | (48) |
| Net increase in cash and cash equivalents | 4,486 | 5,686 |
| Cash and cash equivalents at the beginning of the year | 30,027 | 34,505 |
| Increase (decrease) in cash and cash equivalents resulting from changes in accounting period of consolidated subsidiaries | (9) | 1 |
| Cash and cash equivalents at the end of the year | 34,505 | 40,192 |

(6) Corporate Profile

Corporate Profile

(as of March 31, 2019)

| | | | |
|-------------------------------|--|--------------------------|-------------------------|
| 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) 9,954 (Non-consolidated) 6,399 | 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 | | |
| | Telecommunications Engineering | | |
| | Architectural and Construction Business | | |
| | 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, 2019)

| Construction work | Regional Headquarters in South East Asia |
|---|---|
| Meikousha Co., Ltd. | Kyudenko south east asia Pte. Ltd. |
| Kakusokukeisou Co., Ltd. | Regional Headquarters for Subsidiaries in South East Asia |
| Jinnouchikoumuten Co., Ltd. | |
| Fukuoka densetsu Co., Ltd. | |
| Fukuto densetsu Co., Ltd. | |
| Chikugo densetsu Co., Ltd. | |
| Fukusetsu Co., Ltd. | |
| Kitasetsu Co., Ltd. | |
| Oita densetsu Co., Ltd. | |
| Fusokogyo Co., Ltd. | |
| Miyaei Co., Ltd. | |
| Minamikyushu densetsu Co., Ltd. | |
| Kaei densetsu Co., Ltd. | |
| Kyukinsetsubikogyo Co., Ltd. | |
| Yuei densetsu Co., Ltd. | |
| Kuma densetsu Co., Ltd. | |
| Higo-setubi Co., Ltd. | |
| Choei Co., Ltd. | |
| Chohoku densetsu Co., Ltd. | |
| Kyusetsukogyo Co., Ltd. | |
| Ariake densetsu Co., Ltd. | |
| Kyutie Co., Ltd. | |
| Syoudensetsu Co., Ltd. | |
| Sanyudensetsu Co., Ltd. | |
| Kyukousogosetsubi Co., Ltd. | |
| Ergotech Co., Ltd. | |
| Koteradengyo Co., Ltd. | |
| Kawachikogyo Co., Ltd. | |
| Seiwakogyo Co., Ltd. | |
| Kyulien environment improving Co., Ltd. | |
| Asia projects engineering Pte. Ltd. | |
| Kyudenko vietnam Co., Ltd. | |
| Kyudenko malaysia Sdn. Bhd. | |
| Kyudenko (Thailand) Co., Ltd. | |
| | Design and estimation |
| | Quatec corporation Co., Ltd. |
| | Design |
| | Facility maintenance and inspection |
| | Setsubihoshu center Co., Ltd. |
| | Maintenance of buildings and environmental facilities |
| | Material sales |
| | 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 |
| | Power generation |
| | Kyudenko new energy Co., Ltd. |
| | New energy business including wind power generation, solar power generation and solar power and fuel battery |
| | 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 |
| | Real estate sales, rental and management |
| | Kyushudenko home, Co., Ltd. |
| | Construction, purchase and sale of real estate, lease brokerage, non-life insurance agency |
| | Software development |
| | Automation technology Co., Ltd. |
| | Building information and telecommunication system, and research and development |
| | Systec Co., Ltd. |
| | Development and sale of transportation service management supporting system equipment |
| | Temporary staffing service |
| | Portal Co., Ltd. |
| | Temporary staffing service, fee-charging employment placement service, education consulting, events, and banquet business |
| | Others |
| | 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" |

(7) Stock Information

Stock information

(as of March 31, 2019)

| | |
|--|---|
| Fiscal year | Every year from April 1 to March 31 in the following year |
| Annual general meeting of shareholders | Held every year within 3 months from April 1 |
| Record date of dividends payment | Year-end March 31, Interim September 30 |
| Method of public notice | Electronic public notice will be posted on the Company's website (https://www.kyudenko.co.jp). However, if an electronic public notice cannot be made due to an accident or other unavoidable reason, it will be posted on the Nihon Keizai Shimbun. |
| Stock exchange listing | First Section of Tokyo Stock Exchange 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 http://www.smtb.jp/personal/agency/ (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, 2019)

| | |
|-----------------------------------|--------------------|
| Total number of authorized shares | 250,000,000 shares |
| Total outstanding shares | 71,165,783 shares |
| Number of shareholders | 6,386 |

Major shareholders

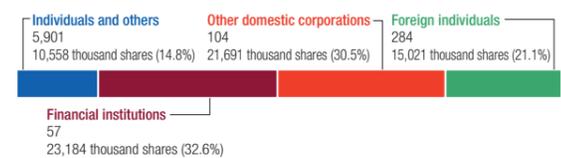
(as of March 31, 2019)

| Name | Number of shares held (thousand shares) | Shareholding ratio (%) |
|--|---|------------------------|
| Kyushu Electric Power Company, Incorporated | 15,980 | 22.46 |
| Japan Trustee Services Bank, Ltd. (trust account) | 5,030 | 7.07 |
| THE NISHI-NIPPON CITY BANK, LTD. | 3,249 | 4.57 |
| The Bank of Fukuoka, Ltd. | 3,133 | 4.40 |
| The Master Trust Bank of Japan, Ltd. (trust account) | 2,396 | 3.37 |
| Kyudenko Employees Shareholding Association | 2,018 | 2.84 |
| Kyudenko Labor Union | 1,300 | 1.83 |
| Nishi-Nippon Railroad Co., Ltd. | 1,142 | 1.60 |
| MUFG Bank, Ltd. | 1,133 | 1.59 |
| KYUSHU RAILWAY COMPANY | 887 | 1.25 |

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

Distribution of shares

(as of March 31, 2019)



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

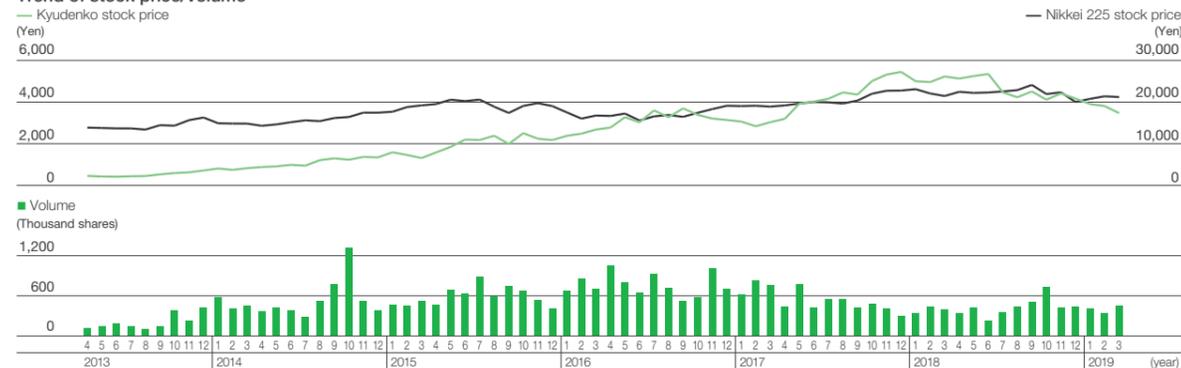
| | 2015.3 | 2016.3 | 2017.3 | 2018.3 | 2019.3 | 2020.3 (forecast) |
|--------------------|--------|--------|--------|--------|---------|-------------------|
| Interim dividends | 10 yen | 20 yen | 30 yen | 40 yen | 50 yen | 50 yen |
| Year-end dividends | 15 yen | 25 yen | 40 yen | 50 yen | 50 yen | 50 yen |
| Total | 25 yen | 45 yen | 70 yen | 90 yen | 100 yen | 100 yen |

Rating information

(as of March 31, 2019)

| Name of rating institution | Name of rating | Rating |
|---|----------------|--------|
| Rating and Investment Information, Inc. (R&I) | issuer rating | A- |

Trend of stock price/volume



(8) List of Reference for Key Information

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

Kyudenko Corporation

1-23-35 Nanokawa, Minamiku, Fukuoka city, 815-0081 JAPAN

Tel : +81-92-523-1691

Website : <https://www.kyudenko.co.jp/>