

**KANDENKo**

<https://www.kandenko.co.jp/>

# KANDENKO CORPORATE REPORT 2020



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Printed in Japan

**KANDENKo**





# Kandenko is one of Japan’s leading firms in general infrastructure works centering on electric works at home and abroad for 76 years since its establishment.

Imagine looking down from the air on the Marunouchi area in Tokyo, Japan’s finance and economic center, and you will see that Kandenko was involved in the construction of most of the buildings there. Not only in and around the capital but throughout the nation, Kandenko has provided end-to-end engineering services ranging from design and execution to maintenance and renovation, regarding electrical, telecommunications, air conditioning and sanitation systems and other kinds of building infrastructure.

Upgrading electrical infrastructure, the main artery of cities is also an important business of ours. From power plants to households, we play a part in stable energy supply to support urban functions.

Our mission is to protect the lives of people, the economy, and a safe and comfortable environment. With incomparable experiences and excellent technology, Kandenko is committed to fulfilling this mission.

Delivering electricity with secure construction, we light buildings with high-quality facilities and lighten the spirits of the people living inside. Kandenko aims to be an exceptionally brilliant company that illuminates the nation.

Kandenko Network	
Head Office	Tokyo
Divisions	Sales Division, Social Infrastructure Division, Tokyo Sales Division, Kitakanto & Hokushinetsu Sales Division, Higashikanto Sales Division, Minamikanto & Tokai Sales Division, Nishikanto Sales Division, West Japan Sales Division, Fukushima Division
Branches	Tokyo Branch, Kanagawa Branch, Chiba Branch, Saitama Branch, Ibaraki Branch, Tochigi Branch, Gunma Branch, Yamanashi Branch, Shizuoka Branch, Tama Branch, Kansai Branch, Nagoya Branch, Kyushu Branch, Hokkaido Branch, Tohoku Branch, Nagano Branch
Branches, Representative Offices	Tokyo: 19, Kanagawa: 13, Chiba: 11, Saitama: 10, Ibaraki: 10, Tochigi: 7, Gunma: 5, Niigata: 2, Toyama: 1, Ishikawa: 1, Fukui: 1, Yamanashi: 2, Shizuoka: 5, Kyoto: 1, Hyogo: 1, Hiroshima: 1, Kumamoto: 1, Miyazaki: 1, Kagoshima: 1, Okinawa: 1, Hokkaido: 4, Aomori: 2, Akita: 1, Yamagata: 1, Fukushima: 2, Nagano: 1



Corporate  
Motto

## “People First”

Corporate  
Philosophy

- 1 Based on respect for humanity, Kandenko fulfills its duty of corporate social contribution and contributes to creating richer human environments.
- 2 By anticipating the needs of customers and seeking technological innovation, Kandenko provides optimal services and facilities.
- 3 By working for human resource development and continual improvement, Kandenko aims to be a future-oriented company.

## Greetings

Thank you for your interest in “KANDENKO  
CORPORATE REPORT 2020.”

Since its founding in 1944, Kandenko has grown by conducting business in a wide range of fields, with the aim of ensuring the mutual prosperity of its customers and the communities where it works and finds its purpose in this pursuit.

Kandenko will make a long-lasting contribution to society as a partner in social infrastructure.

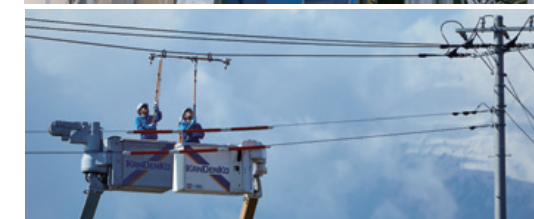
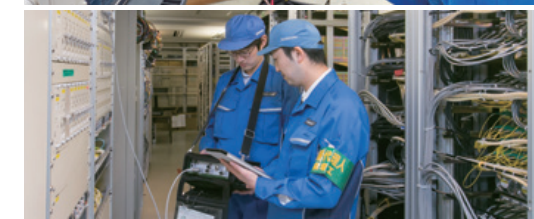
Kiyoshi Goto  
Chairman and Director



Toshio Nakama  
President and Director

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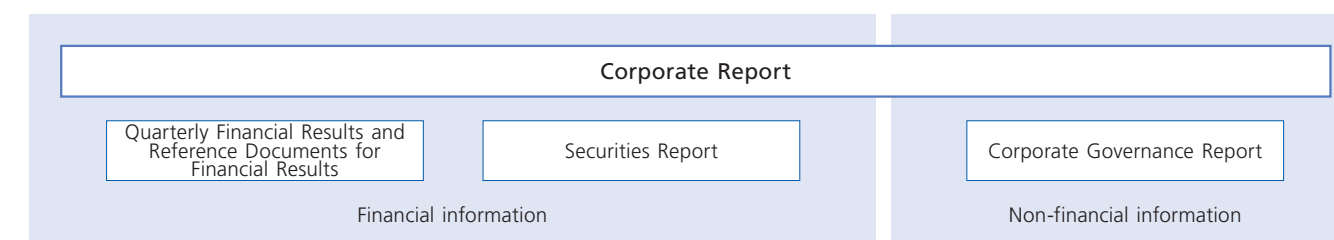
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## Tool map

To facilitate communication with its stakeholders, the Kandenko Group conveys multifaceted information by means of various tools. In addition to the information provided in this report, we make available on our website the Group's services, CSR activities, and other diverse information.

The Company's website: <https://www.kandenko.co.jp/>



## ○ Editorial Policy

This integrated report introduces various aspects of the Company for the purpose of facilitating stakeholders' understanding of our businesses and medium- to long-term value creation.

## ○ Reporting Period

From April 1, 2019 to March 31, 2020  
(Includes reports on some activities outside this period)

## &lt;Notes on proper use of the business result forecast&gt;

The business result forecast and other forward-looking statements herein are based on the information currently available and certain assumptions deemed reasonable by the Company, and thus actual results may differ significantly from these forecasts due to a wide range of factors.



# History

Since its founding in September 1944, Kandenko has conducted business in a wide range of fields with the aim of ensuring the mutual prosperity of its customers and the communities where it works and finds its purpose in this pursuit, and grown to become one of Japan's leading general infrastructure companies.

This section presents the Company's history of stably supplying electric power and supporting people's lives alongside postwar development in Japan.

Late 1940's

Large-scale transmission line works gain momentum



1947

Transport of power poles by hand-drawn cart



September 1944

Kanto Denki Koji Co., Ltd., was established.  
Head office at 2 Tameikemachi, Akasaka Ward (current Minato Ward), Tokyo



September 1959

The Company provides disaster recovery support beyond its jurisdiction in the wake of the Isewan Typhoon



1958

Tokyo Tower completed.



1981

Power distribution network in Nepal upgraded.



1978

New Tokyo International Airport (current Narita International Airport) opened.



Photo courtesy of Narita International Airport

1968

Kasumigaseki Building completed as the first skyscraper in Japan.



1991

Tokyo Metropolitan Government No.1 Building completed.



July 1986

The Company participated in the Japanese Antarctic Research Expedition for the first time.



September 1984

40th anniversary of establishment  
The Company name is changed to Kandenko Co., Ltd., and the company flag and emblem are also changed.



2012

TOKYO SKY TREE®, the world's highest self-supporting broadcast tower opened.



2019

Japan National Stadium completed.



Courtesy of Taisei Corporation

2019

Disaster recovery work in typhoon-stricken Boso Peninsula



2017

Pacific Century Place Jakarta completed.



Operating profit  
(Millions of yen)

30,000

20,000

10,000

0

1944

1950

1955

1960

1965

1970

1975

1980

1985

1990

1995

2000

2005

2010

2015

2019

Net sales/Operating profit

■ Net sales ■ Operating profit

\* Figures in and before fiscal 1998 show non-consolidated net sales/operating profit.

Net sales  
(Millions of yen)  
700,000

600,000

500,000

400,000

300,000

200,000

100,000

0

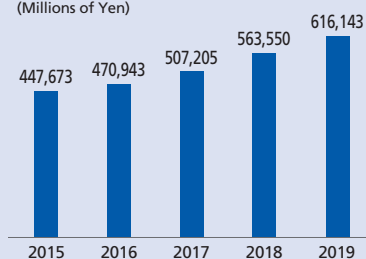
# At a Glance

## Financial Information

### Net sales

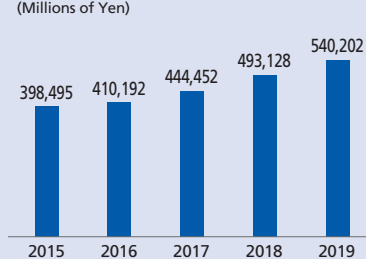
**Consolidated** ¥616,143 million

(Millions of Yen)



**Non-consolidated** ¥540,202 million

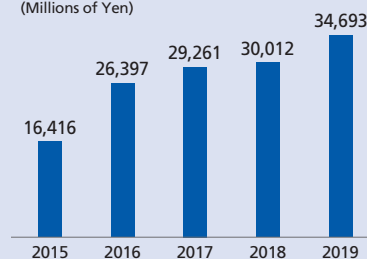
(Millions of Yen)



### Operating profit

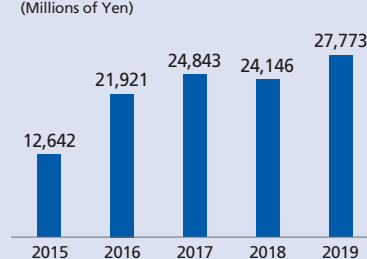
**Consolidated** ¥34,693 million

(Millions of Yen)



**Non-consolidated** ¥27,773 million

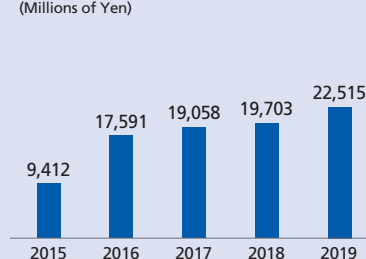
(Millions of Yen)



### Profit

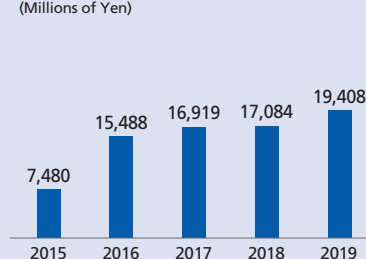
**Consolidated** ¥22,515 million

(Millions of Yen)



**Non-consolidated** ¥19,408 million

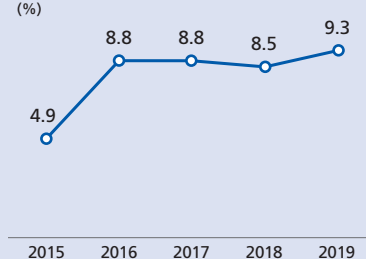
(Millions of Yen)



### ROE

**Consolidated** 9.3%

(%)



**Non-consolidated** 8.9%

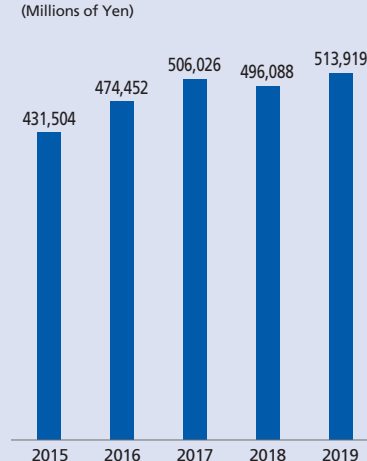
(%)



### New orders received

¥513,919 million

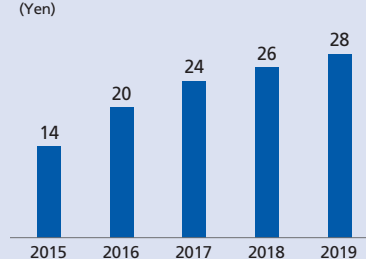
(Millions of Yen)



### Dividend / Dividend payout ratio

**Dividend / Consolidated** ¥28

(Yen)



**Dividend payout ratio / Consolidated** 25.4%

(%)

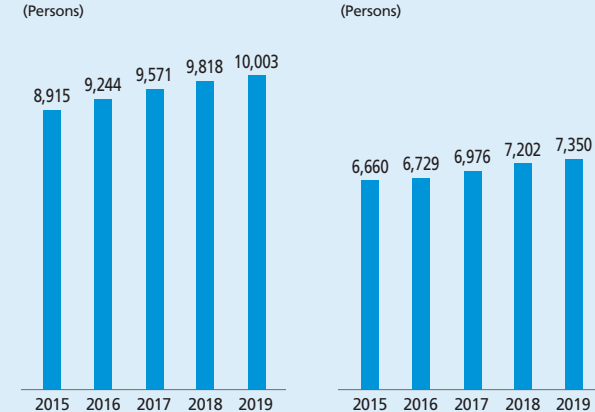


## Non-financial information

### Number of employees

**Consolidated** 10,003 persons **Non-consolidated** 7,350 persons

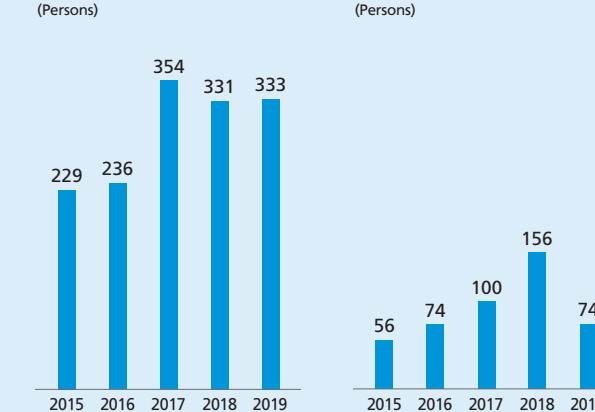
(Persons)



### Number of new recruits

**New graduates** 333 persons **Year-round recruitment** 74 persons

(Persons)



### Directors' average attendance at Board of Director's meetings

98%

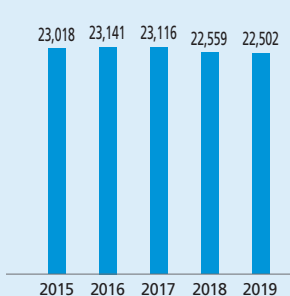


### Electricity usage

**Compared to fiscal 2014** (4.4%)

**Compared to fiscal 2010** (28.4%)

(MWh)



### Number of Skills Competitions winners

	Gold	Silver	Bronze
Electrical Installations	14	26	30
Information Network Cabling	2	6	9
Plumbing and Heating	2	3	3

\* In Electrical Installations, one first place winner and two second place winners in the World Skills Competition.





## | Message from the Management |

# Kandenko will sustainably grow as a 100-Year Company supporting society.



President and Executive Officer  
Toshio Nakama

### Message from New President - Kandenko and My Mission

I am Toshio Nakama. I have just assumed the position of President and Executive Officer of Kandenko, succeeding the former President Yoshimi Morito. I will do my best to further develop the Kandenko Group. I am grateful for your continued guidance and support.

I joined the Company in 1982 at the age of 22, and supervised electrical engineering work mainly in building construction sites for 15 years until 37. As a site manager, I gave work instructions to workers based on drawings and oversaw worksites at my discretion. After that, I chaired the labor union for four years.

Then I was assigned to the sales division and worked as a salesperson of electrical engineering, environmental facilities and systems, and renovation work for 12 years until I was appointed General Manager of Saitama Branch at the age of 53. At engineering worksites, I often made decisions about what to do at my own discretion. As a salesperson, I found it very important to coordinate with other departments and divisions and learned that how critical a teamwork is. I appreciated sales information provided by a lot of customers, which

helped me build a long lasting network that has supported me until today. For two years when I served as General Manager of Saitama Branch, I operated corporate division sites, an experience that taught me how to see the organization from a cross-sectional perspective.

In 2015, I assumed Division Manager of Sales Division responsible for supervising Electrical Engineering, Environmental Facilities and Systems, and Renovation Work as a whole. Since then, I have operated business to receive more orders by utilizing strengths of work execution and sales abilities under the five-year growth strategy originally formulated by then President Hiroshi Mizue and taken over by the former President Yoshimi Morito.

This year marks the 76th anniversary of Kandenko's foundation. In its history, the Company has expanded its business both in segments and areas, though two factors have remained unchanged: it is a contracting business and a labor-intensive industry. Our contracting business has been able to grow as a result of winning orders based on the trust of customers, which was built up by our predecessors who worked hard every day, rain or shine, to provide the customers with services they

### ○ Fiscal 2019 Business Results

Consolidated results (Billions of Yen)	
Net sales of completed construction contracts	¥616.1 (up 9.3% YoY)
Operating profit	34.6 (up 15.6% YoY)
Ordinary profit	35.5 (up 15.5% YoY)
Profit attributable to owners of parent	22.5 (up 14.3% YoY)

Non-consolidated results (Billions of Yen)	
New orders received	¥513.9 (up 3.6% YoY)
Net sales of completed construction contracts	540.2 (up 9.5% YoY)
Operating profit	27.7 (up 15.0% YoY)
Ordinary profit	28.8 (up 14.7% YoY)
Profit	19.4 (up 13.6% YoY)

## Message from the Management

needed. In the face of hardships, such as landslide, flood, wind or storm damage, they rushed to customers in response to their requests and difficulties and solved the problems while ensuring safety. Such professionalism, or Kandenko's DNA, must be passed down to younger employees to further develop the trust of customers and eventually to achieve sustainable growth.

I recognize that I am tasked with putting initiatives under the growth strategy into motion, developing human resources capable of supporting future social infrastructure in Japan, strengthening the system, maintaining and continuing the provision of services, and ensuring business stability and growth to fulfill our social responsibility. Bearing these missions in mind, I will devote myself to leading the management of the Company.

### Results of Operations in Fiscal 2019 and Progress of the Growth Strategy

When we look back at the business environment surrounding Kandenko in fiscal 2019, although reduced electric power-related investment continued, domestic construction investment remained at high levels on the back

of a number of large-scale redevelopment projects especially in the Tokyo metropolitan area, along with the construction demand of logistics facilities in response to the growing e-commerce.

Under such circumstances, the Company conducted strategic sales activities based on early collection of sales information and in-depth and multifaceted analysis, worked to squeeze operational unit costs and thoroughly reduce administrative overhead expenses by further spreading cost management methods, and sought to secure contracts and generate profits.

As part of initiatives to improve customer confidence, we endeavored to raise safety-first and compliance awareness. We also developed IT-based worksite support systems and prefabricated technology, and promoted technological development to cater to customer needs and support business field expansion, in an effort to support business activities.

As a result, new orders received on a non-consolidated basis amounted to ¥513,919 million, a 3.6% increase year on year, achieving the level of ¥500,000 million, and the Kandenko Group's consolidated business result for fiscal 2019 was as follows: net sales of completed construction contracts of ¥616,143 million (9.3% increase

year on year), operating profit of ¥34,693 million (15.6% increase year on year), ordinary profit of ¥35,565 million (15.5% increase year on year), profit attributable to owners of parent of ¥22,515 million (14.3% increase year on year), which were record-high business results in revenue and profit.

The spread of the novel coronavirus (COVID-19) infection had a slight impact on our business result for fiscal 2019. Some worksites of electrical engineering work were suspended in April and May 2020, but from a perspective of maintaining essential lifelines for society, we have proceeded with projects of information & communication work, power distribution line engineering work, and electric power & civil engineering work as scheduled, thoroughly taking infection prevention measures.

We see that no major change will be needed to plans related to large-scale projects for the time being, but

expect capital investment to shrink especially of electrical engineering, environmental facilities and systems, and renovation work, as corporate earnings are negatively affected going forward.

In the medium term, the expansion of remote work and satellite offices caused by the COVID-19 pandemic has a possible impact on construction demand for office buildings and the number of construction contracts for new buildings in urban areas. Meanwhile, reconstruction demand in buildings built in and after the rapid economic growth period for replacement is expected to remain strong. We need to further drive renovation demand by capitalizing on customer needs for increasing and reinforcing facilities to address building energy efficiency measures and business continuity planning (BCP) requirements.

In February 2016, the Kandenko Group formulated and has since promoted a five-year growth strategy that

### ○ Fiscal 2020 Business Results (Forecast)

Consolidated results (Billions of Yen)	
Net sales of completed construction contracts	¥560.0 (down 9.1% YoY)
Operating profit	30.0 (down 13.5% YoY)
Ordinary profit	30.6 (down 14.0% YoY)
Profit attributable to owners of parent	19.2 (down 14.7% YoY)

Non-consolidated results (Billions of Yen)	
New orders received	¥510.0 (down 0.8% YoY)
Net sales of completed construction contracts	490.0 (down 9.3% YoY)
Operating profit	24.5 (down 11.8% YoY)
Ordinary profit	25.5 (down 11.6% YoY)
Profit	16.6 (down 14.5% YoY)

### Key Management Policies for Fiscal 2020

Focus on initiatives to improve customer confidence	<ul style="list-style-type: none"> <li>● Focus on safety education to strengthen risk management</li> <li>● Emphasize and entrench work rules</li> </ul>
Reinforce profit-generating capacity and ability to win orders	<ul style="list-style-type: none"> <li>● Conduct business activities putting profit-generating first</li> <li>● Conduct strategic sales activities and focus on progress management</li> <li>● Maintain work execution abilities and improve productivity at the worksite</li> </ul>
Develop technologies to support business activities	<ul style="list-style-type: none"> <li>● Develop technologies and reinforce profit-generating capacity through open innovation</li> </ul>
 Reinforce "people first" principle to motivate staff and energize the workplace	<ul style="list-style-type: none"> <li>● Reinforce human resources development</li> <li>● Promote reforms for work practices and annual leave systems</li> <li>● Create an open and free workplace</li> </ul>
Progress with structural reform of business	<ul style="list-style-type: none"> <li>● Offer a one-stop service for more types of work and process</li> <li>● Extensively utilize digital technologies</li> </ul>



## | Message from the Management |

comprises the five strands of “a business base reinforcement strategy,” “a business field expansion strategy,” “measures to contribute to a stable electric power supply,” “a human resources strategy” and “an investment strategy to boost work execution abilities.” Over the past four years, each strategy has made steady progress, as various initiatives have produced outcomes. In particular regarding work execution abilities, we have increased the number of employees to approximately 7,500 by hiring more than 300 new employees each year, and established a workforce of more than 40,000 people by building close relationships with business partners. In order to maintain the level of construction volume commensurate with this size of workforce, we have reinforced business base by enhancing proposal capabilities and price competitiveness.

As a result, we expanded net sales of completed construction contracts about 1.4 times and more than doubled operating profit compared to four years ago.

Fiscal 2020 is the final year of our growth strategy. Taking into account a certain impact of COVID-19, we forecast consolidated business results for fiscal 2020 as follows: net sales of completed construction contracts of ¥560,000 million (9.1% decrease year on year), operating profit of ¥30,000 million (13.5% decrease year on year), ordinary profit of ¥30,600 million (14.0% decrease year on year) and profit attributable to owners of parent of ¥19,200 million (14.7% decrease year on year).

This year, putting finishing touches on each strategy, we will push forward with initiatives toward the next step.

### Vision toward becoming a 100-Year Company

Fiscal 2020 is the final year of our growth strategy that started in fiscal 2016 as the roadmap to our vision “100-Year Company Supporting Society.” We have made good progress so far, posting record-high profit, but still need to expand growth fields, such as railways, water and roads, as well as new business fields. Based on such challenges, the Kandenko Group has started developing the next Medium-Term Management Plan for the period from fiscal 2021 to

fiscal 2023. In formulating the plan, people of all ages at the Group ranging from young employees to officers are first working together to consider what the Kandenko Group should be like as a 100-year Company 24 years later in 2044. Then, we will continue considering what we should be like in three years’ time and what we should work on in the meantime to realize our vision on its 100th anniversary. In this context, the next Medium-Term Management Plan is expected to play an integral part in realizing the vision.

As for our future image as a provider of social infrastructure 24 years later, an important factor is to enhance the Company’s capabilities in engineering to conduct business based on high proposal capabilities and contribute to society. At the same time, we need to fully discuss how to maintain technologies and skills we have long cultivated as a general infrastructure company and exert our strengths.

As for management issues in the future, as labor shortage is getting severer without doubt, it is necessary to significantly reduce workload by utilizing robots and introducing industrialized processes at worksites. In the face of a decline in the working-age population in Japan, there is an option of hiring more foreign workers but electric engineers are required to acquire a national qualification, which is a problem that we need to overcome.

Meanwhile, as for overseas business expansion, we are helping Japanese companies build their production sites, and engaging in local infrastructure development mainly in Southeast Asia such as Singapore, Malaysia, Thailand, Vietnam and Taiwan. Given the declining population in Japan, it is necessary to boost sales by seeking growth opportunities in overseas markets. Currently, our overseas sales still make up a small part of our net sales of completed construction contracts but we see a significant growth potential.

There are a variety of challenges for the Kandenko Group to address, but its future is promising and bright. We will draw up a long-term vision to make strong progress, by incorporating opinions of young employees responsible for the next generation.



### Company Contributing to Sustainability

We understand that our business, supporting social infrastructure, itself makes direct contribution to sustainability. In order to spread such awareness group-wide, we have linked the management plan for fiscal 2020 with the Sustainable Development Goals (SDGs) that were adopted by the United Nations and are intended to be achieved by 2030.

Specifically, we selected 8 out of the 17 SDGs, namely “Good Health and Well-being,” “Gender Equality,” “Affordable and Clean Energy,” “Decent Work and Economic Growth,” “Industry, Innovation and Infrastructure,” “Reduced Inequality,” “Sustainable Cities and Communities,” and “Climate Action,” and linked them to each of our five key management policies which are pillars of the management plan. By clarifying the definitions like this, we aim to raise awareness group-wide that we will solve social issues and contribute to sustainability through business.

As I mentioned earlier, through the five-year growth strategy, we have continued hiring more than 300

employees each year and our workforce has increased to approximately 7,500 people. That is to say, approximately 1,500 employees have worked for the Group for five years or shorter, and it is necessary to let them understand how Kandenko is solving social issues through its business.

For Kandenko, addressing SDGs does not only mean requirements for a company to fulfill but growth opportunities for it to take. We think that our solution to social issues includes renovation proposal to help improve energy efficiency of building infrastructure and meet BCP requirements in preparation for natural disasters that are getting more destructive and more frequent year by year.

We will maintain stable growth by enhancing proposal capabilities, work execution abilities and human resource abilities to exist as a company contributing to sustainability. At the same time, by practicing ESG (Environment, Social and Governance) management, we will fulfill our responsibility as a “preferred company,” ensure the fairness and transparency of management and achieve both corporate value and social value.



# Business Model

We provide end-to-end engineering services ranging from planning, design and execution to maintenance and renovation, regarding electrical work and information and communication work by making use of our proprietary technologies, expertise and methods in the fields of building infrastructure, telecommunications infrastructure and electric power infrastructure. Through its safe and high-quality facilities and services, Kandenko will make a long-lasting contribution to society as a partner in social infrastructure.

## Social issues

- Reduction of energy costs
- Prevention of global warming
- Damage to infrastructure due to natural disasters
- Arrival of an aging society
- Correcting long working hours
- Increase in cybercrime and accidents

etc.

## Corporate Motto

### "People First"

## Corporate Philosophy

1. Based on respect for humanity, Kandenko fulfills its duty of corporate social contribution and contributes to creating richer human environments.
2. By anticipating the needs of customers and seeking technological innovation, Kandenko provides optimal services and facilities.
3. By working for human resource development and continual improvement, Kandenko aims to be a future-oriented company.



## Business Fields

### Electrical Engineering, Environmental Facilities and Systems, and Renovation Work

The segment covers the design, construction, maintenance, and renovation of electrical facilities, air-conditioning and sanitation work for various structures including office buildings, department stores, theaters, hospitals, and factories.



### Information & Communication Work

The segment is engaged in all types of works related to information and communication, including upgrades to optical fiber cable networks, installation of transmission base stations for mobile communications, and construction of networks for cable TV and municipalities.



### Power Distribution Line Engineering Work

The segment covers installation and maintenance work of power distribution lines that deliver electricity directly to households, stores, and other customers.



### Electric Power & Civil Engineering Work

The segment is engaged in electrical work in nuclear power plants, in addition to work on power stations and substations, and on transmission lines. Recently, the division covers the construction of wind power plants and solar power plants, as well as work on transmission line networks.



For details, see page 17

Strengths  
of the  
Company

Technology

Experience

Research  
and  
development

Quality

Customer  
confidence

Corporate Governance

For details, see page 37

## Value to be Provided to Society

- Provision of comfortable living environments
- Stable supply of electric power
- Provision of stable communication services
- Restoration of infrastructure damaged by natural disasters
- Maintenance and updates for aging social infrastructure
- Energy-saving initiatives for building infrastructure

## SUSTAINABLE DEVELOPMENT GOALS

17 GOALS TO TRANSFORM OUR WORLD



## Business Review by Division |

### Building Infrastructure Work General Construction Work

#### Description of Business

**Electrical engineering work:** Work on electrical facilities and equipment inside all types of buildings and structures, building interiors, control equipment, and interior network

**Environmental facilities and systems, and renovation work:** Work on air conditioning and sanitation systems as well as water, heat and disaster prevention systems



Nobuhiro Iida

Managing Director and Executive Officer,  
Division Manager of Sales Division

**General Construction Work has driven Kandenko's growth in recent years by capitalizing on capital investment demand primarily in the Tokyo metropolitan area. We are focusing on expanding renovation work and improving worksite productivity, while enhancing human resource measures in anticipation of future trends.**

#### Results of operations in fiscal 2019

In fiscal 2019, we won large-scale projects including new construction work for Chuo University Tama Campus communal building (Tokyo), electrical renewal work for the Courthouse of Tokyo High Court, Tokyo District Court, and Tokyo Summary Court (Tokyo), and work on electrical facilities and equipment for a new building of Osaka Rosai Hospital (Osaka). As a result, new orders received decreased 0.4%, or ¥1,107 million from the previous fiscal year, to ¥264,633 million, maintaining a result on par with the previous year.

Net sales of completed construction contracts increased both for new construction work and renovation work. Net sales of completed construction contracts in total increased 11.3%, or ¥30,005 million, to ¥296,525 million, achieving a significant growth for five consecutive years. Major projects completed during the year include Shibuya PARCO new construction work (Tokyo), new Japan National Stadium maintenance work (Tokyo) and Yokohama Grangate new construction work (Kanagawa Prefecture).

Construction contracts brought forward as of March 31, 2020 amounted to ¥270,342 million, a decrease of ¥31,892 million, or 10.6% year on year.

#### Initiatives to sustain growth in the future

The division is conducting business utilizing its business base that the Company has built centered on the Kanto area, accounting for the largest part of the Company's orders received, net sales of completed construction contracts and profits. About 60% of the orders received are redevelopment projects and factory construction projects subcontracted by general constructors, while the remainder is direct orders from property owners.

Over the past five years, the division has kept growing due to the strong domestic demand, and in particular, won a large number of contracts including Olympics-related construction works and redevelopment projects in the Tokyo metropolitan area. However, as large-scale

new construction work projects in and around Tokyo have been completed one after another and competition for new orders becomes fiercer, in order to sustain the growth, we are required to expand our business areas to the whole country and types of work to those other than electric works. Maintaining the current market share in the Tokyo metropolitan area, we will work together with the Social Infrastructure Work division to exert the comprehensive power in order to win orders in other metropolitan areas including Nagoya, Osaka and Kyushu.

In recent years, we have focused on expanding renovation work, and the Renovation Department has taken the initiative in further developing processes including proposal capability enhancement. This type of management has produced results as the division is growing in renovation work. Recently, as many buildings are aging, demand has been increasing for maintenance, upgrading, renovation of facilities. We will expand our business by further enhancing our engineering capabilities and proposing cutting-edge and best solutions that cater to customer needs such as building energy efficiency measures and BCP requirements.

In fiscal 2020, both new orders received and net sales of completed construction contracts are expected to decrease due to a slowdown in capital investment affected by the spread of COVID-19. To make up for the decrease in earnings, the division will expand the target of orders to include logistics facilities and data centers. At worksites, we will take thorough infection prevention measures, secure steady progress in construction works, and implement efficiency improvement measures, including enhancing mobility of human resources.

#### Promoting worksite reform to address human resource risk

As the super-aging of Japan's population accelerates, fewer people are choosing to work in the construction industry. It is becoming increasingly difficult for the industry players, including Kandenko, to secure young workers who will bear the future of the industry.

To secure excellent talents who support our work execution abilities and technological capabilities, we are promoting company-wide reforms for work practices and annual leave systems, aiming to create a work environment where employees can enjoy working and achieve an ideal work-life balance. In April 2024, the Act to Overhaul Laws to Promote Workplace Reform will be applicable to the construction industry, requiring

compliance with the upper limit on overtime work. We will not only comply with regulations on paid holidays and working rules, but also improve production efficiency at worksites by introducing worksite support tools and utilizing the prefabricated unit technology for materials. Office workers will also be encouraged to thoroughly digitize paperwork, outsource a part of their duties and utilize Robotic Process Automation (RPA) to spend the freed-up time on worksite support, in an effort to reduce workload at worksites as much as possible.

We are committed to our mission to build electrical infrastructure in society and responsible for maintaining and continuing our business despite changes of times. Kandenko will inculcate in its employees the pride that comes with the mission, while promoting the creation of a fulfilling and attractive workplace. In this way, we will continue to exist as a company needed by society and become a preferred company by both customers and students.

#### SDGs as growth opportunities

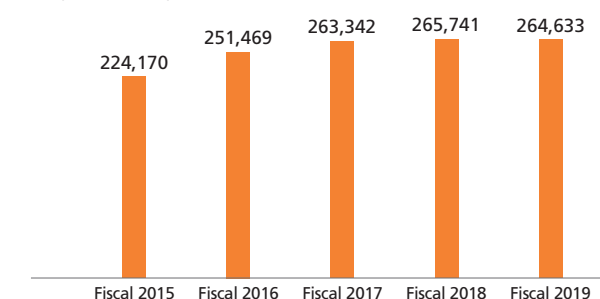
We recognize that initiatives of Electrical Engineering Work and Environmental Facilities and Systems, and Renovation Work are closely related to SDGs such as "Affordable and Clean Energy," "Industry, Innovation and Infrastructure," "Sustainable Cities and Communities," and "Climate Action."

Our experience in building and maintaining electrical infrastructure and technological capabilities we have developed to date are indispensable to realize a "decarbonized society" that solves the SDGs, such as establishing renewable energy and distributed power supply systems, enhancing data centers and telecommunication infrastructure, and restructuring supply chains. We recognize promoting business operation by fully utilizing this strength will present a significant growth opportunity going forward. As customers' needs for capital investment to achieve SDGs are growing, we stand a good chance of taking this opportunity and further growing by working together with the Social Infrastructure Work division.

We will proactively introduce advanced engineering technologies, information and communication technologies, and digital technologies, strengthen collaboration with internal and external bodies, and thus ensure that these growth opportunities will help us enhance corporate value in the future.

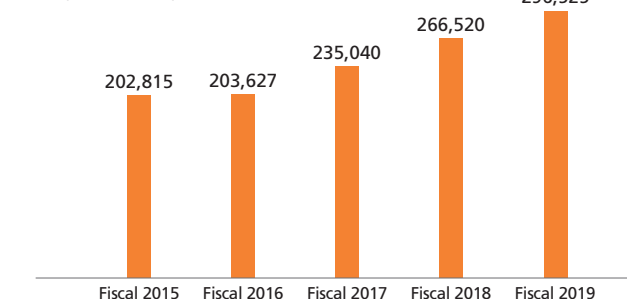
#### ○New orders received

(Millions of Yen)



#### ○Net sales of completed construction contracts

(Millions of Yen)





## Business Review by Division

### Social Infrastructure Work Information & Communication Work

#### Description of Business

Develop proposals for and carry out installation and maintenance of information and telecommunications systems, lay optical fiber cables for telecommunications providers, install optical transmission equipment, build and maintain transmission base stations for mobile communications, build and maintain networks for cable TV and municipalities, and maintain telecommunications facilities for electric power providers.



Shinichiro Kitayama

Executive Vice President and Executive Officer,  
and Division Manager of Social Infrastructure Division

**In the Information & Communication Work sector, we need to keep up with and spread fast-evolving technological innovation, including 5G communication. Keeping an eye on changes in society brought about by COVID-19, the division will open up future possibilities by taking advantage of unique strengths.**

#### Results of operations in fiscal 2019

During fiscal 2019, overall performance of the division was solid, due to large-scale updating work for a cable television operator and a significant increase in orders of public office projects for upgrading work of highway telecommunications networks, as well as newly-entered work on electrical infrastructure for mobile communication providers. Profitability has steadily improved owing to the results of ongoing structural reforms that we started two years ago.

New orders received increased ¥3,196 million, or 9% year on year, to ¥38,745 million. Net sales of completed construction contracts increased ¥3,061 million, or 7.3%

year on year, to ¥44,852 million owing to steady progress in increased construction work in hand, marking the fourth consecutive year of growth.

Construction contracts brought forward as of March 31, 2020, amounted to ¥15,646 million, a decrease by ¥6,107 million, or 28.1% year on year.

#### Impact of COVID-19 and focus targets

The Information & Communication Work division primarily engages in laying and maintaining optical fiber cables for electric power providers and telecommunications providers; building and maintaining networks for cable TV and municipalities; and building and maintaining transmission base stations. Sales are divided almost equally among these three businesses.

As for the recent business environment, the supply of some parts for base stations was affected by the spread of COVID-19, but we are making steady progress in construction works, taking infection prevention measures. In terms of orders received, as capital investment related to information and communication is on the rise due to the new lifestyle caused by the pandemic, and the promotion of work-style reforms, and an increase in the number of construction works is anticipated.

Meanwhile, as commercial services of fifth-generation mobile communication systems (5G) started to launch in phases in March 2020, we see an increase in construction work, including antenna installation of transmission base stations for mobile communication. In the market with many competitors including engineering companies affiliated to major telecommunication providers, Kandenکو aims to be a top runner by steadily gaining a share in the field in which the Company has abundant expertise with the help of the Power Distribution Line Engineering Work division, by focusing on the fact that many base stations are installed on power poles for 5G network, and making proposals for development of equipment to install wireless units on power poles and construction works of antenna installation on the top of power poles. At the same time, the division is conducting sales activities to win orders from new mobile communication providers by promoting our capability of one-stop total service from construction work and negotiation about places of antenna installation, such as buildings and power poles, through creation of a maintenance system after construction, which helps customers accelerate their service delivery.

Meanwhile, the division focuses on sales activities of a construction work that helps independent cable TV



Eisaku Shimizu

Executive Managing Officer, Division Manager of Social Infrastructure Division, and Head of Information & Communication Unit

operators to shift to Fiber-to-the-Home (FTTH). Recently the priority is placed on construction works in response to an increase in telecommunication traffic caused by COVID-19, but the shift to FTTH is inevitable given future business trends including offering 4K/8K satellite broadcasting service. We intend to continuously conduct sales activities by promoting our capabilities of completing construction work for a large-scale FTTH project in a short time.

In fiscal 2020, we expect net sales of completed construction contracts to decrease compared to the previous year when a large-scale construction project was completed, but new orders received to be flat year on year. Especially during this fiscal year, as the GIGA School Program proposed by the Ministry of Education, Culture, Sports, Science and Technology was included in the supplementary budget, we see urgent demand for work on electrical infrastructure including the development of network environment, for which we will proactively win orders.

#### Future direction and risks/opportunities

A slowdown of the economy will have a big impact on the capital investment trend. Demand of the Information

& Communication Work segment is no exception, though the impact is relatively small. This is because in recent years it has become indispensable for customers to use information and communication technologies in operating their business, and technological innovation is accelerating, urging them to maintain and continue investment in those technologies. Capitalizing on this sustained demand, the Information & Communication Work division will improve net sales of completed construction contracts and establish a structure to make good contribution to profitability.

Furthermore, the COVID-19 pandemic has caused information and communication to play more sophisticated and various roles. It is a pressing issue to increase and develop human resources capable of keeping up with the latest trend in technological innovation and making proposals based on it. Therefore, we will focus on the development of such human resources by proactively engaging in alliance and research and development with telecommunication equipment manufacturers dealing with advanced technologies.

We have accumulated a wealth of expertise and technologies through building networks for a variety of customers including electric power providers, telecommunications providers, cable TV providers and municipalities. Currently by taking advantage of them, we are not only implementing construction works of telecommunications infrastructure, but also design and maintain networks and propose solutions using new technologies according to each customer's characteristics, thus establishing a lasting and close relationship as the customer's partner. We will make efforts to provide customers with new value in cutting-edge fields such as AI and DX as well and achieve further growth going forward.

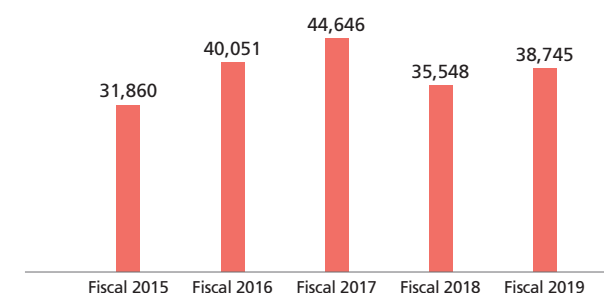
#### Toward achieving sustainable society

From a perspective of SDGs, the Information & Communication Work division is related to "Industry, Innovation and Infrastructure" and "Sustainable Cities and Communities" as common goals with other businesses of the Company. The division also works on diversity for the goal "Gender Equality" with many female employees active in maintenance of information and telecommunication equipment and devices.

We aim to create value by continuing to think what information and communication can do to realize a sustainable society and thus open up possibilities for the future. As a provider of infrastructure supporting leading-edge information and telecommunication, we will contribute to the development of industries and affluent lives and share prosperity with all stakeholders.

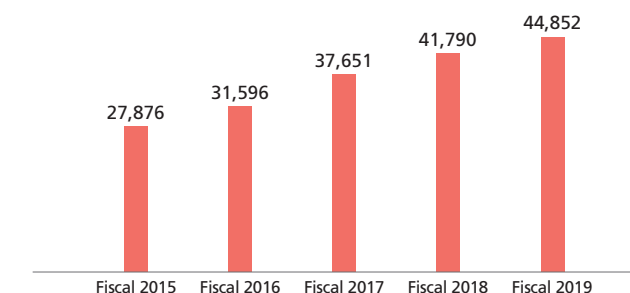
#### ○New orders received

(Millions of Yen)



#### ○Net sales of completed construction contracts

(Millions of Yen)





## Business Review by Division

### Social Infrastructure Work Power Distribution Line Engineering Work

#### Description of Business

**Work on overhead power distribution lines:** Construction and maintenance of overhead power distribution lines facilities involving power poles with power cables

**Work on underground power distribution lines:** Construction and maintenance of underground distribution lines facilities involving power cables underground

**The Power Distribution Line Engineering Work division has Japan's leading operational abilities and technology. We will reinforce profit-generating capacity and ability to win orders, maintain stable growth and make further evolution to achieve a smart society.**

#### Results of operations in fiscal 2019

In fiscal 2019, new orders received for overhead power distribution lines were ¥110,249 million, an increase by ¥10,065 million, or 10.0% year on year, as the division steadily received orders from the TEPCO Group and recovery work increased for repairing damage caused by typhoons. As public projects were put off ahead of the Olympic Games, underground power distribution lines saw a slight fall in new orders received, which amounted to ¥41,390 million, a decrease by ¥1,394 million, or 3.3% year on year. As a result, new orders received for Power Distribution Line Engineering Work as a whole came to ¥151,639 million, an increase by ¥8,670 million, or 6.1% year on year.

Net sales of completed construction contracts continued to achieve year on year growth at ¥148,493 million, an increase by ¥9,500 million, or 6.8% year on year owing to solid performance in overhead power distribution lines and underground power distribution lines. Profit was also solid.

We secured construction contracts brought forward as of March 31, 2020, of ¥29,790 million, an increase by ¥3,146 million, or 11.8% year on year.

#### Direction to expand business and outlook

Power Distribution Line Engineering Work is the division engaged in the construction and maintenance of electric power facilities. More than 90% of sales come from the work we receive from the TEPCO Group, but we are working to receive orders from general customers in recent years. In fiscal 2019, net sales of completed construction contracts to general customers, especially for construction works related to renewable energies, increased to ¥11,700 million. It is significant growth compared to that of about ¥3,000 million three years ago.

Renewable energy-related works is projected to grow under the theme of building a decarbonized society and

strengthening resilience of electric systems. In the longer term, we will see a shift from the conventional large-scale system power supply by thermal power and nuclear power generation, to distributed power supply by renewable energies and rechargeable batteries.

In the short run, however, the Bill for the Act of Partial Revision of the Electricity Business Act and Other Acts for Establishing Resilient and Sustainable Electricity Supply Systems, enacted in June 2020, makes it mandatory for electric power providers to make systematic renewal of aged facilities, and related initiatives will be promoted under the revised Electricity Business Act scheduled to be enforced in 2023. Therefore, our stance for the time being is that we allocate human resources to infrastructure renewal works in this core business while working to develop new technologies and work execution abilities and expand construction works related to renewable energies.

We expect new orders received and net sales of completed construction contracts for fiscal 2020 to be almost flat year on year. The spread of COVID-19 had no major impact on sales activities for project orders until the first half of fiscal 2020. Aiming to maintain electric power infrastructure, we have continued operations at worksites without suspension, taking thorough infection prevention measures. However, the situation remains unpredictable as there are concerns over postponement of construction work of undergrounding of power lines due to the postponed Olympic Games and decreased capital investment in electric power facilities caused by a decrease in electricity demand.

Under such circumstances in this fiscal year, we will win orders of infrastructure renewal works as mentioned earlier, work to expand construction works related to renewable energies, focus on improving productivity of our core business and thus reinforce profit-generating capacity. More specifically, we will negotiate securing the volumes of construction work in hand with the TEPCO Group, adjust process management and workforce accordingly and thus generate profit. In terms of human resources, a high turnover and hiring difficulty especially at business partners are pressing issues to address. We will take measures by 2024 when the Act to Overhaul Laws to Promote Workplace Reform will become applicable to the construction industry.



Mitsuru Fujii

Executive Managing Officer, Division Manager of Social Infrastructure Division, and Head of Power Distribution Department

#### Avoiding human resource risks and gaining opportunities

Looking at the business environment surrounding Power Distribution Line Engineering Work, social infrastructure is aging, and therefore opportunities come to companies capable of getting over constraints on human resources and meeting demand for renewal of facilities. Only companies capable of passing down technologies to future generations while maintaining work execution abilities, will survive.

We will actively introduce diversity to avoid risks of labor shortage and gain growth opportunities. By extending the employment period for seniors so that they can exercise their potential, creating a working environment where female workers can work comfortably, and facilitating development of power suits and power-assist arms that reduce the workload at worksites, we will support female and senior employees at worksites with technologies. Given a possible deregulation in the future, it is necessary to consider hiring more non-Japanese workers.

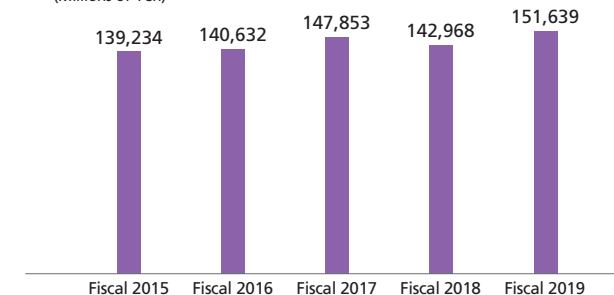
The Social Infrastructure Work division as a whole is working to increase flexibility and mobility of human resources by fostering multiskilled workers. For example, engineers in the Power Distribution Line Engineering Work division are required to learn necessary skills to handle construction management for a wind power generation system.

#### Growing with sustainable development of society

Business activities of Power Distribution Line Engineering Work are related to SDGs, such as "Good Health and Well-being," "Affordable and Clean Energy," "Decent Work and Economic Growth," "Industry, Innovation and Infrastructure," "Sustainable Cities and Communities," and "Climate Action," through initiatives to take human

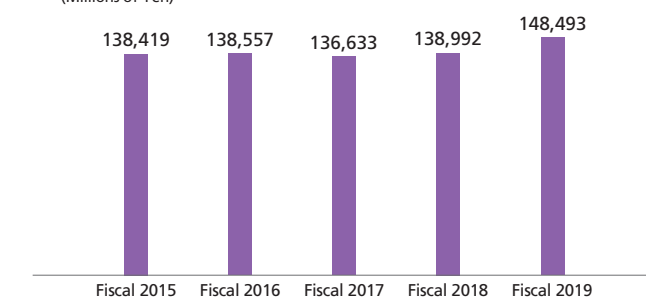
#### New orders received

(Millions of Yen)



#### Net sales of completed construction contracts

(Millions of Yen)



resource measures, introduce advanced technologies, work on resilience and achieve a decarbonized society.

We also recognize that improving productivity at worksites contributes to reducing CO<sub>2</sub> emissions by shortening the work time on aerial work platform trucks, and are working to produce effects.

As mentioned earlier, a shift from conventional large-scale system power supply by thermal power and nuclear power generation to distributed power supply by renewable energies and rechargeable batteries, is a requisite to realize a smart society. We will work on the shift by further driving growth business going forward. We will expand our business framework from "power distribution line construction" to "energy infrastructure" and evolve ourselves into a growing division as the society develops sustainably.



First-aid repair work of power pole damaged by typhoon



## Business Review by Division

### Social Infrastructure Work Electric Power & Civil Engineering Work

#### Description of Business

**Power generation and transformation work:** Work on power stations and substations, and renewable energy power generation

**Transmission lines work:** Work on overhead transmission lines

**Civil engineering work and underground lines work:** Work on underground transmission lines, and civil engineering work using C.C. Box technology

**Nuclear power work:** Regular inspections and maintenance of nuclear power plant facilities and equipment

The Electric Power & Civil Engineering Work division aims to expand orders by capitalizing on needs for redevelopments in urban areas and for replacement of aging social infrastructure and focusing on its specialty business fields. In recent years, the division has been focusing on renewable energy power generation work and growing rapidly.

#### Results of operations in fiscal 2019

Major projects we won during fiscal 2019 include construction work of Northern Hokkaido Wind Power Generation Project - Hamasato Wind Farm (Hokkaido Prefecture) and utility tunnel work for the change in power systems of Yachiyodai Electric Power Substation (Chiba Prefecture). Orders of power generation and transformation work, especially for renewable energy power generation work, jumped year on year and orders of nuclear power work also increased. As a result, new orders received amounted to ¥58,901 million, an increase by ¥7,071 million, or 13.6% year on year.

Net sales of completed construction contracts increased to ¥50,331 million, an increase by ¥4,507 million, or 9.8% year on year, as a result of growth in power generation and transformation work, civil engineering work and underground lines work, and nuclear power work.

Construction contracts brought forward as of March 31, 2020, came to ¥66,008 million, an increase by ¥8,569 million, or 14.9% year on year, maintaining a high level.

#### Taking advantage of an end-to-end framework to win orders from targets

The business handled by the Electric Power & Civil Engineering Work division is classified into four groups: power generation and transformation work; transmission lines work; civil engineering work and underground lines work; and nuclear power work. Nonetheless, with respect to orders from customers other than the TEPCO Group (from general customers), many works are undertaken as joint projects based on cooperation across the three types of works excluding nuclear power work. The proportion of orders from the TEPCO Group has been on a decline, accounting for only 25.2% in new orders received during fiscal 2019. In other words, the division receives about three-quarters of orders from general customers.

In securing orders from general customers, our main target is power producers using renewable energy. We undertake types of work from the construction of power plants to establishment of transmission line networks. Another priority target is power intake and transformer equipment for large factories that are known as extra-high-voltage consumers, and we engage in collaborative sales activity with the Electrical Engineering, Environmental Facilities and Systems, and Renovation Work division.

Our competitive edge lies in an end-to-end framework from power generation and transmission/transformation facilities to power distribution line networks. Other differentiators include our construction technology capable of managing high-voltage current and ability to not only undertake construction but also provide support from the design stage.

#### Renewable energy power generation grew, improving profitability

We are focusing on winning orders for renewable energy power generation work and for replacement of aging social infrastructure, while continuously working to improve profitability through cost management.

Orders received for renewable energy power generation work grew rapidly, exceeding ¥22,500 million for fiscal 2019. Driven by the Japanese government's renewable energy policy setting a target of the power source composition ratio at 22% to 24% to be achieved by 2030, renewable energy power generation work is anticipated to continue growing.

As for replacement of aging social infrastructure, we aim to win orders centered on public office projects and need to improve quantity survey abilities and secure talents that hold high technical evaluation scores.

Improving profitability through cost management, especially for profit improvement of large-scale projects, contributed to the improvement of results for fiscal 2019.

We expect COVID-19 to have impacts on the results for fiscal 2020: there are concerns over suspension and postponement of construction of power intake and transformer equipment, due to reduced investment from extra-high-voltage consumers following the deterioration of corporate earnings. This possible decrease in orders will be offset by renewable energy power generation work, with new orders received forecast to be ¥62,000 million. Net sales of completed construction contracts are expected to fall slightly year on year at ¥47,000 million,



Shuichi Yamaguchi

Senior Executive Managing Officer, Division Manager of Social Infrastructure Division, and Head of Power Engineering Unit

but we will strive to improve profitability by continuing improvement measures in large-scale projects.

#### Electric Power & Civil Engineering Work - risks and opportunities, SDGs

One of the risks posed to this division is that, as skilled employees are aging, there is a shortage of employees in the middle-layer who can help develop young employees. The situation is the same in business partners, potentially leading to the cessation of the transfer of technology that ensures the safety and quality of construction works. To counter this, we promote active roles of senior employees in the workforce, introduce and implement human resource development from a long-term perspective, and create a workplace by enhancing mobility of human resources and using them more flexibly.

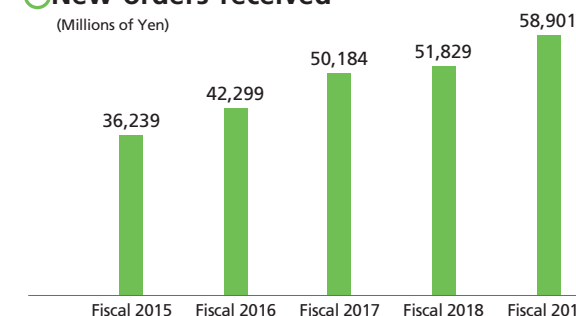
As for opportunities for the division, social infrastructure is aging in various ways and there is the demand is increasing for replacement of electric power facilities. To take advantage of such opportunities to expand orders, we will strengthen necessary engineering and design abilities by learning advanced cases through seconding employees to a consulting firm and collaborating with general construction companies, and acquire technologies and knowledge.

Regarding the connection between the management plan and SDGs the Company is working on, there are four SDGs items closely related to the division: "Gender Equality" through promotion of women's active participation, "Life Below Water" to which we contribute through construction of water and sewage facilities, "Affordable and Clean Energy" that is directly related to renewable energy, and "Industry, Innovation and Infrastructure" in creating resilient infrastructure.

We will continue to contribute to solving social issues by utilizing the comprehensive power of Electric Power & Civil Engineering Work, while raising awareness of creating a sustainable future.

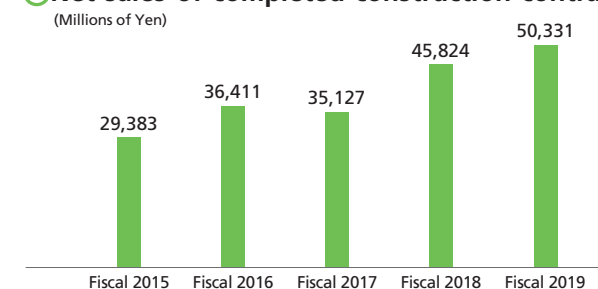
#### New orders received

(Millions of Yen)



#### Net sales of completed construction contracts

(Millions of Yen)



Construction of wind power plant



Construction of electric power substation



# Research and Development Activities |

## Message from the Officer in Charge

The Research and Development Division that supports technology is the core organization for value creation, the key to securing a competitive edge in the market and contributing to sustained growth of the business. Its efforts will strengthen coordination with parties outside Kandenko and expand its business fields in the future.

Toshiaki Makino

Executive Managing Officer, Division Manager of Strategy & Technology Development Division, and Head of Technology Development Unit



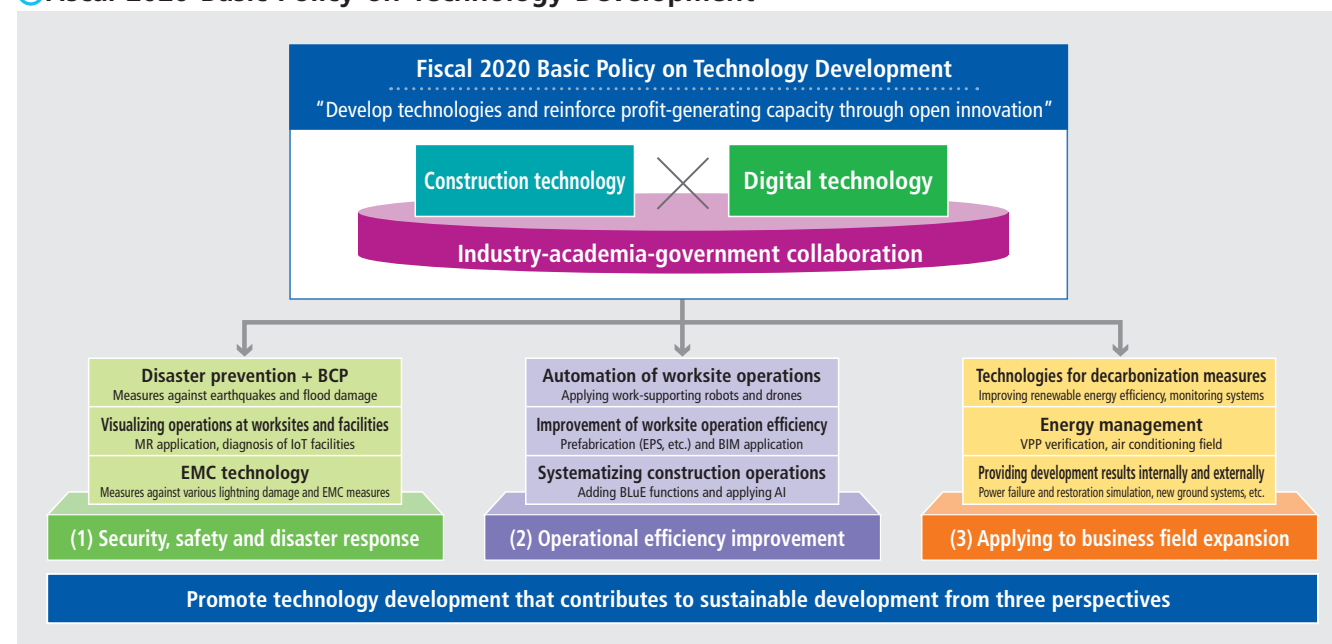
## Overview of the research and development division and its current initiatives

The research and development division is an organization responsible for the Company's overall technical development and improvement, and consists of the Technology Development Unit established within the Strategy & Technology Development Division, with the Technology Development Department and Technology Research & Development Institute as subordinate organizations. The division supports and cooperates with worksites and customers, and sells development results to external parties while advancing research and

technology development for expanding businesses and solving issues.

The research and development division adopted "technology development to improve safety, quality, and operational efficiency," "technology development to cater to customer needs," and "technology development to support business field expansion" as its key policies in fiscal 2019. The division achieved steady results under these policies. Continuing with those policies, the division will advance its initiatives further in fiscal 2020, with "security, safety and disaster response," "operational efficiency improvement" and "contribution to business field expansion" as additional core policies.

## Fiscal 2020 Basic Policy on Technology Development



Regarding safety, there are two viewpoints, one for protecting employees from dangers and the other for protecting social infrastructure from disasters. As an initiative from the former viewpoint, the division developed a sensor for preventing approaches to an AC voltage source to safely execute operations in which electricity is handled. As an initiative from the latter viewpoint, the division is advancing the development of earthquake-resistant devices for transformers and other electrical facilities, and research on the restoration of submerged electrical facilities toward the goal of realizing facilities that are resistant to disasters.

The research and development division's themes in the area of operational efficiency improvement are IT utilization, robot application and prefabrication. The division is aiming to realize the practical application of concepts, such as a worksite support scheme utilizing IT devices including tablet terminals mounted with the "BLuE" measurement and record support system, robots for inspection and wiring in the ceiling space, and drones for transporting burdens. In addition, the division is focusing on developing a way to reduce burdens at worksites by advancing a prefabricated construction method in which material processing, wiring and other tasks traditionally performed at worksites are completed at the Company's factories in advance. The division believes that those innovations will be effective for preventing infection with COVID-19 and other diseases, which is anticipated to remain a possibility at construction worksites.

For business field expansion, the research and development division is undertaking various experiments through mutual collaborations between the Technology Development Unit and the Strategic Business Unit, recognizing its responsibility to sow seeds for new businesses for the Company's future. The division has been promoting open innovation since 2019, focusing more on industry-academia-government collaboration, exchanges with companies in different industries, and joint development with startups, and making proactive use of outside knowledge.

## Future direction for technology development the Company should aim at

Aging and a shortage of young people accompanying Japan's population decline and the transformation of the social structure caused by COVID-19 are assumed to have particularly large influence among changes in conditions surrounding the Company's businesses. How to deal with those changes is an important issue that has a serious bearing on the continuation of businesses. The research and development division will keep pursuing IT utilization, robot application and prefabrication mentioned earlier in connection with operational efficiency improvement, as labor-saving technologies that promote the advancement of senior and female employees at construction worksites. Furthermore, the division thinks it can realize remote work, whose introduction to construction worksites has been considered to be difficult, by applying mixed reality technologies and avatar robots.

Another critical issue in future technology development is the departure from a mindset about existing business fields. Making the most of the expertise of individual researchers has been the Company's conventional approach to development. However, development themes, such as initiatives in the fields of environment and energy, are becoming increasingly complicated these

days. Looking deep into expertise is no longer sufficient for addressing these issues. Development under a project structure, in which many researchers keep business field expansion in mind and cooperate with their counterparts in and outside the Company, will be indispensable for the division.

Regarding risks in the Company's businesses, we find it necessary to estimate and address the effects of intensifying natural disasters and a customer confidence decline due to accidents resulting in injury or death and facility accidents, in addition to the effects of a manpower shortage. The research and development division will gain clues for developing new technologies in the course of its attempt to think out ways to support responses to those risks and take active part in the support.

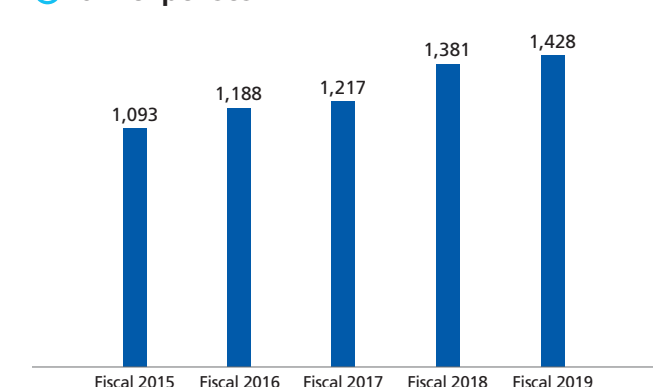
## Toward developing and surviving with society

The Company has launched initiatives focused on "Affordable and Clean Energy," "Industry, Innovation and Infrastructure," "Sustainable Cities and Communities," and "Climate Action" as its response to SDGs through its business activities. Among these, the research and development division will intentionally focus on the fields of future environment and energy, and proactively contribute to solving social issues related to "Affordable and Clean Energy" and "Climate Action." The Company views response to SDGs as its corporate social responsibility and a condition for its survival. At the same time, the Company considers them as doors to growth opportunities.

The Company's strength lies in its worksites, where it can grasp needs in society and verify development results. Solving problems faced by these worksites from a technological standpoint is an important role for the research and development division. Meanwhile, there is still large room for improvement from perspectives such as sufficiently applying the strength of worksites, grasping all needs and establishing development results firmly. Furthermore, the value of our development results, intellectual properties, etc. deserves higher evaluation. We feel we must make appeals and disseminate information more effectively for winning such evaluation.

While establishing systems for improving these points, Kandenko will develop itself with society as an attractive company by striving for research and technology development of higher value.

## R&D expenses (Millions of Yen)





## Research and Development Activities

### Research and Development System

To respond to issues at the worksite and customer needs, the Kandenko Group is focusing on four key areas: technology development to support the improvement of productivity at worksites; technology development to enhance safety and labor-saving; technology development to cater to customer needs; and technology development to support business field expansion. In fiscal 2019, our R&D was guided by the idea of “aim to improve productivity at worksites by strengthening internal and external coordination.” In particular, as technologies to contribute to improving safety, quality and operational efficiency, we actively promoted the development of worksite-support systems utilizing IT, the development of maintenance technologies using the advanced technology of mixed reality (MR), and the development of technologies that contribute to improving the credibility of customer facilities. At the same time, we worked to strengthen technology development through collaborations with parties in industry, government, and academia, as well as with group companies.

Consolidated R&D expenses in fiscal 2019 totaled ¥1,428 million. Please note that R&D expenses are not broken down by business segment.

#### Technology Research & Development Institute

The Technology Research & Development Institute consists of a research building, experiment building, and outdoor testing site. In the laboratories of the experiment building, we conduct basic experiments to establish new systems and construction technologies, experiment to test the strengths of materials and tools and conduct verification tests for development results. The institute also houses an anechoic chamber, shielded room, blackout curtain device, and other experimental equipment utilized for developing construction technology for electrical facilities, communication facilities, and air conditioning and environment facilities.



#### High-Voltage Laboratory

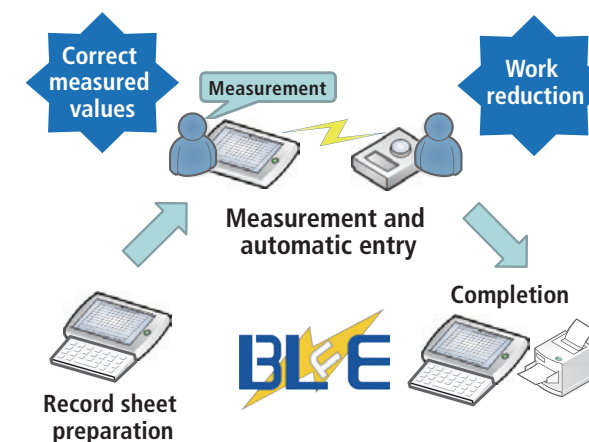
The High-Voltage Laboratory is made up of a test room, physical test room, working room, and outdoor water tank used for voltage resistance tests. In the test room, we have large-scale experiment devices, including a 350 kV-AC voltage generator, a 1,800 kV-impulse voltage generator, and a high current generator.



### Examples of Initiatives

#### Development of “measurement and record support system”

Time and efforts needed for extensive pre-completion measurement and recording tasks are a problem at electrical engineering worksites. To address the problem, we developed the “BLuE” measurement and record support system. BLuE connects a measurement device and a tablet PC wirelessly, and automatically prepares a report the moment the measurement is complete. We will raise operational efficiency further in the future, making the system compatible with a greater variety of measurement devices and developing a fully automatic measurement and record system that uses a combination of drones and automated guided vehicles (AGVs).



#### Development of “abnormal heat generation detection system”

As a measure for preventing fires attributable to abnormal heat generated by electrical facilities, we developed the “Thermo MR” wearable system, which enables visual confirmation of a temperature distribution by laying it over a real vision using an MR smart glass integrated with an infrared camera worn on the head. We will use this system to enhance work safety, in addition to realizing the early detection of sites where abnormal heat is generated through regular inspections and periodic patrols.



#### Development of “shoe chain electric overhead wiring machine”

We have been using hydraulically-operated shoe chain reeling and cabling machines for cabling and removing wires in transmissions lines work. However, these machines are heavy and highly inconvenient for transportation, and have a large number of components and a complex structure that hinder the maintenance work. They also have difficulties in low-speed cabling under the condition of low wire tension. In response to these problems, we developed a motor overhead wiring machine with less weight, and improved maintainability and operational control capacity in cooperation with group companies. We will use this machine to improve work efficiency and safety at transmission lines work.



#### Development of “storage cell remote monitoring system”

Aging causes the functions of storage cells used as emergency backup power supplies in information and communication facilities to decline. For this reason, storage cells require periodic inspections. Greater labor and time needed to inspect the facilities in remote areas including mountainous regions have been a problem. To address this, we developed a system that enables the real-time grasp of functional declines caused by aging by automatically and periodically collecting data on voltages, currents, temperatures and internal resistance. This system makes the timing of storage cell replacement predictable, in addition to enhancing work efficiency. We will use the system to increase the credibility of customer facilities.





## Environmental Initiatives

The human race has enjoyed many benefits of industrial and economic development, but these benefits have come at the cost of global warming, pollution, and ecological destruction. A great burden has thus been placed on the global environment.

Coexistence with the natural environment, the foundation of our existence, is essential for any healthy society. This is also a theme that we must continually keep in mind in our business activities.

At Kandenko, we take the long-term view that it is corporate management's vital social responsibility to have an environmental vision leading to the creation of a sustainable society. We will do our part to leave a safe, sound environment for future generations by implementing initiatives that reduce the burden on the environment.

### Basic Policy on the Environment

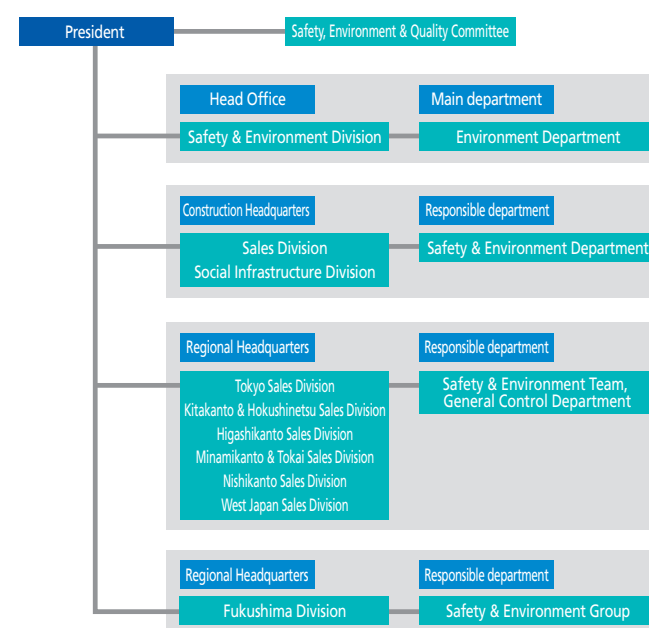
To realize a sustainable society, the Company strives for management in which business activities are in harmony with nature from a long-term view in every situation as a general infrastructure company.

#### Activity Plan

1. We will follow environmental legal regulations and reduce environmental risk to fulfill our corporate social responsibility.
2. To realize a low carbon, recycling-based society, we will work to conserve energy, save resources, promote recycling, and prevent pollution through development, design, and execution of environmentally-conscious technologies.
3. We consider environmental conservation to be an important management issue. We are committed to making continual improvements to our environmental management system (EMS).
4. We will educate all employees who engage in our business operations about the environment and raise their environmental awareness.
5. We will build bridges of cooperation to regional society and contribute to creating a society considerate of biodiversity.

### Structure for Promoting the Environmental Management System

To facilitate a deep review of its policies and initiatives in the field of environmental conservation activities, Kandenko appoints a Safety, Environment & Quality Committee chaired by the company president. Under the control of the Environment Department of Safety & Environment Division, the departments set up to promote environmental activities are as follows: in the Construction Headquarters, the Safety & Environment Department; and in the Regional Headquarters, the Safety & Environment Team of the General Control Department, and the Safety & Environment Group.



### Initiatives to Reduce the Environmental Burden

Amid intensifying global environmental issues, we believe that we can contribute to protecting the sound biodiversity of the ecosystem and realize a sustainable society by implementing systematic and efficient environmental conservation measures in all aspects of our business activities.

In addition to promoting environment-friendly procurement, Kandenko's initiatives for environmental conservation include efforts to reduce consumption of resources and energy and measures to improve industrial waste recycling rates and convert waste into valuable resources. By ensuring strict compliance with environmental laws and regulations, we are also working to eliminate environmental risk, enhance environmental awareness, and further integrate environmental conservation activities. As a corporate member of a recycling-based society, Kandenko seeks to create a rich human environment and implement unceasing innovation, contributing in this way to activities that conserve the global environment.

### Examples of Initiatives

#### Achievement of "ZEB Oriented" appraisal standard

The Company's Education & Training Center, whose renovation was completed in March 2019, became the second building in Japan and the first renovated building to receive the "ZEB Oriented" certification.

"ZEB" stands for net zero energy buildings. The term refers to buildings aimed at reducing annual energy consumption to virtually zero by integrating energy-saving technologies with energy-creating ones. A nationwide campaign is now in progress to popularize ZEB.

This "ZEB Oriented" is a newly-established appraisal standard for large buildings that consume large amounts of energy. Through the renovation, the Education & Training Center reduced energy consumption by as much as about 35% by adopting a high-efficiency air conditioning system, in addition to making about 1,000 glass windows double-paned and laying insulating materials on the roof.



#### Operational launch of Kami Ketto Hydroelectric Power Plant

The Kami Ketto Hydroelectric Power Plant, which the Company had constructed in Nakauonuma-gun, Niigata Prefecture, began operation in May 2020 following its completion.

This power plant is a run-of-the-river hydroelectric power plant that makes effective use of a drop at the Kami Ketto Sand Control Dam that has existed on Nakatsu River in the Shinano River system. Its characteristics include construction next to the sand control dam built in 1961, the installation of a sand elimination shaft as a measure against landslides in addition to a shaft for power generation, and minor effects on the river environment thanks to a drainage tunnel built at the time of dam construction used as a flood control channel (to reduce a low-water section).

The power plant is scheduled to generate about 6,500 MWh of electricity per year, which corresponds to annual power consumption by about 1,200 ordinary households. The generated power is planned for sales over a long period (20 years under a feed-in tariff system).



#### Power generation business

Generation of electricity from wind and solar power is in progress as a way to utilize natural energy. The Company has engaged in the design and construction of numerous solar and wind power generation systems and participated in experimental studies of renewable energy in and outside Japan. Leveraging our accumulated technologies and expertise, we operate a power generation business using renewable energy since fiscal 2012.

#### Power plants in operation (Excerpt)

	Maximum output	Location
Choshi Wind Power Plant	13.5 MW (9 windmills with a capacity of 1.5 MW each)	Choshi-shi, Chiba
Yagi Wind Power Plant	9.0 MW (6 windmills with a capacity of 1.5 MW each)	Choshi-shi, Chiba
Shiraoka Solar Power Plant	1.5 MW	Shiraoka-shi, Saitama
Kaminokawa Solar Power Plant	1.75 MW	Kaminokawamachi, Kawachi-gun, Tochigi
Sosa Solar Power Plant	1.5 MW	Sosa-shi, Chiba
Shin-Koga Solar Power Plant	1.5 MW	Sakaimachi, Sashima-gun, Ibaraki
Ushikuma Solar Power Plant	1.5 MW	Kama-shi, Fukuoka
Kama No.1 Solar Power Plant	13.75 MW	Kama-shi, Iizuka-shi, Fukuoka
Kama No.2 Solar Power Plant	5.0 MW	Kama-shi, Fukuoka
Maebashi Biomass Power Plant	6.75 MW	Maebashi-shi, Gunma
Kami Ketto Hydroelectric Power Plant	990 kW	Tsunanmachi, Nakauonuma-gun, Niigata



## Employee Initiatives |

Under the corporate motto of “People First,” the Company strives for “human resources development,” “reforms for work practices and annual leave systems,” and “creation of an open workplace environment.” Through these measures, we work to realize a working environment where each employee can take an active role by fully realizing their potential.

### Basic Policy on Human Resources Development

While continuously nurturing a “professional workforce trusted by society and customers” necessary for sustained growth, the Company will develop and raise the capabilities of each employee.

### Outline of Initiatives for Human Resources Development

The Company has continuously worked to establish systems to develop excellent human resources.

An outline of specific initiatives is as follows.

#### 1. Personnel development

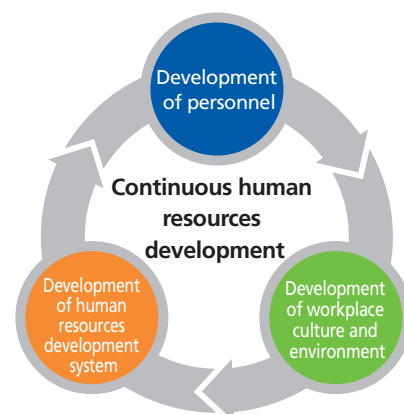
**OJT:** Guidance and training through workplace operation

**Group seminars:** Training for professional expertise and skills

**Self-development:** Support upskilling of employees, such as acquisition of qualifications

#### 2. Development of a workplace culture and environment that fosters human resources

#### 3. Development of a human resources development system (standardization of development methods)



### Personnel We Aspire to Be

#### 1. Professional workforce trusted by society and customers

- Human resources committed to a mission to live up to the trust and expectations of customers and make contributions to society
- Human resources equipped with high skills necessary to provide the best services and facilities
- Human resources respecting diverse values to cope with changes in the times and ceaselessly striving for self-development and ingenuity

#### 2. Workplace culture and environment that foster human resources

- A workplace where everyone can learn from each other and grow together
- A workplace where employees can speak and consult with others frankly
- A workplace where each employee can exert their own abilities

### Training Programs

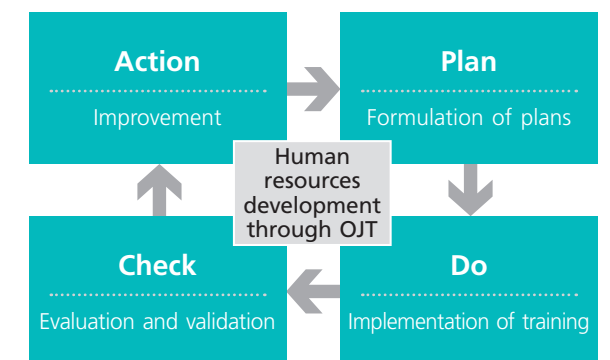
#### OJT training

OJT training is a program whereby senior employees in the workplace encourage junior employees to acquire business abilities by providing guidance on practical knowledge and skills in daily operations.

OJT training is also important as a way for expert employees to pass on technologies and skills to young employees.

#### (Status of implementation)

- OJT leadership training (Held 12 times, attended by 196 employees)
- OJT promotion training (Held 9 times, attended by 71 employees)



#### Group seminars

Group seminars are held for the purpose of equipping employees of the Company with the necessary skills commensurate with their positions.

We seek to upskill each employee by classifying them into new employees, mid-level employees, and employees in managerial positions.

#### (Status of implementation)

- Implementing level-based training
- Implementing blending education (e-learning and group seminars)
- Giving feedback of training results to workplace

Category	Level	Specialized training	
Division	Duties related to construction, sales, and administration	Duties related to construction	Duties related to sales
New employee training	Introductory training		
	Technical training		
1 - 2 years	Basic training	Design training, estimation training, etc.	New salesperson training
3 - 4 years	Intermediate training		Salesperson basic training
5 - 7 years	Advanced training		Salesperson specialized training
8 - 10 years	Special advanced training		
Team leader level	Team leader training		
Assistant section manager level	Assistant section manager training		
Section manager level	Section manager training		
Department manager and deputy department manager level	Training for next generation leaders		

#### Self-development

In acquiring national qualifications required for duties, the Company provides various support to employees who are willing to learn and grow on their own. Support includes in-house seminars and bearing expenses for correspondence education programs, external workshops, and examinations.

#### Examples of qualifications recommended by the Company

1st grade construction managing engineer  
Professional engineer and associate professional engineer  
First-class electrician  
Third-class chief electricity engineer  
Fire defense equipment officer  
Construction accounting specialist

## Employee Initiatives

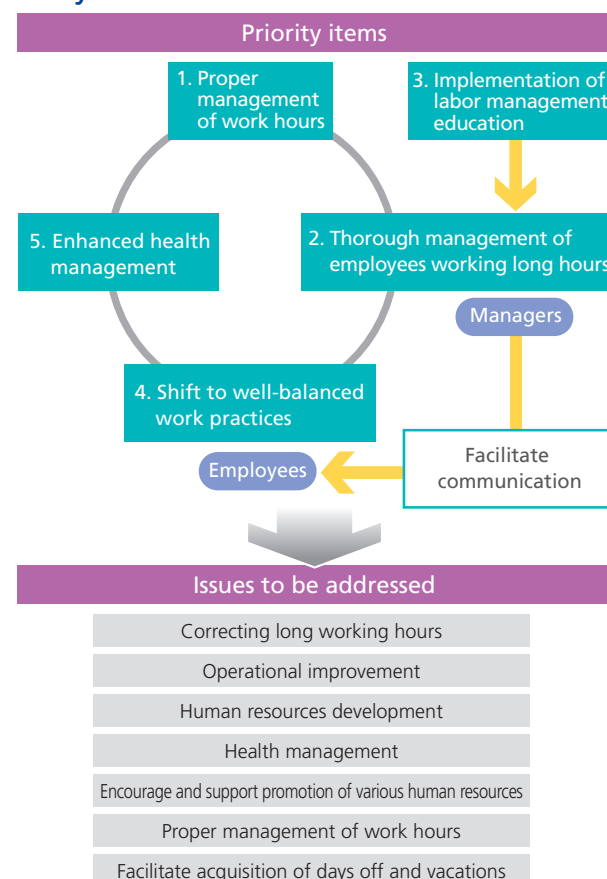
### Reforms for Work Practices and Annual Leave Systems

To realize a company where each employee can work energetically in every workplace, the Company promotes various work practices and annual leave systems aiming to shorten total working hours while enhancing the health management of employees.

#### Basic policy

- Leading and implementing reforms by managers including executives
- Shifting to a work-life balance mindset
- Strengthening the industrial insurance system and encouraging self-care obligations

#### Priority items and issues to be addressed



#### Major initiatives

- Scheduled grant of annual paid leave (5 days)  
(Average number of paid leave taken in fiscal 2019: 10.7 days)
- Enhanced health care management based on professional expertise

### K. Assertion

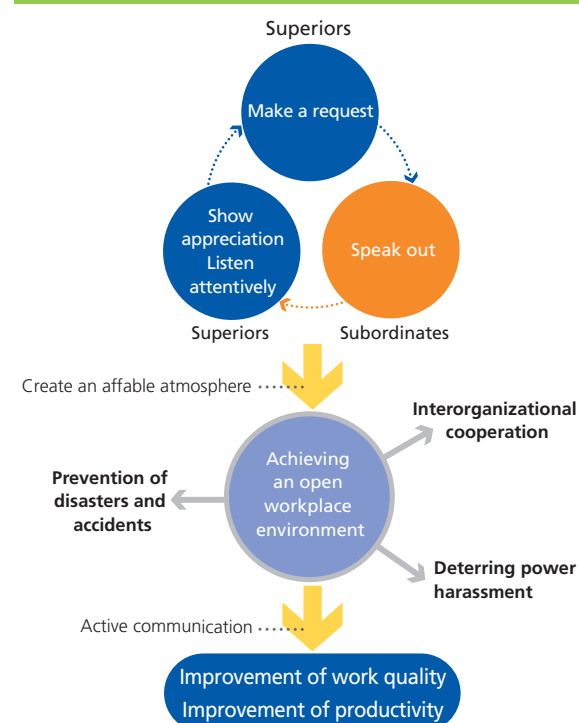
To create a workplace environment with greater openness, the Company is currently engaging in “K. Assertion” activities under the slogan of “Voice your findings and appreciate voices.” Assertion\* is a communication method to develop smooth relationships, and the Company’s understanding of assertion is “to respect oneself and others, and frankly voice findings, questions, and opinions.” Continuous promotion of this activity will encourage proactive communication among employees and solidify relationships of trust. Also, the activities will improve work quality and productivity as they strengthen inter-organizational cooperation and aid in preventing disasters and accidents.

\***Assertions** are communication skills to assert oneself properly without causing distress in other persons. Generally, disparities in position make it difficult to assert oneself, but using this skill enables frank communication based on mutual respect, without superiors imposing their opinions on others or subordinates feeling timid. This provides additional assurance to employees in the workplace that they are allowed to voice their questions and opinions.

#### (Outline of activities)

- Issuing messages from executives on a regular basis
- Making activities known internally and raising awareness by displaying posters and distributing leaflets
- Implementing practical assertion training at group seminars, etc.

#### Implementing assertion through practical operations



### Initiatives to Promote Diversity

In October 2018, Kandenko established a Diversity Promotion Team. So that each employee can demonstrate his or her capabilities irrespective of gender, nationality, age, or bodily features, we are working to develop vigorous personnel and a workplace environment in conjunction with “reforms for work practices and annual leave systems” and “measures for human resources development.”

Also, by respecting the diverse ideas of employees, we aim to raise corporate value and become a company that will continue to be trusted.

#### Promoting employment of persons with disabilities

To step up diversity promotion, we engage in initiatives for employment and advancement of persons with disabilities.

#### Inclusion of LGBT

We take up LGBT at workplace training to educate and raise awareness on the issue.

#### Promoting the advancement of women

The Company has been promoting the Project to Promote Female Advancement as an action plan to further promote the advancement of female employees since fiscal 2016. An overview and major initiatives of the project are as follows.

#### Period of the Action Plan

April 1, 2016, to March 31, 2021

#### Action Target

A fourfold or more increase (32 or more people) in the number of women in managerial positions to the end of fiscal 2020.

#### Basic Policies of Initiative

#### ■ Improvement in Workplace Culture and Awareness

Create a workplace culture and awareness that appropriately values and rewards people who work hard regardless of gender.

#### ■ Expansion of Assigned Duties and Development of Professional Abilities

Roll out initiatives to expand the range of duties assigned to female employees, for instance by promoting the advancement of women at engineering worksites, and create an environment in which employees can take the initiative in developing their professional skills.

#### ■ Enhanced Support for Work-Life Balance

Achieve a workplace environment that supports both male and female employees who continue working while raising children.

#### Examples of Initiatives

#### ■ Held “Kandenko SunSun School”

In August 2019, the Company hosted “Kandenko SunSun School”—a Bring Your Family to Work event.

Held for the first time, the event was organized for the purpose of helping the families of Kandenko employees deepen their understanding of the Company’s business as well as fostering communication among the employees and their families.

A total of 88 employees and their families gathered at its Head Office, and the Company’s one-day employee pass was given to each child. At the event, they participated in various kinds of programs, including riding an aerial work platform truck, exchanging business cards in the workplace, and attending a lecture on the South Pole given by an ex-Antarctic expedition veteran.



#### ■ Participation in Science and Technology Challenge\*

Since fiscal 2016, we have participated in the Science and Technology Challenge—an initiative organized by the Japanese Cabinet Office and the Japan Business Federation—by actively supporting female students in their choice of career paths in the fields of science and technology.



女子高校生・女子学生の理工系分野への選択

[http://www.gender.go.jp/c-challenge/about\\_rikochalle/index.html](http://www.gender.go.jp/c-challenge/about_rikochalle/index.html)  
(in Japanese)

\* Through initiatives led by the Gender Equality Bureau of the Cabinet Office, the Science and Technology Challenge supports female students interested in the fields of science and technology, who are taking on the challenge of a related career path based on a clear vision of their future.

#### ■ Held Forum for Female Technical and Engineering Staff

We hold lectures and seminars with an aim of reforming the awareness of female employees appointed at worksites and to expand the range of their duties. The lectures and seminars also serve as a networking opportunity for them.

#### ■ Held Seminar for Employees Taking Childcare Leave

We provide a venue for information exchange regarding childrearing and casual communication to parenting employees. We support them in balancing work and child-rearing through easing their anxiety about returning to work and sharing problems.

#### ■ Compilation of Support for Work-Life Balance Handbook

As an aid to supporting employees’ work-life balance, the handbook provides various information such as in-house systems related to child-rearing and sends messages to bosses who are working with junior colleagues preparing for maternity leave and child-rearing leave.



## CSR Report – Coexistence with Society |

Kandenko maintains that it “fulfills its duty of corporate social contribution and contributes to creating richer human environments” as one part of our Corporate Philosophy, and we are dedicated to promoting CSR management throughout the Group and contributing to the sustainable growth of society.

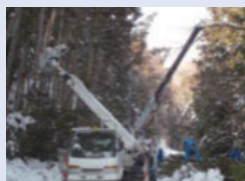
### Responding after natural disasters occur

Kandenko believes that, as part of its social responsibility as a company that is involved in supplying public utilities, it is our duty to devote all of our strength to the expedited restoration of electrical infrastructure for the stable provision of electric power in the event of a disaster. We would like to take this opportunity to introduce initiatives we implemented following the Great East Japan Earthquake.

**March 2011** The Great East Japan Earthquake



**May 2012** Damage by tornado in Northern Kanto



**September 2013** Damage by tornado in Saitama & Chiba



**February 2014**

Damage by heavy snow in Gunma



**September 2015**

Damage by heavy rain in Kanto & Tohoku



**April 2016**

Damage by Kumamoto Earthquake (Indoor electrical engineering)



**August 2016**

Damage by Typhoon No.9



**September-October 2019**

Damage by typhoons Faxai and Hagibis



### Extensive power outages following Typhoon Faxai

In September 2019, Typhoon Faxai with wind speeds of over 50 meters per second hit the Kanto region and caused severe damage to the electric infrastructure. As a result, as many as 930,000 households suffered power outages. Kandenko mobilized response teams immediately to work on recovery work, day and night, with concerted efforts.

The response teams made their way to the disaster-stricken sites despite having to surmount fallen trees and landslides, and struggled to manage to deal with power lines tangled with flying objects and downed trees on power lines. Under these difficulties, we worked hard to restore electricity as soon as possible by drawing on the experiences from past disasters and cooperating with the Self-Defense Forces dispatched for disaster relief operations.



Courtesy of Japan Ground Self-Defense Force

### Social contribution activities

#### The Mount Fuji Reforestation Project

The Mount Fuji Reforestation Project was undertaken with the goal of protecting the nearly untouched forest ecosystem, fearing the loss of Mount Fuji's rich forest resources and the natural ecosystem. (Operated by the Organization for Industrial, Spiritual and Cultural Advancement (OISCA), a nonprofit foundation)

Kandenko has participated in these activities since 2017, through which Kandenko employees and their families have assisted in efforts such as tree planting and the installation of nets to prevent damage from feeding deer. Participants come and listen to talks on the natural environment of Mount Fuji, and raise their awareness of environmental protection while deepening their understanding of Mount Fuji.



#### Activities in the past

	Participants	Activities
May 2018	363 persons	Installing nets to prevent feeding damage from deer, planting trees
May 2019	252 persons	Repairing nets to prevent damage from feeding deer, forest thinning

#### Sponsorship of the “All-Japan High School Rugby Football Championship”

Kandenko aims for social contribution through sports promotion and serves as an Official Partner in sponsoring the “All-Japan High School Rugby Football Championship” organized by associations such as the All Japan High School Athletic Federation and the Japan Rugby Football Union.

Through sponsoring this championship, held at Hanazono Rugby Stadium, the representative symbol of high school rugby, we support the development of Japan rugby and the futures of the high school students who will carry the rugby world forward.



#### Sponsored events

The 97th Championship, the 98th Championship, the 99th Championship

#### Sponsoring the Japanese Para-Sports Association



The Japanese Para-Sports Association (JPSA) was established after the International Stoke Mandeville Games were held in 1964, to encourage and promote sports for people with disabilities in Japan.

In support of the JPSA's vision toward “a society where everyone can enjoy the value of sports” and of “creating a vibrant, inclusive society,” Kandenko signed an official partnership agreement with the association to further encourage and promote sports for people with disabilities.

Moving forward, the Company will continue to support para-sports to revitalize regional communities and ensure pleasant and fulfilled lives.

#### “The MICHINOKU Future Fund”



Charitable Foundation, The MICHINOKU Future Fund provides full funding for enrollment fees and tuition fees of children who lost their parents in the Great East

Japan Earthquake to continue their education after graduating high school (university, junior college, and technical school), with no repayment required. This fund was established by three private companies in 2011 and has been operated by four companies since April 2013.

Kandenko has participated in the fund since fiscal 2016 and made regular donations. We believe that supporting children in holding on to their dreams and goals without giving up on their education will help to support the process of recovery.

#### “KIDS EARTH FUND”

Since its establishment in 1988, KIDS EARTH FUND has sponsored and carried out the distribution of art supplies, picture books, and donations for children throughout the world who suffer from the results of disease, war, and disasters.

The fund conducts “Kids Helping Kids” activities and uses proceeds to support children afflicted by poverty who are unable to afford schooling.

Kandenko supports these “Kids Helping Kids” activities by publishing pictures drawn by children in its corporate calendar.





# Corporate Governance

## Corporate Governance

As Kandenko's operating environment changes dramatically, we are working to make management more efficient and transparent while ensuring the fairness of business execution. We realize that Kandenko's continued existence as a company with high value to its stakeholders depends on a robust corporate governance system. We are therefore unstinting in our efforts to strengthen corporate governance.

## Basic Corporate Governance Policy

In keeping with the content and the spirit of the Corporate Governance Code established by the Tokyo Stock Exchange, Kandenko implements a basic corporate governance policy that sets out its basic approach with the aim of enhancing the practical effectiveness of corporate governance.

## Outline of the Current Corporate Governance System

### Board of Directors

The Kandenko Board of Directors, which consists of 14 members including three outside directors, meets regularly once a month, and additionally whenever necessary, to discuss important business matters and to reach final decisions, taking account of the contributions of the independent directors and other considerations. The Board also oversees the execution of business by the directors. A designated corporate department is in place to provide support to the outside directors, for instance by briefing them where necessary on items due to be discussed at Board meetings. Important managerial issues, including those that will be brought up at a Board of Directors' meeting, are discussed by the Management Committee, which meets regularly each week and additionally whenever necessary. In these ways, we strive for rational corporate administration. Moreover, we have introduced an executive officer system, which separates managerial oversight from business execution, to accelerate the decision-making process and reinforce business execution while enhancing the efficiency of the directors' business execution system. To foster swift responses to changes in the operating environment and invigorate management, directors' terms are limited to one year from the time of appointment.

### Audit & Supervisory Board Members

Kandenko has employed an Audit & Supervisory Board Member system for some time. Five Audit & Supervisory Board Members, including three from outside the Company, conduct audits appropriately based on legal requirements and Kandenko's audit policy. The outside members heighten our system's independence and neutrality. They attend our Board of Directors' meetings and other important meetings, where they express their independent and objective opinions. Audit & Supervisory Board Members, including outside members, meet with the Company's directors on a regular and irregular basis to ask about the state of the latter's work. We provide the Audit & Supervisory Board Members with the

Auditing Office to enable the complete and effective fulfillment of their duties.

### Independent Accounting Auditor

Kandenko has appointed Inoue Audit Corporation as its independent accounting auditor. The three CPAs who audited Kandenko's accounts are Masami Hiramatsu, Teruo Hayashi, and Katsuhiro Suzuki, none of whom has audited our accounts for over seven consecutive years. Four other CPAs, one person who has passed the CPA examination, and one additional person assist with the account audit.

### Internal Audit

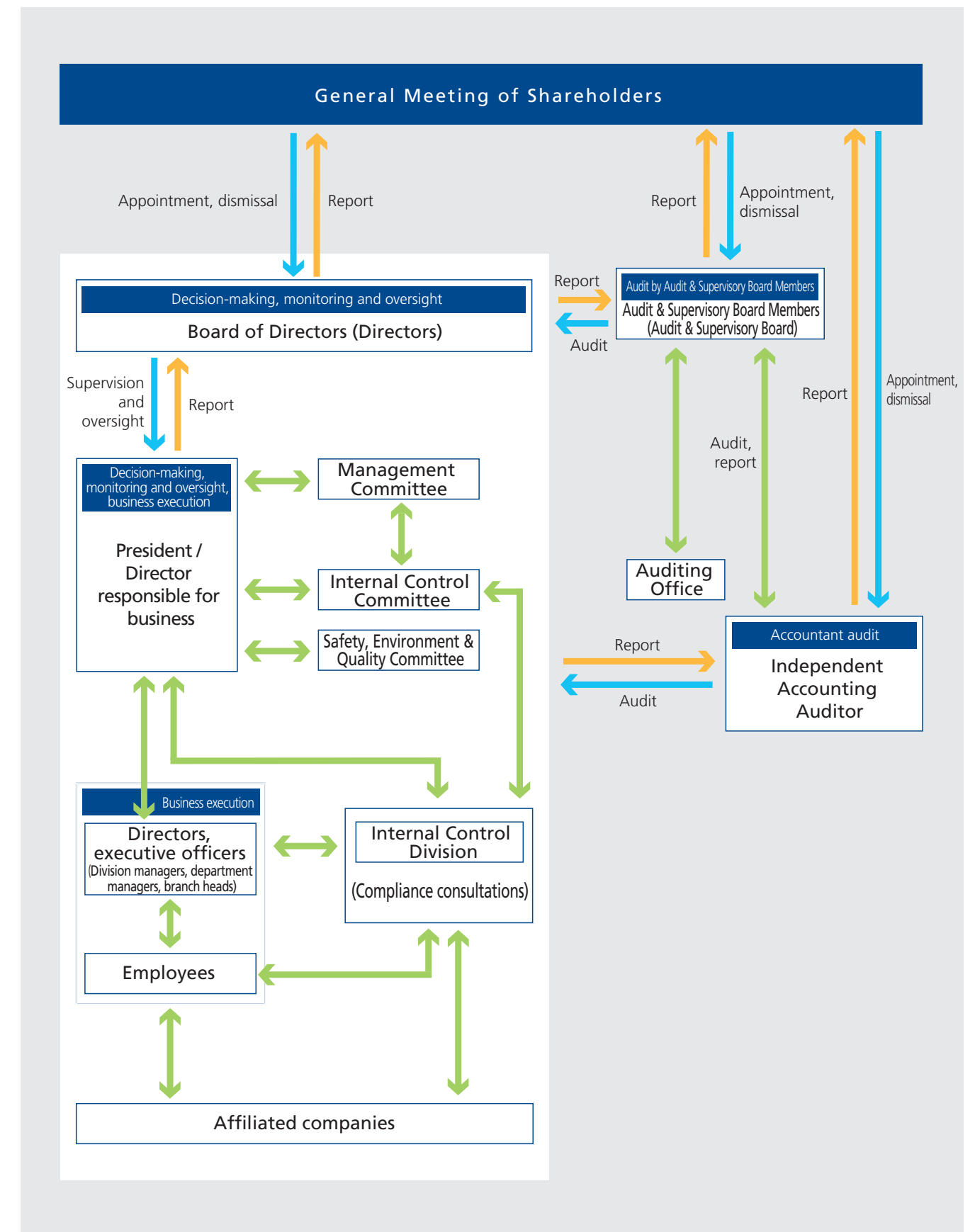
For internal auditing, 12 staff of the Internal Audit Division carries out the audit in accordance with the Internal Control Enhancement Plan. The audit results are reported to the Internal Control Committee and the Management Committee, and as appropriate to the Board of Directors, to enable any required remedial action to be taken.

Independent accounting auditors and the Internal Audit Division report their findings at Audit & Supervisory Board meetings and regularly discuss these matters with the Audit & Supervisory Board Members, including outside members. Opinions are exchanged whenever necessary so that cooperation is ensured. While the Audit & Supervisory Board Members (including outside members), independent accounting auditors, and the Internal Audit Division carry out their audits, they receive regular reports on the state of maintenance and operation of internal control from each division responsible for business execution.

### Outside Directors and Outside Audit & Supervisory Board Members

Currently, the Company has three outside directors and three outside Audit & Supervisory Board Members. We appoint outside directors and outside Audit & Supervisory Board Members to fulfill monitoring and oversight functions and to enhance transparency, so in accordance with the Companies Act and other regulations, we look for candidates whose experience and expertise outside the Company will be useful to Kandenko, and who can oversee and audit the directors' execution of duties from

## Corporate Governance System





## Corporate Governance

an independent and neutral standpoint. Regarding outside Audit & Supervisory Board Members, the Audit & Supervisory Board meeting first agrees on the candidates, the Board of Directors approves them, and then they are presented at a general meeting of shareholders for a vote. In the case of outside directors, the Board of Directors nominates a number of outside director candidates who meet the independence criteria listed below, giving due consideration to the practical effectiveness of its operations. For outside members of the Audit & Supervisory Board, the Board of Directors nominates a number of candidates with the ability to audit the execution of business by the directors from a position of independence and objectivity.

### Independence Criteria for Outside Directors and Outside Audit & Supervisory Board Members

Kandenko considers candidates for outside director and outside Audit & Supervisory Board Members to be independent as long as they do not trigger any of the following exclusion criteria:

1. The candidate is or has been a business executive of Kandenko or a Kandenko's subsidiary.
2. The candidate is a business executive of a major shareholder of Kandenko (a shareholder with 10% or more of the voting rights including indirect holdings) or a business executive of a company of which Kandenko is a major shareholder.
3. The candidate is a business executive of a major creditor of Kandenko (a creditor who has provided loans of more than 1% of consolidated assets in the most recent fiscal year).
4. The candidate is a business executive of a major business client of Kandenko (a client accounting for more than 1% of consolidated net sales of completed construction contracts in the most recent fiscal year) or a business executive of a company of which Kandenko is a major business client.
5. The candidate is a representative employee or an employee of an accounting auditor of Kandenko.
6. The candidate is a person who has, or a member of a group that has, received from Kandenko material benefits or gifts of high value (more than ¥10 million excluding corporate officers' remuneration).
7. The candidate is a business executive of a company with a reciprocal relationship with Kandenko through outside officers.
8. The candidate has a relative (a spouse or relative within the second degree of kinship) to whom any of 1 to 6 above applies (restricted to officers and senior employees).
9. The candidate has triggered any of 2 to 8 above in the past five years.

### Compensation Advisory Committee

The Company established an arbitrary advisory committee in January 2019 to secure transparency in the process of determining directors' compensation.

The outline of the committee is as follows.

Name: Compensation Advisory Committee  
 Composition: Chairman (Chair of the Committee), President, independent outside directors, Chair of the Audit & Supervisory Board, and independent outside Audit & Supervisory Board Members  
 Matters for deliberation and discussion: Matters related to the compensation of directors and Audit & Supervisory Board Members, and other

matters related to corporate governance and compliance

### Effectiveness evaluation

To secure the effectiveness of the Board of Directors, the Company carries out self-evaluation by all directors and Audit & Supervisory Board Members after the end of each fiscal year regarding the effectiveness of the Board of Directors. The content of the evaluation is analyzed and assessed by the Board of Directors. In the self-evaluation implemented in April 2020, opinions were raised on discussions by the Board of Directors, the composition of the Board of Directors, and business management under the COVID-19 crisis, but the overall effectiveness of the Board of Directors in fiscal 2019 was judged to have been secured.

The Company will continue to raise the effectiveness of the Board of Directors as a whole in light of these opinions.

### State of Progress of the Internal Control System

Based on the Basic Policy for Enhancing the Internal Control System adopted by the Board of Directors (enacted April 2006, revised May 2015), Kandenko has established an Internal Control Committee chaired by the company president that discusses issues relating to the internal control system. The Company also lays down internal control regulations that set out the basic principles of internal control and management regulations for affiliated companies that set out relevant management principles. Through these and other measures, Kandenko has put in place a system to ensure appropriate business conduct by the Company and by the corporate group consisting of Kandenko and its subsidiaries. Additionally, to promote adaptation to the internal control reporting system introduced in fiscal 2008 in accordance with the Financial Instruments and Exchange Act, the Company has set up a department in charge of reviewing internal controls relating to financial reporting in order to promote appropriate operation and evaluation and to ensure the credibility of financial reporting.

### Compliance System

To clarify important points in the Kandenko Group's business activities and encourage deeper inculcation of compliance, we have enacted the Kandenko Group Charter of Corporate Behavior, and we are promoting its establishment and raising the awareness of all Group employees about the Charter. We have set up a compliance consultation point for employees and an internal system where legal violations can be reported. We are working to establish and maintain a corporate culture of fairness and transparency.

In its attitude toward antisocial forces, the whole Kandenko organization is committed to a resolute stance rejecting any action that could raise suspicion of an inappropriate relationship. Backing this stance are the Kandenko Group Charter of Corporate Behavior and the Internal Control Enhancement Plan adopted by the Internal Control Committee, which form the basis for education, training, and related activities to ensure

compliance and promote full awareness throughout the organization.

### Risk Management System

The Kandenko Group operates a set of internal regulations on risk management. Having categorized and defined risks relating to business operations item by item, Kandenko devises countermeasures to match their degree of impact and likelihood of occurrence. In addition to taking advance measures of this kind to prevent risk, Kandenko has designated reporting channels and response systems in place for the event of the risk materializing.

Additionally, the Internal Control Committee meets periodically to check the operating status of the risk management system and to analyze and evaluate risk status and related matters, while the establishment of a dedicated Internal Control Division serves to strengthen the risk management system.

Described below are factors that could possibly have a significant impact on decisions made by investors.

In recognizing that there is the potential for such risks to occur, the Kandenko Group is undertaking efforts to avoid their occurrence as well as formulating countermeasures in the event such risks occur.

Moreover, the statements described below regarding the future reflect judgments made by the Kandenko Group based on information available up to the end of the fiscal year ended March 31, 2020.

### Changes in the business environment

In the event that significant changes occur in the business environment, such as decreases in construction-related investments or capital investment in electric power facilities and equipment exceeding projected changes, it is possible that the actual financial performance or other results of the Company could be affected. Sales to the TEPCO Group account for about 30% of the Kandenko Group's sales.

### Fluctuations in the cost of materials or labor costs

Should the cost of materials or labor costs increase significantly, and the increase cannot be reflected in the contracted fees, it is possible that the actual financial performance or other results of the Company could be affected.

### Work and related risks

If work undertaken by Kandenko turns out to be seriously defective or an accident occurs in the course of work, it is possible that the actual financial performance or other results of the Company could be affected.

### Credit risk of client company

In the construction industry, the contracted fee for each transaction is very large, and in many cases, the contract is subject to the payment of a large construction fee at the handover of the completed construction. Should the client company suffer from a credit shortage before the Company can receive payment of the construction fee, it is possible that the actual financial performance or other results of the Company could be affected.

### Asset holding risk

As it is necessary to have such assets as real estate and securities for business activities, should something

happen, such as a significant decline in the fair value of the held assets, or a dramatic drop in the profitability of the real estate for business purposes, it is possible that the actual financial performance or other results of the Company could be affected.

### Liability for employees' retirement benefits

Should the fair value of pension assets decline, or should there be changes in the assumptions, such as the return on investments or discount rate, used to calculate the liability for employees' retirement benefits, it is possible that the actual financial performance or other results of the Company could be affected.

### Legal regulations

The Company is subject to legal regulations, including the Construction Business Act, the Antimonopoly Act, and the Industrial Safety and Health Act. Should there be any changes, such as the revision or repeal of legal regulations, or the enactment of new legal regulations, or if changes are made to criteria for their application or administrative sanctions are handed down based on the legal regulations, it is possible that the actual financial performance or other results of the Company could be affected.

### Spread of COVID-19

If COVID-19 causes damage to the health of Kandenko employees, a delay in materials procurement, a decrease in construction capacity, or a delay in collecting payments for construction projects, it is possible that the actual financial performance or other results of the Company could be affected.

### Systems to Ensure Appropriate Business Conduct by Kandenko and the Corporate Group Consisting of Kandenko and Its Subsidiaries

Kandenko has put in place a system to promote information sharing with its subsidiaries, under which the Kandenko Board of Directors receives reports on important matters relating to the business conduct of subsidiaries, including their accounting and internal control operations.

Moreover, for the purpose of risk management at subsidiaries, internal regulations are in place whose basic aim is to prevent crisis situations in advance and to minimize the impact on business activities in the event that a crisis situation materializes. Additionally, Kandenko provides advice and other support for the creation of risk management systems at subsidiaries, and periodically checks and evaluates the status of risk management at its subsidiaries.

By periodically receiving reports from its subsidiaries, Kandenko is able to check their conduct of business, ascertain the state of management operations at the subsidiary, and offer advice and other measures to tackle management issues.

In parallel, the Internal Audit Division carries out internal audit of subsidiaries in accordance with the Internal Control Enhancement Plan. The audit results are reported to the Internal Control Committee and the Management Committee, and as appropriate to the Board of Directors, to enable any remedial action to be taken.



# Management Structure

(As of July 1, 2020)

## Directors



**Chairman and Director**  
**Kiyoshi Goto\***

**Tenure as Director:**  
9 years

Kiyoshi Goto was elected as a Director as he has experience and expertise, etc. gained through serving in positions that include Chairman and Director of the Company which will contribute to management of the Company.

**Significant Concurrent Positions outside the Company:**  
President of Japan Electrical Construction Association



**Vice Chairman and Director**  
**Yoshimi Morito\***

**Tenure as Director:**  
6 years

Yoshimi Morito was elected as a Director as he has experience and expertise, etc. gained through serving in positions that include President and Executive Officer which will contribute to management of the Company.



**Senior Managing Director and Executive Officer**  
**Shinichi Miyauchi**

**Administrative delegation, jurisdiction, and responsibility**  
Division Manager of Cost Management Division, Acting Division Manager of Social Infrastructure Division in charge of Safety & Environment Division  
**Tenure as Director:**  
1 year

Shinichi Miyauchi was elected as a Director as he has knowledge in the operation of the area of administration as well as his experience and expertise, etc. gained through serving in positions that include Division Manager of Cost Management Division, and Managing Director and Executive Officer.



**Managing Director and Executive Officer**  
**Yuji Ueda**

**Administrative delegation, jurisdiction, and responsibility**  
Deputy Executive General Manager of Sales Division in charge of Strategy & Technology Development Division, Group Business, and International Business Division  
**Tenure as Director:**  
2 years

Yuji Ueda was elected as a Director as he has experience and expertise, etc. gained through serving in positions that include Managing Director of TEPCO Energy Partner, Inc. as well as Managing Director and Executive Officer of the Company which will contribute to management of the Company.



**President and Executive Officer**  
**Toshio Nakama\***

**Tenure as Director:**  
5 years

Toshio Nakama was elected as a Director as he has knowledge in the operation of the area of electrical engineering, environmental facilities and systems, and renovation as well as his experience and expertise, etc. gained through serving in positions that include Executive Vice President and Executive Officer which will contribute to management of the Company.



**Executive Vice President**  
**Shigenori Takaoka\***

**Jurisdiction and responsibility**  
In charge of Overall Operations, Social Infrastructure Division and Fukushima Division  
**Tenure as Director:**  
5 years

Shigenori Takaoka was elected as a Director as he has knowledge in the operation of the area of power distribution as well as his experience and expertise, etc. gained through serving in positions that include Executive Vice President of the Company which will contribute to management of the Company.



**Managing Director and Executive Officer**  
**Koji Tsuru**

**Administrative delegation**  
Division Manager of Tokyo Sales Division and Branch Manager of Tokyo Branch  
**Tenure as Director:**  
—

Koji Tsuru was elected as a Director as he has knowledge of operations in the areas of electric engineering, environmental facilities and systems as well as experience and expertise, etc. gained through his service in posts that include Division Manager of Higashikanto Sales Division and Branch Manager of Chiba Branch which will contribute to management of the Company.



**Managing Director and Executive Officer**  
**Nobuhiro Iida**

**Administrative delegation**  
Division Manager of Sales Division  
**Tenure as Director:**  
—

Nobuhiro Iida was elected as a Director as he has knowledge of operations in the areas of electric engineering, environmental facilities and systems as well as experience and expertise, etc. gained through his service in posts that include Division Manager of Minamikanto & Tokai Sales Division and Branch Manager of the Kanagawa Branch which will contribute to management of the Company.



**Executive Vice President and Executive Officer**  
**Shoichiro Kashiwabara\***

**Administrative delegation, jurisdiction, and responsibility**  
Division Manager of Corporate Division in charge of Overall Operations and Internal Control Division  
**Tenure as Director:**  
5 years

Shoichiro Kashiwabara was elected as a Director as he has knowledge in the operation of the area of administration as well as his experience and expertise, etc. gained through serving in positions that include Executive Vice President and Executive Officer which will contribute to management of the Company.



**Executive Vice President and Executive Officer**  
**Shinichiro Kitayama**

**Administrative delegation**  
Division Manager of Social Infrastructure Division  
**Tenure as Director:**  
6 years

Shinichiro Kitayama was elected as a Director as he has knowledge in the operation of the area of electric power & civil engineering as well as his experience and expertise, etc. gained through serving in positions that include Executive Vice President and Executive Officer which will contribute to management of the Company.



**Managing Director and Executive Officer**  
**Hitoshi Sugizaki**

**Administrative delegation**  
Acting Division Manager of Corporate Division, Head of Accounting & IT Unit  
**Tenure as Director:**  
—

Hitoshi Sugizaki was elected as a Director as he has knowledge of operations in the area of administration and has experience and expertise, etc. gained through his service in positions that include the head of accounting and the IT unit in the Corporate Division which will contribute to management of the Company.

\* denotes Representative Directors

# Management Structure

(As of July 1, 2020)

## Outside Directors



Outside Director

**Takashi Uchino**

Tenure as Director:  
7 years

Takashi Uchino was elected as a Director as he has experience and expertise, etc. as a university professor and as a business administration expert which will contribute to management of the Company.

**Significant Concurrent Positions outside the Company:**  
Professor emeritus at Gakushuin University



Outside Director

**Hajime Saito**

Tenure as Director:  
1 year

Hajime Saito was elected as a Director as he has experience and expertise, etc. gained through serving in positions that include Director of Mizuho Financial Group, Inc. and Mizuho Securities Co., Ltd., etc. which will contribute to the management of the Company.



Outside Director

**Masataka Ishizuka**

Tenure as Director:  
5 years

Masataka Ishizuka was elected as a Director as he has experience and expertise, etc. gained through serving as Director of Central Japan Railway Company and JR TOKAI AGENCY CO., LTD. which will contribute to management of the Company.

**Significant Concurrent Positions outside the Company:**  
Curator of GRANSHIP convention center, Shizuoka Cultural Foundation

## Outside Audit & Supervisory Board Members



Outside Audit & Supervisory Board Member

**Sumihito Okawa**

Tenure as Outside Audit & Supervisory Board Member:  
12 years

Sumihito Okawa was elected as an Audit & Supervisory Board Member as he has experience and expertise, etc. gained through serving in positions that include Audit & Supervisory Board Member of ANA HOLDINGS INC. and ALL NIPPON AIRWAYS CO., LTD. which will contribute to the effective auditing of the Company.



Outside Audit & Supervisory Board Member

**Shoichi Muto**

Tenure as Outside Audit & Supervisory Board Member:  
1 year

Shoichi Muto was elected as an Audit & Supervisory Board Member as he has experience and expertise, etc. gained through serving in positions at Tokyo Electric Power Company Holdings which will contribute to the effective auditing of the Company.



Outside Audit & Supervisory Board Member

**Takashi Suetsuna**

Tenure as Outside Audit & Supervisory Board Member:  
4 years

Takashi Suetsuna was elected as an Audit & Supervisory Board Member as he has experience and expertise, etc. gained through serving in positions that include senior official of administrative agencies as well as an outside officer of Marubeni Corporation, Totetsu Kogyo Co., Ltd., JCR Pharmaceuticals Co., Ltd., Aioi Nissay Dowa Insurance Co., Ltd., and Keikyu Corporation which will contribute to the effective auditing of the Company.

**Significant Concurrent Positions outside the Company:**  
Outside Director, Totetsu Kogyo Co., Ltd.  
Outside Director, JCR Pharmaceuticals Co., Ltd.  
Outside Auditor, Aioi Nissay Dowa Insurance Co., Ltd.  
Outside Auditor, Keikyu Corporation

## Full-time Audit & Supervisory Board Members



Full-time Audit & Supervisory Board Member

**Toru Yukimura**

Tenure as Audit & Supervisory Board Member:  
—

Toru Yukimura was elected as an Audit & Supervisory Board Member as he has knowledge in the areas of finance and accounting as well as experience and expertise, etc. gained through his service as a business manager which will contribute to the effective auditing of the Company.



Full-time Audit & Supervisory Board Member

**Hidekazu Tanaka**

Tenure as Audit & Supervisory Board Member:  
—

Hidekazu Tanaka was elected as an Audit & Supervisory Board Member as he has knowledge of operations in the areas of electric power, civil engineering and technology development as well as experience and expertise, etc. gained through his service in positions that include Executive Officer which will contribute to the effective auditing of the Company.



# Consolidated 11-Year Financial Summary |

(Millions of yen)

For the fiscal years ended March 31	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Net sales	453,623	462,482	441,786	447,741	437,930	436,682	447,673	470,943	507,205	563,550	616,143
Operating profit	9,477	10,735	8,034	7,364	8,284	9,388	16,416	26,397	29,261	30,012	34,693
Operating profit ratio (%)	2.1	2.3	1.8	1.6	1.9	2.1	3.7	5.6	5.8	5.3	5.6
Ordinary profit	10,484	11,634	9,070	8,301	9,089	10,336	17,077	27,345	30,031	30,795	35,565
Profit attributable to owners of parent	5,428	5,866	1,876	3,952	4,226	4,615	9,412	17,591	19,058	19,703	22,515
Comprehensive income	—	1,772	4,381	8,238	7,327	11,984	7,137	18,422	22,927	20,319	15,685
Total assets	378,150	353,342	359,726	364,008	359,933	366,177	407,681	424,874	443,751	459,854	488,701
Total net assets	177,536	176,808	178,757	184,269	189,692	193,345	197,980	213,356	230,810	245,954	255,821
ROE (%)	3.2	3.9	1.1	2.2	2.3	2.5	4.9	8.8	8.8	8.5	9.3
ROA (%)	2.8	3.2	2.5	2.3	2.5	2.8	4.4	6.6	6.9	6.8	7.5
Equity ratio (%)	45.96	48.93	48.54	49.49	51.45	51.44	47.22	48.72	50.51	51.85	50.62
Net assets per share (yen)	850.04	845.67	854.31	881.41	906.29	922.05	942.42	1,013.33	1,097.36	1,167.30	1,211.13
Earnings per share (yen)	26.54	28.69	9.18	19.34	20.69	22.59	46.07	86.11	93.31	96.46	110.23
Cash dividends per share (yen)	14.00	12.00	12.00	12.00	12.00	14.00	14.00	20.00	24.00	26.00	28.00
Net cash provided by (used in) operating activities	12,236	10,257	13,035	15,401	△2,218	2,921	18,042	6,751	11,469	28,251	29,155
Net cash provided by (used in) investing activities	△9,763	△3,799	1,583	△12,748	△5,839	2,253	△7,101	△17,867	△10,015	△10,131	△13,481
Net cash used in financing activities	△4,400	△4,037	△5,423	△2,900	△4,540	△3,743	19,807	△169	△7,857	△9,153	△7,151
Cash and cash equivalents at end of period	39,142	41,539	50,725	50,550	38,697	40,157	70,899	59,612	54,099	63,068	71,579
Number of employees (persons)	8,665	8,769	8,746	8,732	8,821	8,839	8,915	9,244	9,571	9,818	10,003

# Consolidated Financial Statements

## CONSOLIDATED BALANCE SHEET

KANDENKO CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
MARCH 31, 2019 AND 2020

	(Millions of Yen)		(Thousands of U.S. Dollars)	
	2019	2020	2020	
<b>Assets</b>				
Current assets				
Cash and deposits	*3 ¥ 62,586	*3 ¥ 71,502	*3 \$ 655,981	
Notes receivable, accounts receivable from completed construction contracts and other	*3 184,424	*3 197,793	*3 1,814,614	
Securities	11,999	12,009	110,174	
Costs on construction contracts in progress	*5 9,986	*5 11,406	*5 104,642	
Raw materials and supplies	4,787	5,451	50,009	
Other	11,980	14,880	136,513	
Allowance for doubtful accounts	(494)	(610)	(5,596)	
Total current assets	285,269	312,433	2,866,357	
Non-current assets				
Property, plant and equipment				
Buildings and structures	*3 92,813	*3 98,409	*3 902,834	
Machinery, vehicles, tools, furniture and fixtures	*3 59,651	*3 60,894	*3 558,660	
Land	*2, *3 59,983	*2, *3 60,051	*2, *3 550,926	
Leased assets	2,825	2,963	27,183	
Construction in progress	2,331	1,578	14,477	
Accumulated depreciation	(109,940)	(111,777)	(1,025,477)	
Total property, plant and equipment	107,665	112,119	1,028,614	
Intangible assets	5,662	5,901	54,137	
Investments and other assets				
Investment securities	*1, *3 47,442	*1, *3 39,757	*1, *3 364,743	
Deferred tax assets	8,053	12,236	112,256	
Other	*3 6,467	*3 6,915	*3 63,440	
Allowance for doubtful accounts	(705)	(663)	(6,082)	
Total investments and other assets	61,257	58,246	534,366	
Total non-current assets	174,585	176,267	1,617,128	
Total assets	¥ 459,854	¥ 488,701	\$ 4,483,495	

The accompanying notes are an integral part of financial statements.

	(Millions of Yen)		(Thousands of U.S. Dollars)	
	2019	2020	2020	
<b>Liabilities</b>				
Current liabilities				
Notes payable, accounts payable for construction contracts and other	¥ 98,783	¥ 101,558	\$ 931,724	
Short-term borrowings	*3 6,953	*3 6,831	*3 62,669	
Current portion of convertible bond-type bonds with share acquisition rights	—	20,019	183,660	
Lease obligations	525	573	5,256	
Income taxes payable	4,249	8,562	78,550	
Advances received on construction contracts in progress	15,036	15,031	137,899	
Provision for warranties for completed construction	211	203	1,862	
Provision for loss on construction contracts	*5 2,372	*5 5,021	*5 46,064	
Other	24,862	35,104	322,055	
Total current liabilities	152,994	192,907	1,769,788	
Non-current liabilities				
Convertible bond-type bonds with share acquisition rights	20,040	—	—	
Long-term borrowings	*3 8,503	*3 7,881	*3 72,302	
Lease obligations	981	1,211	11,110	
Deferred tax liabilities for land revaluation	*2 6,686	*2 6,585	*2 60,412	
Retirement benefit liability	22,902	22,640	207,706	
Other	1,792	1,654	15,174	
Total non-current liabilities	60,906	39,973	366,724	
Total liabilities	213,900	232,880	2,136,513	
<b>Net assets</b>				
Shareholders' equity				
Share capital	10,264	10,264	94,165	
Capital surplus	6,352	6,352	58,275	
Retained earnings	211,314	228,341	2,094,871	
Treasury shares	(586)	(587)	(5,385)	
Total shareholders' equity	227,343	244,370	2,241,926	
Accumulated other comprehensive income				
Valuation difference on available-for-sale securities	15,530	9,513	87,275	
Deferred gains or losses on hedges	(334)	(305)	(2,798)	
Revaluation reserve for land	*2 (4,990)	*2 (5,221)	*2 (47,899)	
Remeasurements of defined benefit plans	883	(973)	(8,926)	
Total accumulated other comprehensive income	11,088	3,012	27,633	
Non-controlling interests	7,521	8,438	77,412	
Total net assets	245,954	255,821	2,346,981	
Total liabilities and net assets	¥ 459,854	¥ 488,701	\$ 4,483,495	

The accompanying notes are an integral part of financial statements.



# Consolidated Financial Statements

## CONSOLIDATED STATEMENT OF INCOME

KANDENKO CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
YEARS ENDED MARCH 31, 2019 AND 2020

	(Millions of Yen)		(Thousands of U.S. Dollars)	
	2019	2020	2020	
Net sales of completed construction contracts	¥ 563,550	¥ 616,143	\$ 5,652,688	
Cost of sales of completed construction contracts	*1 507,874	*1 555,215	*1 5,093,715	
Gross profit (loss) on completed construction contracts	55,675	60,928	558,972	
Selling, general and administrative expenses	*2 25,663	*2 26,234	*2 240,678	
Operating profit (loss)	30,012	34,693	318,284	
Non-operating income				
Interest income	17	17	155	
Dividend income	878	929	8,522	
Other	339	338	3,100	
Total non-operating income	1,235	1,285	11,788	
Non-operating expenses				
Interest expenses	224	198	1,816	
Foreign exchange losses	18	50	458	
Other	209	164	1,504	
Total non-operating expenses	452	413	3,788	
Ordinary profit (loss)	30,795	35,565	326,284	
Extraordinary income				
Gain on sales of non-current assets	*4 74	*4 222	*4 2,036	
Gain on sales of investment securities	22	—	—	
Total extraordinary income	96	222	2,036	
Extraordinary losses				
Loss on disaster	—	496	4,550	
Loss on retirement of non-current assets	820	387	3,550	
Loss on valuation of investment securities	—	293	2,688	
Other	165	119	1,091	
Total extraordinary losses	986	1,296	11,889	
Profit (loss) before income taxes	29,904	34,490	316,422	
Income taxes - current	7,395	11,709	107,422	
Income taxes - deferred	1,872	(802)	(7,357)	
Total income taxes	9,268	10,906	100,055	
Profit (loss)	20,636	23,584	216,366	
Profit (loss) attributable to non-controlling interests	932	1,068	9,798	
Profit (loss) attributable to owners of parent	¥ 19,703	¥ 22,515	\$ 206,559	

The accompanying notes are an integral part of financial statements.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

KANDENKO CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
YEARS ENDED MARCH 31, 2019 AND 2020

	(Millions of Yen)		(Thousands of U.S. Dollars)	
	2019	2020	2020	
Profit (loss)	¥ 20,636	¥ 23,584	\$ 216,366	
Other comprehensive income				
Valuation difference on available-for-sale securities	244	(6,083)	(55,807)	
Deferred gains or losses on hedges	137	29	266	
Remeasurements of defined benefit plans, net of tax	(698)	(1,845)	(16,926)	
Total other comprehensive income	*1 (317)	*1 (7,899)	*1 (72,467)	
Comprehensive income	¥ 20,319	¥ 15,685	\$ 143,899	
Comprehensive income attributable to				
Comprehensive income attributable to owners of parent	19,394	14,670	134,587	
Comprehensive income attributable to non-controlling interests	¥ 924	¥ 1,015	\$ 9,311	

The accompanying notes are an integral part of financial statements.

# Consolidated Financial Statements

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

KANDENKO CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
YEAR ENDED MARCH 31, 2019

(Millions of Yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	¥ 10,264	¥ 6,351	¥ 196,568	¥ (585)	¥ 212,599
Changes during period					
Purchase of shares of consolidated subsidiaries		(0)			(0)
Dividends of surplus			(5,106)		(5,106)
Profit (loss) attributable to owners of parent			19,703		19,703
Reversal of revaluation reserve for land			148		148
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares		0		0	0
Net changes in items other than shareholders' equity					
Total changes during period	—	0	14,745	(0)	14,744
Balance at end of period	¥ 10,264	¥ 6,352	¥ 211,314	¥ (586)	¥ 227,343

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	¥ 15,286	¥ (471)	¥ (4,842)	¥ 1,573	¥ 11,546	¥ 6,665	¥ 230,810
Changes during period							
Purchase of shares of consolidated subsidiaries							(0)
Dividends of surplus							(5,106)
Profit (loss) attributable to owners of parent							19,703
Reversal of revaluation reserve for land							148
Purchase of treasury shares							(0)
Disposal of treasury shares							0
Net changes in items other than shareholders' equity	243	137	(148)	(689)	(457)	856	399
Total changes during period	243	137	(148)	(689)	(457)	856	15,143
Balance at end of period	¥ 15,530	¥ (334)	¥ (4,990)	¥ 883	¥ 11,088	¥ 7,521	¥ 245,954

The accompanying notes are an integral part of financial statements.

YEAR ENDED MARCH 31, 2020

(Millions of Yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	¥ 10,264	¥ 6,352	¥ 211,314	¥ (586)	¥ 227,343
Changes during period					
Purchase of shares of consolidated subsidiaries		—			—
Dividends of surplus			(5,719)		(5,719)
Profit (loss) attributable to owners of parent			22,515		22,515
Reversal of revaluation reserve for land			230		230
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares		0		0	0
Net changes in items other than shareholders' equity					
Total changes during period	—	0	17,027	(0)	17,026
Balance at end of period	¥ 10,264	¥ 6,352	¥ 228,341	¥ (587)	¥ 244,370

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	¥ 15,530	¥ (334)	¥ (4,990)	¥ 883	¥ 11,088	¥ 7,521	¥ 245,954
Changes during period							
Purchase of shares of consolidated subsidiaries							—
Dividends of surplus							(5,719)
Profit (loss) attributable to owners of parent							22,515
Reversal of revaluation reserve for land							230
Purchase of treasury shares							(0)
Disposal of treasury shares							0
Net changes in items other than shareholders' equity	(6,017)	29	(230)	(1,857)	(8,076)	916	(7,159)
Total changes during period	(6,017)	29	(230)	(1,857)	(8,076)	916	9,867
Balance at end of period	¥ 9,513	¥ (305)	¥ (5,221)	¥ (973)	¥ 3,012	¥ 8,438	¥ 255,821

The accompanying notes are an integral part of financial statements.



# Consolidated Financial Statements

YEAR ENDED MARCH 31, 2020

(Thousands of U.S. Dollars)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	\$ 94,165	\$ 58,275	\$ 1,938,660	\$ (5,376)	\$ 2,085,715
Changes during period					
Purchase of shares of consolidated subsidiaries		—			—
Dividends of surplus			(52,467)		(52,467)
Profit (loss) attributable to owners of parent			206,559		206,559
Reversal of revaluation reserve for land			2,110		2,110
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares		0		0	0
Net changes in items other than shareholders' equity					
Total changes during period	—	0	156,211	(0)	156,201
Balance at end of period	\$ 94,165	\$ 58,275	\$ 2,094,871	\$ (5,385)	\$ 2,241,926

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	\$ 142,477	\$ (3,064)	\$ (45,779)	\$ 8,100	\$ 101,724	\$ 69,000	\$ 2,256,458
Changes during period							
Purchase of shares of consolidated subsidiaries							—
Dividends of surplus							(52,467)
Profit (loss) attributable to owners of parent							206,559
Reversal of revaluation reserve for land							2,110
Purchase of treasury shares							(0)
Disposal of treasury shares							0
Net changes in items other than shareholders' equity	(55,201)	266	(2,110)	(17,036)	(74,091)	8,403	(65,678)
Total changes during period	(55,201)	266	(2,110)	(17,036)	(74,091)	8,403	90,522
Balance at end of period	\$ 87,275	\$ (2,798)	\$ (47,899)	\$ (8,926)	\$ 27,633	\$ 77,412	\$ 2,346,981

The accompanying notes are an integral part of financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS

KANDENKO CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
YEARS ENDED MARCH 31, 2019 AND 2020

(Millions of Yen)

(Thousands of U.S. Dollars)

	2019	2020	2020
Cash flows from operating activities			
Profit (loss) before income taxes	¥ 29,904	¥ 34,490	\$ 316,422
Depreciation and amortization	6,188	6,457	59,238
Increase (decrease) in allowance for doubtful accounts	(240)	72	660
Increase (decrease) in provision for loss on construction contracts	(842)	2,649	24,302
Increase (decrease) in retirement benefit liability	(2,438)	(2,397)	(21,990)
Interest and dividend income	(895)	(946)	(8,678)
Interest expenses	224	198	1,816
Loss (gain) on valuation of investment securities	—	293	2,688
Loss (gain) on sales of investment securities	(22)	—	—
Loss on disaster	—	496	4,550
Decrease (increase) in trade receivables	(21,289)	(13,331)	(122,302)
Decrease (increase) in costs on construction contracts in progress	14,054	(1,420)	(13,027)
Decrease (increase) in other inventories	335	(664)	(6,091)
Increase (decrease) in trade payables	9,079	2,776	25,467
Increase (decrease) in advances received on construction contracts in progress	(2,473)	(5)	(45)
Other, net	3,782	7,300	66,972
Subtotal	35,367	35,970	330,000
Interest and dividends received	895	946	8,678
Interest paid	(244)	(218)	(2,000)
Income taxes (paid) refund	(7,767)	(7,543)	(69,201)
Net cash provided by (used in) operating activities	28,251	29,155	267,477
Cash flows from investing activities			
Net decrease (increase) in time deposits	70	595	5,458
Purchase of securities	(4,000)	(5,000)	(45,871)
Proceeds from sales and redemption of securities	5,000	4,000	36,697
Purchase of property, plant and equipment	(8,660)	(10,570)	(96,972)
Proceeds from sales of property, plant and equipment	636	641	5,880
Purchase of investment securities	(827)	(1,394)	(12,788)
Proceeds from sales and redemption of investment securities	79	22	201
Loan advances	(860)	(203)	(1,862)
Collection of loans receivable	386	307	2,816
Other, net	(1,956)	(1,880)	(17,247)
Net cash provided by (used in) investing activities	(10,131)	(13,481)	(123,678)
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings	(2,325)	45	412
Proceeds from long-term borrowings	651	—	—
Repayments of long-term borrowings	(1,740)	(788)	(7,229)
Repayments of lease obligations	(563)	(590)	(5,412)
Dividends paid	(5,106)	(5,719)	(52,467)
Other, net	(69)	(98)	(899)
Net cash provided by (used in) financing activities	(9,153)	(7,151)	(65,605)
Effect of exchange rate change on cash and cash equivalents	2	(11)	(100)
Net increase (decrease) in cash and cash equivalents	8,969	8,511	78,082
Cash and cash equivalents at beginning of period	54,099	63,068	578,605
Cash and cash equivalents at end of period	*1 ¥ 63,068	*1 ¥ 71,579	*1 \$ 656,688

The accompanying notes are an integral part of financial statements.

# Notes to Consolidated Financial Statements

KANDENKO CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
YEARS ENDED MARCH 31, 2019 AND 2020

## BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

Kandenکو Co., Ltd. (the “Company”) and its consolidated subsidiaries (the “Companies”) maintain their accounting records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards. The accompanying financial statements have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

For the convenience of readers, the accompanying consolidated

financial statements as of and for the year ended March 31, 2020 have been translated from yen amounts into U.S. dollar amounts at the rate of ¥109 =U.S. \$1.00, the exchange rate prevailing on March 31, 2020.

As permitted by the Financial Instruments and Exchange Act of Japan, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and in dollars) do not necessarily agree with the sum of the individual amounts.

## SIGNIFICANT MATTERS PROVIDING THE BASIS FOR THE PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

### 1. The scope of consolidation

#### (1) Number of consolidated subsidiaries: 31

Names of the consolidated subsidiaries

Kawasaki Setsubi Kogyo Co., Ltd.

Kanko Facilities Co., Ltd.

Kanagawa K - Techno Co., Ltd.

Chiba K - Techno Co., Ltd.

Saitama K - Techno Co., Ltd.

Ibaraki K - Techno Co., Ltd.

Tochigi K - Techno Co., Ltd.

Gunma K - Techno Co., Ltd.

Tama K - Techno Co., Ltd.

Shizuoka K - Techno Co., Ltd.

HANDENKO CORPORATION

Kanko Power Techno Co., Ltd.

Kanagawa Power Techno Co., Ltd.

Chiba Power Techno Co., Ltd.

Saitama Power Techno Co., Ltd.

Ibaraki Power Techno Co., Ltd.

Tochigi Power Techno Co., Ltd.

Gunma Power Techno Co., Ltd.

Nishikanto Power Techno Co., Ltd.

Shizuoka Power Techno Co., Ltd.

Transmission Line Construction Co., Ltd.

Sato Kensetsu Kogyo Co., Ltd.

SYSTEC ENGINEERING Co., Ltd.

NETSAVE Co., Ltd.

Tokyo Kouji Keibi Co., Ltd.

Bay Techno Co., Ltd.

KANKO SYOJI CO., LTD.

K asset management Co., Ltd.

Choshi Wind Development Co., Ltd.

Kama Solar Power Co., Ltd.

Maebashi Biomass Power Co., Ltd.

#### (2) Name of major non-consolidated subsidiary:

THAI KANDENKO CO., LTD.

(Reason for excluding from the scope of consolidation)

All of the non-consolidated subsidiaries are small in scale and have no material impact on the consolidated financial statements in terms of total assets, net sales, profit or loss (amount corresponding to equity interest) and retained earnings (amount corresponding to equity interest).

### 2.Application of equity method

#### (1) Number of non-consolidated subsidiaries and affiliates that are accounted for by the equity method: None

#### (2) Name of the major non-consolidated subsidiaries and affiliates that are not accounted for by the equity method:

THAI KANDENKO CO., LTD.

(Reason for excluding from the scope of the equity method)

Non-consolidated subsidiaries and affiliates that are not accounted for by the equity method have immaterial impact on the consolidated financial statements in terms of profit or loss (amount corresponding to equity interest) and retained earnings (amount corresponding to equity interest), and are not material, taken as a whole.

### 3.Accounting period of consolidated subsidiaries

The year-end date for consolidated subsidiaries is the same as the consolidated year-end date.

### 4.Significant accounting policies

#### (1) Evaluation methods for significant assets

##### (a) Securities

###### i. Held-to-maturity securities

Amortized cost method (straight-line method)

###### ii. Available-for-sale securities

Securities with market quotations:

Stated at market value at the end of the year (Unrealized gains or losses, net of applicable taxes, are comprehensively reported as a component of net assets and the cost of securities sold is computed using the moving-average method.).

Securities without market quotations:

Stated at cost determined by the moving-average method.

##### (b) Derivatives

Fair value method

##### (c) Inventories

###### i. Costs on construction contracts in progress

Stated at cost determined by the specific cost method.

###### ii. Raw materials and supplies

Stated at cost determined by the moving-average method

(Balance sheet amounts are determined by writing down the

carrying amount based on declining profitability.)

### (2) Depreciation methods of significant depreciable assets

#### (a) Property, plant and equipment (excluding leased assets)

Depreciated mainly by the declining-balance method

Useful life and residual value are determined on the same basis as that of the method provided in the Corporation Tax Act.

Useful lives of certain buildings are deemed as 30 years

although their useful lives based on the Corporation Tax Act are longer than 30 years.

#### (b) Intangible assets (excluding leased assets)

Straight-line method

Software for internal use is amortized by the straight-line method over an estimated useful life (5 years).

#### (c) Leased assets

Leased assets related to finance lease transactions that do not transfer ownership are depreciated using the straight-line method based on the assumption that the useful life equals the lease term, and the residual value equals zero.

### (3) Accounting policies for significant allowance and provisions

#### (a) Allowance for doubtful accounts

The allowance for doubtful accounts is provided for to the amount sufficient to cover possible losses on collection. It consists of the estimated uncollectible amount with respect to identified doubtful receivables and an amount calculated by applying the percentage of actual losses on collection experienced in the past to remaining receivables.

#### (b) Provision for warranties for completed construction

To provide for possible future expenses under warranties for completed construction contracts, provision for construction contracts completed during the year is provided based on future estimated amount.

#### (c) Provision for loss on construction contracts

To provide for future losses on construction orders, provision for estimated losses is provided for uncompleted construction contracts at the end of the year that are likely to incur losses and the amount can be reasonably estimated.

### (4) Accounting method relating to retirement benefits

#### (a) Method of attributing expected retirement benefit to periods

Method of attributing expected retirement benefit to periods is allocated by the straight-line basis (the expected benefit divided by the total service years would be deemed as arising in each period).

#### (b) Amortization of actuarial gains and losses

Actuarial gains and losses are amortized by the straight-line method over a certain period (5 years) within the average remaining years of service of the eligible employees commencing with the following periods.

### (5) Accounting policies for significant revenues and expenses

#### (a) Recognition of net sales of completed construction contracts and costs of completed construction contracts

i. Construction contracts that the outcome of the construction activity is deemed certain during the course of the activity at the end of the year

Percentage-of-completion method (cost proportion method shall be applied to estimate the percentage-of-completion of such construction contract)

ii. Other construction contracts

Completed-contract method

### (6) Significant hedge accounting method

#### (a) Hedge accounting method

The Companies use the deferral hedge accounting method.

However, the exceptional accounting is used for interest rate swaps that meet specified matching criteria.

#### (b) Hedging instruments and hedged items

Hedging instruments: Interest rate swaps

Hedged items: Loans payable

#### (c) Hedging policy

In accordance with internal approval procedures for derivative transactions, interest rate fluctuation risks related to the hedged items are hedged to a certain degree.

#### (d) Method for evaluating the effectiveness of hedges

The Companies evaluate the effectiveness of their hedging activities by comparing cumulative changes in cash flows on the hedging instruments with cumulative changes in cash flows on the related hedged items. However, the evaluation of hedging effectiveness is omitted for interest rate swaps to which the exceptional accounting is applied.



(7) Method and period of amortization of goodwill

Goodwill is amortized by the straight-line method over the estimated period that the benefits are expected to be received, not exceeding 20 years.

(8) Cash and cash equivalents in the consolidated statements of cash flows

Cash and cash equivalents include cash in hand, readily available deposits and short-term investments with maturities of three months

or less from the purchase date whose value is not subject to significant fluctuation risk.

(9) Other significant accounting policies for the preparation of consolidated financial statements

Accounting method for consumption taxes:  
Consumption and local consumption taxes are accounted for by the tax-exclusion method.

ACCOUNTING STANDARDS, ETC. NOT YET EFFECTIVE

- “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020, Accounting Standards Board of Japan)
- “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, March 31, 2020, Accounting Standards Board of Japan)
- “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19, March 31, 2020, Accounting Standards Board of Japan)

(1) Outline

The International Accounting Standards Board (IASB) and US Financial Accounting Standards Board (FASB) co-developed a new comprehensive revenue recognition standard and published “Revenue from Contracts with Customers” in May 2014 (IFRS No. 15 in IASB, Topic 606 in FASB). Given that IFRS No. 15 will be applied from fiscal years starting on or after January 1, 2018 and Topic 606 from fiscal years starting after December 15, 2017, the Accounting Standards Board of Japan (ASBJ) developed comprehensive Accounting Standard on Revenue Recognition and published it together with implementation guidance.

The fundamental policy for developing Accounting Standard on Revenue Recognition by the ASBJ was that the accounting standard would incorporate the fundamental policy of IFRS No. 15 as the starting point from the perspective of comparability of financial statements, which is one of the benefits of achieving consistency with IFRS No. 15. For matters that require actual practice, etc. carried out in Japan up until present to be taken into consideration, alternative treatment will be added to an extent that does not impair financial statement comparability.

(2) Scheduled date of application

These accounting standard and implementation guidance will be applied from the beginning of the year ending March 31, 2022.

(3) Effects of the application of this accounting standard, etc.

The effects of the application of the “Accounting Standard for Revenue Recognition,” etc. on the consolidated financial statements are currently under assessment.

- “Accounting Standards for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019, Accounting Standards Board of Japan)
- “Accounting Standards for Measurement of Inventories” (ASBJ Statement No. 9, July 4, 2019, Accounting Standards Board of Japan)
- “Accounting Standards for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019, Accounting Standards Board of Japan)
- “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, July 4, 2019, Accounting Standards Board of Japan)
- “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19 March 31, 2020, Accounting Standards Board of Japan)

(1) Outline

The International Accounting Standards Board (IASB) and US Financial Accounting Standards Board (FASB) have established the detailed guidance with similar contents regarding fair value measurement (International Financial Reporting Standards (IFRS): “Fair Value Measurement” (IFRS No. 13), US Accounting Standards: Accounting Standards Codification (ASC) Topic 820 “Fair Value Measurement.” Given the status, the Accounting Standards Board of Japan (ASBJ) made efforts to ensure the consistency between the Japanese standards and the international accounting standards, mainly with regard to guidance and disclosure about fair value of financial instruments, and then published the “Accounting Standards for Fair Value Measurement”, etc.

The fundamental policy for developing fair value measurement by the ASBJ was that the accounting standard would basically incorporate all the provisions of IFRS No. 13 with a use of the integrated calculation method from the perspective of improving the comparability of financial statements between companies in Japan and overseas. Other handling on individual matters are determined by taking into consideration actual practice, etc. carried out in Japan up until present to an extent that does not impair financial statement comparability.

(2) Scheduled date of application

These accounting standard and implementation guidance will be applied from the beginning of the year ending March 31, 2022.

(3) Effects of the application of this accounting standard, etc.

The effects of the application of the “Accounting Standards for Fair Value Measurement,” etc. on the consolidated financial statements are currently unknown.

- “Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No. 31, March 31, 2020, Accounting Standards Board of Japan)

(1) Outline

Regarding “main reasons for estimation uncertainty” that is required to be disclosed pursuant to paragraph 125 of “Presentation of Financial Statements” of the International Accounting Standards (IAS) No. 1 (hereinafter, “IAS No. 1”), which was published in 2003 by the International Accounting Standards Board (IASB), there were a number of requests for disclosing the said information in the form of notes under the Japanese Standards as it is considered highly useful information for users of financial statements. In response to those requests, the Accounting Standards Board of Japan (ASBJ) developed and published the accounting standard for disclosure of accounting estimates (hereinafter, the “Accounting Standard”).

As a basic policy for the development of the Accounting Standard, the ASBJ did not enhance individual notes, but presented principles (purpose of disclosure), while leaving each entity to decide specific disclosure contents according to the purpose of disclosure.

CHANGES IN PRESENTATION

NOTES TO CONSOLIDATED STATEMENT OF INCOME

Because the amount of “foreign exchange losses,” which was included in “other” in “non-operating expenses” in the year ended March 31, 2019, is greater than 10% of the total amount of non-operating expenses, this item is presented as a separate item from the year ended March 31, 2020. The consolidated financial statements for the year ended March 31, 2019 have been reclassified to reflect this change in presentation.

As a result, ¥227 million, which was presented in “other” in “non-operating expenses” in the consolidated statement of income for the year ended March 31, 2019, has been reclassified to ¥18 million of “foreign exchange losses” and ¥209 million of “other.”

The development was performed with reference to the provisions of paragraph 125 of IAS No. 1.

(2) Scheduled date of application

The accounting standard will be applied from the end of the year ending March 31, 2021.

- “Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections” (ASBJ Statement No. 24, March 31, 2020, Accounting Standards Board of Japan)

(1) Outline

In response to the proposal for considering the enhancement of the information in the notes relating to the “accounting principles and procedures adopted if the provisions of relevant accounting standards, etc. are not apparent,” the ASBJ made necessary revisions and then published them as an accounting standard for accounting policy disclosures, accounting changes and error corrections.

With respect to the enhancement of the information in the notes relating to the “accounting principles and procedures adopted if the provisions of relevant accounting standards, etc. are not apparent,” the provisions of the annotations of the Accounting Principles (Note 1-2) shall be succeeded so that it would not have the effect on actual practice, etc, if the provisions of the relevant accounting standards, etc. are apparent.

(2) Scheduled date of application

The accounting standard will be applied from the end of the year ending March 31, 2021.

Because the amount of “impairment loss” in “extraordinary losses,” which was presented as a separate item in the year ended March 31, 2019, is 10% or less of the total amount of extraordinary losses, this item is included in “other” in “extraordinary losses” from the year ended March 31, 2020. The consolidated financial statements for the year ended March 31, 2019 have been reclassified to reflect this change in presentation.

As a result, ¥165 million, which was presented as “impairment loss” in “extraordinary losses” in the consolidated statement of income for the year ended March 31, 2019, has been reclassified to “other.”

## NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

The amount of “impairment loss” in “cash flows from operating activities,” which was presented as a separate item in the year ended March 31, 2019, is included in “other” from the year ended March 31, 2020 due to lower materiality. The consolidated financial statements for the year ended March 31, 2019 have been reclassified to reflect this change in presentation.

As a result, ¥165 million of “impairment loss” and ¥3,616 million of “other,” which were presented in “cash flows from operating activities” in the consolidated statement of cash flows for the year ended March 31, 2019, has been reclassified to ¥3,782 million of “other.”

## NOTES TO CONSOLIDATED BALANCE SHEET

\*1. Amounts of non-consolidated subsidiaries and affiliates’ stocks included in investment securities

	Millions of Yen		Thousands of U.S. Dollars	
	2019	2020	2020	
Investment securities (Stocks)	¥ 1,675	¥ 1,974	\$ 18,110	
Investment securities (Investments in capital)	82	25	229	

\*2. The Company revalued its land held for business use in accordance with the “Act on Revaluation of Land” (the Act No. 34, March 31, 1998) and recorded revaluation reserve for land in the net assets section.

### (a) Method of revaluation:

Revaluation was made by reasonably adjusting the market value of standard sites as stipulated by the Article 2, Clause 1 of the “Enforcement Order of the Act on Revaluation of Land” (Cabinet Order No. 119, March 31, 1998) and value determined by the method for calculating taxable land price of land holding tax in accordance with the Article 16 of the Land-holding Tax Act as defined and published by the Commissioner of National Tax Agency as stipulated by the Article 2, Clause 4 of the “Enforcement Order of the Act on Revaluation of Land.”

### (b) Date of revaluation:

March 31, 2002

\*3. Assets pledged as collateral and secured obligations

(1) Assets pledged as collateral which the Company’s subsidiaries provide and secured obligations

	Millions of Yen		Thousands of U.S. Dollars	
	2019	2020	2020	
Cash and deposits	¥ 1,471	¥ [–]	\$ 14,926	\$ [–]
Notes receivable, accounts receivable from completed construction contracts and other	94	[–]	77	[–]
Buildings and structures	1,351	[444]	11,532	[3,779]
Machinery, vehicles, tools, furniture and fixtures	8,243	[4,693]	70,697	[39,853]
Land	744	[–]	6,853	[–]
Investments and other assets – Other (lease deposits)	7	[–]	64	[–]
Total	¥ 11,911	¥ [5,137]	\$ 104,798	\$ [43,633]
Short-term borrowings	¥ 588	¥ [314]	\$ 5,697	\$ [2,981]
Long-term borrowings	8,503	[4,598]	72,302	[39,201]
Total	¥ 9,092	¥ [4,912]	\$ 78,009	\$ [42,183]

Note: The figures in the brackets show factory foundation mortgaged assets and related obligations.

(2) Assets pledged as collateral for the loans of the investing company of the Company and its subsidiaries

	Millions of Yen		Thousands of U.S. Dollars	
	2019	2020	2020	
Buildings and structures	¥ 0	¥ 0	\$ 0	
Land	26	26	238	
Investment securities	32	32	293	
Investments and other assets – Other (long-term loans receivable)	129	128	1,174	
Total	¥ 188	¥ 187	\$ 1,715	

4. Contingent liabilities

The Company provides guarantees of the employees’ loans from financial institutions.

	Millions of Yen		Thousands of U.S. Dollars	
	2019	2020	2020	
Employees (housing loans)	¥ 1,013	¥ 858	\$ 7,871	

\*5. Both costs on construction contracts in progress relating to construction contracts that are likely to incur losses and provision for loss on construction contracts are presented without offsetting.

Amount of costs on construction contracts in progress corresponding to provision for loss on construction contracts

	Millions of Yen		Thousands of U.S. Dollars	
	2019	2020	2020	
	¥ 43	¥ 229	\$ 2,100	

## NOTES TO CONSOLIDATED STATEMENT OF INCOME

\*1. Provision for loss on construction contracts included in cost of sales of completed construction contracts

	Millions of Yen		Thousands of U.S. Dollars	
	2019	2020	2020	
	¥ 1,118	¥ 5,571	\$ 51,110	

\*2. Principal accounts and amounts in selling, general and administrative expenses are as follows.

	Millions of Yen		Thousands of U.S. Dollars	
	2019	2020	2020	
Employees’ salaries and allowances	¥ 11,958	¥ 12,280	\$ 112,660	
Retirement benefit expenses	553	592	5,431	

3. Total amount of research and development expenses included in general and administrative expenses and manufacturing costs

	Millions of Yen		Thousands of U.S. Dollars	
	2019	2020	2020	
	¥ 1,381	¥ 1,428	\$ 13,100	

\*4. Breakdown of gain on sales of non-current assets

	Millions of Yen		Thousands of U.S. Dollars	
	2019	2020	2020	
Land	¥ 74	¥ 222	\$ 2,036	



NOTES TO CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

\*1. Reclassification adjustments and tax effects relating to other comprehensive income

	Millions of Yen		Thousands of U.S. Dollars	
	2019	2020	2020	
Valuation difference on available-for-sale securities:				
Gains (losses) arising during the year	¥ 382	¥ (8,800)	\$	(80,733)
Reclassification adjustments	(16)	35		321
Amount before income tax effect	366	(8,765)		(80,412)
Income tax effect	(121)	2,681		24,596
Valuation difference on available-for-sale securities	244	(6,083)		(55,807)
Deferred gains or losses on hedges				
Gains (losses) arising during the year	10	40		366
Income tax effect	126	(11)		(100)
Deferred gains or losses on hedges	137	29		266
Remeasurements of defined benefit plans:				
Gains (losses) arising during the year	(153)	(2,135)		(19,587)
Reclassification adjustments	(853)	(523)		(4,798)
Amount before income tax effect	(1,006)	(2,658)		(24,385)
Income tax effect	308	813		7,458
Remeasurements of defined benefit plans, net of tax	(698)	(1,845)		(16,926)
Total other comprehensive income	¥ (317)	¥ (7,899)	\$	(72,467)

NOTES TO CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended March 31, 2019

1.Matters related to class and number of issued shares and class and number of treasury shares

	(Shares)			
	As of April 1, 2018	Increase	Decrease	As of March 31, 2019
Shares issued:				
Common shares	205,288,338	—	—	205,288,338
Total	205,288,338	—	—	205,288,338
Treasury shares:				
Common shares	1,028,555	851	81	1,029,325
Total	1,028,555	851	81	1,029,325

Notes:  
1. Increase in number of common shares in treasury shares is due to repurchase of shares less than one unit.  
2. Decrease in number of common shares in treasury shares is due to the sales of shares less than one unit in response to repurchase requests.

2.Matter related to dividends

(1) Dividends paid

Resolution	Class of shares	Total dividends	Dividends per share	Record date	Effective date
Ordinary general meeting of shareholders on June 27, 2018	Common shares	¥2,451 million	¥12.0	March 31, 2018	June 28, 2018
Board of directors' meeting on October 31, 2018	Common shares	¥2,655 million	¥13.0	September 30, 2018	December 5, 2018

(2) Dividends whose record date fell in the year ended March 31, 2019, but whose effective date comes after March 31, 2019

Resolution	Class of shares	Total dividends	Source of dividend funds	Dividends per share	Record date	Effective date
Ordinary general meeting of shareholders on June 27, 2019	Common shares	¥2,655 million	Retained earnings	¥13.0	March 31, 2019	June 28, 2019

For the year ended March 31, 2020

1.Matters related to class and number of issued shares and class and number of treasury shares

	(Shares)			
	As of April 1, 2019	Increase	Decrease	As of March 31, 2020
Shares issued:				
Common shares	205,288,338	—	—	205,288,338
Total	205,288,338	—	—	205,288,338
Treasury shares:				
Common shares	1,029,325	489	47	1,029,767
Total	1,029,325	489	47	1,029,767

Notes:  
1. Increase in number of common shares in treasury shares is due to repurchase of shares less than one unit.  
2. Decrease in number of common shares in treasury shares is due to the sales of shares less than one unit in response to repurchase requests.

2.Matter related to dividends

(1) Dividends paid

Resolution	Class of shares	Total dividends	Dividends per share	Record date	Effective date
Ordinary general meeting of shareholders on June 27, 2019	Common shares	¥ 2,655 million \$24,357 thousand	¥13.0 \$0.11	March 31, 2019	June 28, 2019
Board of directors' meeting on October 31, 2019	Common shares	¥ 3,063 million \$28,100 thousand	¥15.0 \$0.13	September 30, 2019	December 5, 2019

(2) Dividends whose record date fell in the year ended March 31, 2020, but whose effective date comes after March 31, 2020

Resolution	Class of shares	Total dividends	Source of dividend funds	Dividends per share	Record date	Effective date
Ordinary general meeting of shareholders on June 26, 2020	Common shares	¥ 2,655 million \$24,357 thousand	Retained earnings	¥13.0 \$0.11	March 31, 2020	June 29, 2020

NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

\*1. Relationship between the balance of cash and cash equivalents at the end of the year and the amount on the consolidated balance sheet

	Millions of Yen		Thousands of U.S. Dollars	
	2019	2020	2020	
Cash and deposits	¥ 62,586	¥ 71,502	\$	655,981
Time deposits with maturities of more than three months	(8,517)	(7,922)		(72,678)
Short-term investments with maturities of three months or less from the purchase date	8,999	7,999		73,385
Cash and cash equivalents	¥ 63,068	¥ 71,579	\$	656,688

FINANCIAL INSTRUMENTS

1.Status of financial instruments

(1) Policies on financial instruments

The Companies manage surplus funds by investing in high security financial instruments, primarily short-term deposits and debt securities and raise funds through borrowings from banks and other financial institutions and issuance of convertible bond-type bonds with share acquisition rights.

Certain consolidated subsidiaries enter into derivative transactions to hedge interest rate fluctuation risks arising from borrowings and the Companies do not use derivative transactions for speculative purposes.

(2) Description of financial instruments and related risks

Notes receivable, accounts receivable from completed construction contracts and other, trade receivables, are exposed to customer credit risk. Securities and investment securities, primarily consist of held-to-maturity debt securities and shares of companies with business relationship, are exposed to market price fluctuation risks.

Notes payable, accounts payable for construction contracts and other, trade payables, are due within one year. Proceeds from short-term borrowings are mainly used for operational funds and proceeds from convertible bond-type bonds with share acquisition rights and long-term borrowings are mainly used for capital expenditures. Floating rate borrowings are exposed to interest rate fluctuation risks, but are hedged by using derivative transactions (interest rate swaps).

Derivative transactions are interest rate swaps used as hedging instruments, in order to hedge interest rate fluctuation risks for borrowings. Details of hedge accounting including hedging instruments and hedged items, hedging policy and method for evaluating the effectiveness of hedges are described in "SIGNIFICANT MATTERS PROVIDING THE BASIS FOR THE PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS, 4. Significant accounting policies, (6) Significant hedge accounting method."

(3) Risk management system for financial instruments

(a) Credit risk management (risks that counterparties may default)

For trade receivables, the sales administration division regularly monitors major counterparties' credit status, and performs due date controls and balance controls for each customer to mitigate

and quickly capture the collectability issues caused by deterioration in the financial conditions.

Held-to-maturity securities are invested in debt securities with high credit rating, therefore, exposed to minimum credit risk.

The Companies enter into derivative transactions with financial institutions with high credit rating in order to mitigate credit risk.

(b) Market risk management (fluctuation risks in market prices and interest rates)

Interest rate swaps are used to mitigate interest rate fluctuation risks for borrowings.

As for securities, and investment securities, except for held-to-maturity debt securities, the accounting department regularly monitors fair values and issuers' (counterparties') financial status, considers the relationships with the counterparties, and continuously reviews the Company's securities holdings.

Derivative transactions are executed and managed in accordance with the nature and limits approved by the board of directors of each company. The executed transactions are periodically reported to the board of directors.

(c) Liquidity risk management associated with financing activities (payment default risks)

The accounting department prepares and updates a monthly management plan of funds as necessary to manage the liquidity risk.

(4) Supplementary explanation on fair value of financial instruments

Fair value of financial instruments is measured based on the quoted market price, if available, or reasonably assessed value if a quoted market price is not available. Fair value of financial instruments, for which a quoted market price is not available, is calculated based on certain assumptions, and the fair value might differ if different assumptions are used. In addition, the contract amount of the derivative transactions described in "DERIVATIVE TRANSACTIONS" does not represent the market risk of the derivative transactions.

2.Fair value of financial instruments

Carrying amount and fair value of financial instruments, and differences between these values are as follows. The financial instruments whose fair values are deemed extremely difficult to determine are excluded from the table below. (See Note 2 below)

Millions of Yen				
	For the year ended March 31, 2019			
	Carrying amount		Fair value	Difference
(1) Cash and deposits	¥	62,586	¥ 62,586	¥ —
(2) Notes receivable, accounts receivable from completed construction contracts and other		184,424		
Allowance for doubtful accounts (*1)		(434)		
		183,990	183,990	—
(3) Securities and investment securities				
1) Held-to-maturity securities		11,032	11,032	(0)
2) Available-for-sale securities		43,846	43,846	—
(4) Notes payable, accounts payable for construction contracts and other (*2)		(98,783)	(98,783)	—
(5) Short-term borrowings (*2)		(6,953)	(6,953)	—
(6) Convertible bond-type bonds with share acquisition rights (*2)		(20,040)	(20,540)	499
(7) Long-term borrowings (*2)		(8,503)	(8,490)	(13)
(8) Derivative transactions (*3)	¥	(460)	¥ (460)	¥ —

(\*1) The amount of allowance for doubtful accounts related to notes receivable, accounts receivable from completed construction contracts and other is deducted.

(\*2) The value of liabilities is shown in parenthesis.

(\*3) The value of assets and liabilities arising from derivative transactions is shown at net value and with the amount in parenthesis indicating the net liability position.

Millions of Yen				
	For the year ended March 31, 2020			
	Carrying amount	Fair value	Difference	
(1) Cash and deposits	¥ 71,502	¥ 71,502	¥	—
(2) Notes receivable, accounts receivable from completed construction contracts and other	197,793			
Allowance for doubtful accounts (*1)	(541)			
	197,251	197,251		—
(3) Securities and investment securities				
1) Held-to-maturity securities	12,025	12,024		(0)
2) Available-for-sale securities	34,926	34,926		—
(4) Notes payable, accounts payable for construction contracts and other (*2)	(101,558)	(101,558)		—
(5) Short-term borrowings (*2)	(6,831)	(6,831)		—
(6) Current portion of convertible bond-type bonds with share acquisition rights (*2)	(20,019)	(19,850)		(169)
(7) Long-term borrowings (*2)	(7,881)	(7,887)		6
(8) Derivative transactions (*3)	¥ (420)	¥ (420)	¥	—



Thousands of U.S. Dollars

	For the year ended March 31, 2020		
	Carrying amount	Fair value	Difference
(1) Cash and deposits	\$ 655,981	\$ 655,981	\$ —
(2) Notes receivable, accounts receivable from completed construction contracts and other Allowance for doubtful accounts (*1)	1,814,614 (4,963)		
	1,809,642	1,809,642	—
(3) Securities and investment securities			
1) Held-to-maturity securities	110,321	110,311	(0)
2) Available-for-sale securities	320,422	320,422	—
(4) Notes payable, accounts payable for construction contracts and other (*2)	(931,724)	(931,724)	—
(5) Short-term borrowings (*2)	(62,669)	(62,669)	—
(6) Current portion of convertible bond-type bonds with share acquisition rights (*2)	(183,660)	(182,110)	(1,550)
(7) Long-term borrowings (*2)	(72,302)	(72,357)	55
(8) Derivative transactions (*3)	\$ (3,853)	\$ (3,853)	\$ —

(\*1) The amount of allowance for doubtful accounts related to notes receivable, accounts receivable from completed construction contracts and other is deducted.

(\*2) The value of liabilities is shown in parenthesis.

(\*3) The value of assets and liabilities arising from derivative transactions is shown at net value and with the amount in parenthesis indicating the net liability position.

Notes:

1. The calculation methods for the fair value of financial instruments, marketable securities and derivative transactions

(1) Cash and deposits

Deposits are stated at their carrying amount as the fair value approximates the carrying amount because of the short maturity.

(2) Notes receivable, accounts receivable from completed construction contracts and other

The fair value of these instruments is stated at the net present value by maturity group which is discounted considering the credit risk. The fair value with short maturity approximates the carrying amount.

(3) Securities and investment securities

The fair value of stocks is calculated by quoted market price and the fair value of debt securities is calculated by quoted market price or quotes from counterparty financial institutions. Negotiable certificates of deposit and jointly operated money trusts are stated at their carrying amount as the fair value approximates the carrying amount because of the short maturity.

Information by holding purpose is described in "SECURITIES."

(4) Notes payable, accounts payable for construction contracts and other, and (5) Short-term borrowings

These are stated at their carrying amount as the fair value approximates the carrying amount because these are settled in a short period of time.

(6) Current portion of convertible bond-type bonds with share acquisition rights

The fair value of convertible bond-type bonds with share acquisition rights is based on the prices presented by the counterparty financial institutions.

(7) Long-term borrowings

The fair value of long-term borrowings is based on the present value of sum of principal and interest discounted using the borrowing rate for similar new borrowings.

(8) Derivative transactions

Please refer to "DERIVATIVE TRANSACTIONS."

2. The carrying amount of financial instruments whose fair values are deemed extremely difficult to determine

	Millions of Yen		Thousands of U.S. Dollars
	2019	2020	2020
Unlisted stocks, etc.	¥ 4,563	¥ 4,815	\$ 44,174

Since no quoted market price is available, it is extremely difficult to estimate future cash flows and it is deemed extremely difficult to determine their fair value, these financial instruments are not included in "(3) Securities and investment securities."

3. Expected redemption amount of monetary receivables and securities with maturity dates after the consolidated year-end date

Millions of Yen

	For the year ended March 31, 2019			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	¥ 62,586	¥ —	¥ —	¥ —
Notes receivable, accounts receivable from completed construction contracts and other	184,260	163	—	—
Securities and investment securities				
Held-to-maturity securities (government/municipal bonds)	—	10	—	—
Held-to-maturity securities (corporate bonds)	5,000	—	—	—
Held-to-maturity securities (other)	5,000	1,000	—	—
Available-for-sale securities with maturities (other)	2,000	—	—	—
Total	¥ 258,847	¥ 1,173	¥ —	¥ —

Millions of Yen

	For the year ended March 31, 2020			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	¥ 71,502	¥ —	¥ —	¥ —
Notes receivable, accounts receivable from completed construction contracts and other	196,989	804	—	—
Securities and investment securities				
Held-to-maturity securities (government/municipal bonds)	10	—	—	—
Held-to-maturity securities (corporate bonds)	5,000	—	—	—
Held-to-maturity securities (other)	6,000	1,000	—	—
Available-for-sale securities with maturities (other)	1,000	—	—	—
Total	¥ 280,501	¥ 1,804	¥ —	¥ —

Thousands of U.S. Dollars

	For the year ended March 31, 2020			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	\$ 655,981	\$ —	\$ —	\$ —
Notes receivable, accounts receivable from completed construction contracts and other	1,807,238	7,376	—	—
Securities and investment securities				
Held-to-maturity securities (government/municipal bonds)	91	—	—	—
Held-to-maturity securities (corporate bonds)	45,871	—	—	—
Held-to-maturity securities (other)	55,045	9,174	—	—
Available-for-sale securities with maturities (other)	9,174	—	—	—
Total	\$ 2,573,403	\$ 16,550	\$ —	\$ —

4. Scheduled amount of repayment of short-term borrowings, convertible bond-type bonds with share acquisition rights and long-term borrowings after the consolidated year-end date

Millions of Yen

	For the year ended March 31, 2019					
	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term borrowings	¥ 6,953	¥ —	¥ —	¥ —	¥ —	¥ —
Convertible bond-type bonds with share acquisition rights	—	20,000	—	—	—	—
Long-term borrowings	—	621	632	642	1,339	5,267
Total	¥ 6,953	¥ 20,621	¥ 632	¥ 642	¥ 1,339	¥ 5,267

Millions of Yen

	For the year ended March 31, 2020					
	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term borrowings	¥ 6,831	¥ —	¥ —	¥ —	¥ —	¥ —
Current portion of convertible bond-type bonds with share acquisition rights	20,000	—	—	—	—	—
Long-term borrowings	—	632	642	1,339	619	4,647
Total	¥ 26,831	¥ 632	¥ 642	¥ 1,339	¥ 619	¥ 4,647

Thousands of U.S. Dollars

	For the year ended March 31, 2020					
	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term borrowings	\$ 62,669	\$ —	\$ —	\$ —	\$ —	\$ —
Current portion of convertible bond-type bonds with share acquisition rights	183,486	—	—	—	—	—
Long-term borrowings	—	5,798	5,889	12,284	5,678	42,633
Total	\$ 246,155	\$ 5,798	\$ 5,889	\$ 12,284	\$ 5,678	\$ 42,633

## SECURITIES

### 1. Held-to-maturity securities

Millions of Yen

	For the year ended March 31, 2019		
	Carrying amount	Fair value	Difference
Securities whose fair value exceeds their carrying amount:			
Government/municipal bonds	¥ —	¥ —	¥ —
Corporate bonds	—	—	—
Other	—	—	—
Subtotal	¥ —	¥ —	¥ —
Securities whose fair value does not exceed their carrying amount:			
Government/municipal bonds	¥ 10	¥ 9	¥ (0)
Corporate bonds	4,999	4,999	(0)
Other	6,022	6,022	—
Subtotal	¥ 11,032	¥ 11,032	¥ (0)
Total	¥ 11,032	¥ 11,032	¥ (0)

Millions of Yen

	For the year ended March 31, 2020		
	Carrying amount	Fair value	Difference
Securities whose fair value exceeds their carrying amount:			
Government/municipal bonds	¥ —	¥ —	¥ —
Corporate bonds	—	—	—
Other	—	—	—
Subtotal	¥ —	¥ —	¥ —
Securities whose fair value does not exceed their carrying amount:			
Government/municipal bonds	¥ 10	¥ 9	¥ (0)
Corporate bonds	4,999	4,999	(0)
Other	7,015	7,015	—
Subtotal	¥ 12,025	¥ 12,024	¥ (0)
Total	¥ 12,025	¥ 12,024	¥ (0)

Thousands of U.S. Dollars

	For the year ended March 31, 2020		
	Carrying amount	Fair value	Difference
Securities whose fair value exceeds their carrying amount:			
Government/municipal bonds	\$ —	\$ —	\$ —
Corporate bonds	—	—	—
Other	—	—	—
Subtotal	\$ —	\$ —	\$ —
Securities whose fair value does not exceed their carrying amount:			
Government/municipal bonds	\$ 91	\$ 82	\$ (0)
Corporate bonds	45,862	45,862	(0)
Other	64,357	64,357	—
Subtotal	\$ 110,321	\$ 110,311	\$ (0)
Total	\$ 110,321	\$ 110,311	\$ (0)



## 2.Available-for-sale securities

Millions of Yen					
	For the year ended March 31, 2019				
	Carrying amount	Acquisition cost		Difference	
Securities whose carrying amount exceeds their acquisition cost:					
Stocks	¥ 41,556	¥ 18,998	¥	22,557	
Bonds	—	—		—	
Other	—	—		—	
Subtotal	¥ 41,556	¥ 18,998	¥	22,557	
Securities whose carrying amount does not exceed their acquisition cost:					
Stocks	¥ 290	¥ 341	¥	(51)	
Bonds	—	—		—	
Other	2,000	2,000		—	
Subtotal	¥ 2,290	¥ 2,341	¥	(51)	
Total	¥ 43,846	¥ 21,340	¥	22,505	

Millions of Yen					
	For the year ended March 31, 2020				
	Carrying amount	Acquisition cost		Difference	
Securities whose carrying amount exceeds their acquisition cost:					
Stocks	¥ 28,258	¥ 13,876	¥	14,382	
Bonds	—	—		—	
Other	—	—		—	
Subtotal	¥ 28,258	¥ 13,876	¥	14,382	
Securities whose carrying amount does not exceed their acquisition cost:					
Stocks	¥ 5,667	¥ 6,309	¥	(642)	
Bonds	—	—		—	
Other	1,000	1,000		—	
Subtotal	¥ 6,667	¥ 7,309	¥	(642)	
Total	¥ 34,926	¥ 21,185	¥	13,740	

Thousands of U.S. Dollars					
	For the year ended March 31, 2020				
	Carrying amount	Acquisition cost		Difference	
Securities whose carrying amount exceeds their acquisition cost:					
Stocks	\$ 259,247	\$ 127,302	\$	131,944	
Bonds	—	—		—	
Other	—	—		—	
Subtotal	\$ 259,247	\$ 127,302	\$	131,944	
Securities whose carrying amount does not exceed their acquisition cost:					
Stocks	\$ 51,990	\$ 57,880	\$	(5,889)	
Bonds	—	—		—	
Other	9,174	9,174		—	
Subtotal	\$ 61,165	\$ 67,055	\$	(5,889)	
Total	\$ 320,422	\$ 194,357	\$	126,055	

## 3.Available-for-sale securities sold during the year

For the year ended March 31, 2019

Disclosure is omitted due to immateriality.

For the year ended March 31, 2020

Disclosure is omitted due to immateriality.

## 4.Impairment loss on securities

For the year ended March 31, 2019

Not applicable.

For the year ended March 31, 2020

Of securities, ¥293 million was recognized as impairment loss (¥35 million of stocks of other securities, ¥258 million of investments in capital of subsidiaries and associates).

## DERIVATIVE TRANSACTIONS

### Derivative transactions to which hedge accounting is applied

Interest rate-related

For the year ended March 31, 2019					
Hedge accounting method	Type of transactions	Primary hedged items	Contract amount	Contract amount due after one year	Fair value
Deferral hedge	Interest rate swaps: fixed payment, floating receipt	Long-term borrowings	¥4,270 million	¥3,991 million	¥(460) million

Note: Calculation method for fair value:

Fair value is based on the prices presented by the counterparty financial institutions.

For the year ended March 31, 2020					
Hedge accounting method	Type of transactions	Primary hedged items	Contract amount	Contract amount due after one year	Fair value
Deferral hedge	Interest rate swaps: fixed payment, floating receipt	Long-term borrowings	¥ 3,991 million \$36,614 thousand	¥ 3,703 million \$33,972 thousand	¥ (420) million \$(3,853) thousand

Note: Calculation method for fair value:

Fair value is based on the prices presented by the counterparty financial institutions.

## RETIREMENT BENEFITS

### 1. Overview of retirement benefit plans

The Companies have funded and unfunded defined benefit plans and defined contribution plans to prepare for retirement benefits to employees. Defined benefit pension plans (funded plans) offer retirement lump-sum payments or pensions according to the salary and service period of the eligible employees. Retirement lump-sum payment plans (unfunded plans) offer retirement lump-sum payments according to the salary and service period of the eligible employees. When employees retire, the Companies may provide them with additional retirement benefits, etc.

Certain consolidated subsidiaries participate in multi-employer corporate pension fund, which is accounted for in the same manner as defined contribution plans because it is impracticable to reasonably estimate an amount of plan assets for the contributions made by the subsidiaries. In addition, regarding the multi-employer corporate pension fund, note on the multi-employer plan is omitted due to immateriality.

Certain consolidated subsidiaries use the simplified method in calculating retirement benefit liability and asset, and retirement benefit expenses.

### 2. Defined benefit plans

#### (1) Changes in defined benefit obligations

	Millions of Yen		Thousands of U.S. Dollars	
	2019	2020	2020	
Balance at beginning of year	¥ 66,508	¥ 64,919	\$ 595,587	
Current service cost	2,199	2,343	21,495	
Interest cost	567	552	5,064	
Actuarial gains and losses	(38)	882	8,091	
Benefit paid	(4,318)	(4,186)	(38,403)	
Other	–	59	541	
Balance at end of year	¥ 64,919	¥ 64,571	\$ 592,394	

#### (2) Changes in plan assets

	Millions of Yen		Thousands of U.S. Dollars	
	2019	2020	2020	
Balance at beginning of year	¥ 41,320	¥ 42,017	\$ 385,477	
Expected return on plan assets	614	624	5,724	
Actuarial gains and losses	(191)	(1,252)	(11,486)	
Contributions by the employer	3,454	3,554	32,605	
Benefits paid	(3,178)	(3,072)	(28,183)	
Other	(2)	60	(550)	
Balance at end of year	¥ 42,017	¥ 41,931	\$ 384,688	

#### (3) Reconciliation between ending balances of defined benefit obligations and plan assets and the retirement benefit liability and retirement benefit asset reported on the consolidated balance sheet

	Millions of Yen		Thousands of U.S. Dollars	
	2019	2020	2020	
Funded defined benefit obligations	¥ 44,869	¥ 44,260	\$ 406,055	
Plan assets	(42,017)	(41,931)	(384,688)	
	¥ 2,852	¥ 2,329	\$ 21,366	
Unfunded defined benefit obligations	20,049	20,310	186,330	
Net amount of liabilities and assets recognized in consolidated balance sheet	¥ 22,902	¥ 22,640	\$ 207,706	
Retirement benefit liability	¥ 22,902	¥ 22,640	\$ 207,706	
Net amount of liabilities and assets recognized in consolidated balance sheet	¥ 22,902	¥ 22,640	\$ 207,706	

#### (4) Breakdown of retirement benefit expenses

	Millions of Yen		Thousands of U.S. Dollars	
	2019	2020	2020	
Current service cost	¥ 2,199	¥ 2,343	\$ 21,495	
Interest cost	567	552	5,064	
Expected return on plan assets	(614)	(624)	(5,724)	
Actuarial gains and losses recognized in the year	(853)	(523)	(4,798)	
Other	195	217	1,990	
Total	¥ 1,495	¥ 1,965	\$ 18,027	

#### (5) Remeasurements of defined benefit plans

Remeasurements of defined benefit plans (before tax effect) consist of the following:

	Millions of Yen		Thousands of U.S. Dollars	
	2019	2020	2020	
Actuarial gains and losses	¥ 1,006	¥ 2,658	\$ 24,385	

#### (6) Accumulated remeasurements of defined benefit plans

Accumulated remeasurements of defined benefit plans (before tax effect) consist of the following:

	Millions of Yen		Thousands of U.S. Dollars	
	2019	2020	2020	
Unrecognized actuarial gains and losses	¥ (1,241)	¥ 1,417	\$ 13,000	

#### (7) Plan assets

##### (a) Breakdown of plan assets

The ratio of each major category to total plan assets is as follows:

	2019	2020	
General account	41%	43%	
Bonds	35%	35%	
Equities	23%	21%	
Other	1%	1%	
Total	100%	100%	

##### (b) Method of determining the long-term expected rates of return on plan assets

Expected return rate on plan assets is determined by considering the current and anticipated future portfolio of plan assets and current and anticipated future long-term performance of individual asset classes that comprise the funds' asset mix.

#### (8) Assumptions used in actuarial calculations

Major assumptions used in actuarial calculations

	2019	2020	
Discount rate	mainly 0.9%	mainly 0.9%	
Expected return rate on plan assets	mainly 1.5%	mainly 1.5%	

### 3. Defined contribution plans

The required amount of contribution to the defined contribution plans (including the multi-employer corporate pension fund accounted for in the same manner) of the Companies was ¥1,654 million and ¥1,703 million (\$15,623 thousand) for the years ended March 31, 2019 and 2020, respectively.



DEFERRED TAX ACCOUNTING

1.Breakdown of major factors that caused deferred tax assets and liabilities

	Millions of Yen		Thousands of U.S. Dollars	
	2019	2020	2020	
Deferred tax assets:				
Retirement benefit liability	¥ 7,062	¥ 6,987	\$ 64,100	
Depreciation	3,689	3,835	35,183	
Accrued bonuses	3,269	3,426	31,431	
Provision for loss on construction contracts	732	1,544	14,165	
Loss on valuation of assets	1,415	1,332	12,220	
Allowance for doubtful accounts	344	350	3,211	
Loss carry-forward	197	180	1,651	
Others	1,879	2,412	22,128	
Subtotal	18,592	20,069	184,119	
Valuation allowance	(2,244)	(2,200)	(20,183)	
Total	¥ 16,347	¥ 17,869	\$ 163,935	
Deferred tax liabilities:				
Valuation difference on available-for-sale securities	¥ (6,867)	¥ (4,186)	\$ (38,403)	
Reserve for tax purpose reduction entry of non-current assets	(1,049)	(1,162)	(10,660)	
Reserve for special depreciation	(210)	(129)	(1,183)	
Others	(168)	(154)	(1,412)	
Total	¥ (8,296)	¥ (5,632)	\$ (51,669)	
Net deferred tax assets	¥ 8,051	¥ 12,236	\$ 112,256	

Note: Except for above, deferred tax liabilities for land revaluation are recorded as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2019	2020	2020	
Deferred tax liabilities for land revaluation	¥ 6,686	¥ 6,585	\$ 60,412	

2.Breakdown of items which caused the difference between the statutory tax rate and the effective tax rate after adopting tax effect accounting

2019	2020
This note has been omitted as the difference between the statutory tax rate and the effective tax rate after adopting tax effect accounting is 5% or less of the statutory tax rate.	This note has been omitted as the difference between the statutory tax rate and the effective tax rate after adopting tax effect accounting is 5% or less of the statutory tax rate.

INVESTMENT AND RENTAL PROPERTIES

The Company and certain consolidated subsidiaries own real estate for rent in Tokyo and other areas. Rental income associated with real estate for rent in the year ended March 31, 2019 was ¥629 million (significant earnings from rent are included under net sales of completed construction contracts, while significant rental expenses are posted under cost of sales of completed construction contracts). Rental income associated with real estate for rent in the year ended March 31, 2020 was ¥729 million (\$6,688 thousand)(significant earnings from rent are included under net sales of completed construction contracts, while significant rental expenses are posted under cost of sales of completed construction contracts).

The amount of real estate for rent posted in the consolidated balance sheets, the change during the year, and the fair value were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2019	2020	2020	
Amount posted in the consolidated balance sheets				
Balance at the beginning of year	¥ 19,560	¥ 20,020	\$ 183,669	
Change during the year	460	2,421	22,211	
Balance at the end of fiscal year	¥ 20,020	¥ 22,442	\$ 205,889	
Fair value at the end of fiscal year	¥ 22,903	¥ 27,244	\$ 249,944	

Notes:

- 1. Amounts posted in the consolidated balance sheets represent the acquisition cost after the deduction of accumulated depreciation and accumulated impairment loss.
- 2. In regard to the main components of changes in the year ended March 31, 2019, the main increase was new acquisitions (¥1,029 million). In regard to the main components of changes in the year ended March 31, 2020, the main increase was new acquisitions (¥2,214 million)(\$20,311 thousand).
- 3. Fair value at the end of the fiscal year is based on real estate appraisals carried out by external appraisers for major real estate, and is measured with amounts calculated primarily based on the market value of standard sites and the assessed value of inheritance tax by roadside land prices for other properties.

SEGMENT INFORMATION, ETC.

(Segment information)

1.Outline of reportable segment information

Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

The Companies engage in facility installation work, sales of electrical equipment, rental of real estate, leasing, sales of electrical power and others. “Engineering” is determined to be the reportable segment.

“Engineering” includes business related to electrical work, plumbing work and various other work on facilities.

2.Method of measurement for the amounts of net sales, profit or loss, assets and other items by reportable segment

The accounting treatment regarding the reportable business segments is the same as recorded in “SIGNIFICANT MATTERS PROVIDING THE BASIS FOR THE PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS.” The profit of reportable segments is based on operating profit. The intersegment profit and transfers are based on trading prices in the market.

3.Net sales, profit or loss, assets and other items by reportable segments

Millions of Yen						
	For the year ended March 31, 2019					
	Engineering	Other (Note 1)	Total	Adjustments (Note 2)	Consolidated total (Note 3)	
Net sales:						
Customers	¥ 551,976	¥ 11,574	¥ 563,550	¥ –	¥ 563,550	
Inter-segment	180	41,806	41,987	(41,987)	–	
Total	¥ 552,156	¥ 53,381	¥ 605,537	¥ (41,987)	¥ 563,550	
Segment profit	¥ 27,861	¥ 2,080	¥ 29,941	¥ 70	¥ 30,012	
Segment assets	¥ 410,645	¥ 73,794	¥ 484,440	¥ (24,585)	¥ 459,854	
Other items:						
Depreciation	¥ 4,337	¥ 2,040	¥ 6,378	¥ (189)	¥ 6,188	
Increase in property, plant and equipment and intangible assets	7,781	3,526	11,307	(1,555)	9,752	

Notes:  
1. The “Other” segment is a business segment which is not included in the reportable segment and includes electrical equipment sales business, real estate business, lease business and power generation business.  
2. Adjustments in segment profit, segment assets and other items are elimination of internal transactions between segments.  
3. Segment profit is adjusted with operating profit presented in the consolidated statement of income.

Millions of Yen						
	For the year ended March 31, 2020					
	Engineering	Other (Note 1)	Total	Adjustments (Note 2)	Consolidated total (Note 3)	
Net sales:						
Customers	¥ 604,726	¥ 11,417	¥ 616,143	¥ –	¥ 616,143	
Inter-segment	248	48,917	49,165	(49,165)	–	
Total	¥ 604,974	¥ 60,334	¥ 665,309	¥ (49,165)	¥ 616,143	
Segment profit	¥ 32,556	¥ 2,098	¥ 34,655	¥ 38	¥ 34,693	
Segment assets	¥ 438,254	¥ 77,772	¥ 516,026	¥ (27,324)	¥ 488,701	
Other items:						
Depreciation	¥ 4,906	¥ 1,693	¥ 6,599	¥ (141)	¥ 6,457	
Increase in property, plant and equipment and intangible assets	8,772	3,839	12,612	(316)	12,295	

Thousands of U.S. Dollars

	For the year ended March 31, 2020				
	Engineering	Other (Note 1)	Total	Adjustments (Note 2)	Consolidated total (Note 3)
Net sales:					
Customers	\$ 5,547,944	\$ 104,743	\$ 5,652,688	\$ –	\$ 5,652,688
Inter-segment	2,275	448,779	451,055	(451,055)	–
Total	\$ 5,550,220	\$ 553,522	\$ 6,103,752	\$ (451,055)	\$ 5,652,688
Segment profit	\$ 298,678	\$ 19,247	\$ 317,935	\$ 348	\$ 318,284
Segment assets	\$ 4,020,678	\$ 713,504	\$ 4,734,183	\$ (250,678)	\$ 4,483,495
Other items:					
Depreciation	\$ 45,009	\$ 15,532	\$ 60,541	\$ (1,293)	\$ 59,238
Increase in property, plant and equipment and intangible assets	80,477	35,220	115,706	(2,899)	112,798

Notes:  
1. The “Other” segment is a business segment which is not included in the reportable segment and includes electrical equipment sales business, real estate business, lease business and power generation business.  
2. Adjustments in segment profit, segment assets and other items are elimination of internal transactions between segments.  
3. Segment profit is adjusted with operating profit presented in the consolidated statement of income.

(Related information)

For the year ended March 31, 2019

1.Information about products and services

Information is omitted as similar information is described in the segment information.

2.Information about geographical region

(1) Net sales

Information is omitted as net sales to external customers in Japan accounted for more than 90% of net sales reported in the consolidated statement of income.

(2) Property, plant and equipment

Details of property, plant and equipment are omitted as amounts of property, plant and equipment located in Japan accounted for more than 90% of all property, plant and equipment reported on the consolidated balance sheet.

3.Information about major customers

Customer Name	Net sales	Related segment
Tokyo Electric Power Company Group	¥172,851 million	Engineering

For the year ended March 31, 2020

1.Information about products and services

Information is omitted as similar information is described in the segment information.

2.Information about geographical region

(1) Net sales

Information is omitted as net sales to external customers in Japan accounted for more than 90% of net sales reported in the consolidated statement of income.

(2) Property, plant and equipment

Details of property, plant and equipment are omitted as amounts of property, plant and equipment located in Japan accounted for more than 90% of all property, plant and equipment reported on the consolidated balance sheet.

3.Information about major customers

Customer Name	Net sales	Related segment
Tokyo Electric Power Company Group	¥ 182,471 million \$1,674,045 thousand	Engineering



(Information about impairment loss in non-current assets of each reportable segment)

For the year ended March 31, 2019

Disclosure is omitted due to immateriality.

For the year ended March 31, 2020

Disclosure is omitted due to immateriality.

(Information about amortization and unamortized balance of goodwill of each reportable segment)

For the year ended March 31, 2019

Disclosure is omitted due to immateriality.

For the year ended March 31, 2020

Disclosure is omitted due to immateriality.

(Information about gain on bargain purchase of each reportable segment)

For the year ended March 31, 2019

Not applicable.

For the year ended March 31, 2020

Not applicable.

RELATED PARTY TRANSACTIONS

Transactions between related parties

Transactions between the Company and related parties

The parent company and major shareholders (limited to companies) of the Company

For the year ended March 31, 2019						
Type	Name	Location	Share capital	Description of business	Ratio of voting rights held	Relation to the related party
Other affiliates	Tokyo Electric Power Company Holdings, Incorporated	Chiyoda-ku, Tokyo	¥1,400,975 million	Electric power business	(Held) Direct Indirect —% 47.6%	Electric work contract
	TEPCO Power Grid, Incorporated	Chiyoda-ku, Tokyo	¥ 80,000 million	General power transmission and distribution business	(Held) Direct Indirect 46.4% 0.3%	Electric work contract

Type	Name	Nature of transaction	Amount of transaction	Account	Balance at end of year
Other affiliates	Tokyo Electric Power Company Holdings, Incorporated	Installation of electric work	¥ 7,288 million	Notes receivable, accounts receivable from completed construction contracts and other	¥ 5,304 million
				Advances received on construction contracts in progress	¥ 58 million
	TEPCO Power Grid, Incorporated	Installation of electric work	¥142,700 million	Notes receivable, accounts receivable from completed construction contracts and other	¥27,279 million
				Advances received on construction contracts in progress	¥ 957 million
		Purchase of raw materials	¥ 33,962 million	Notes payable, accounts payable for construction contracts and other	¥ 2,273 million

For the year ended March 31, 2020						
Type	Name	Location	Share capital	Description of business	Ratio of voting rights held	Relation to the related party
Other affiliates	Tokyo Electric Power Company Holdings, Incorporated	Chiyoda-ku, Tokyo	¥ 1,400,975 million \$12,852,981 thousand	Electric power business	(Held) Direct Indirect —% 47.2%	Electric work contract
	TEPCO Power Grid, Incorporated	Chiyoda-ku, Tokyo	¥ 80,000 million \$ 733,944 thousand	General power transmission and distribution business	(Held) Direct Indirect 46.4% 0.3%	Electric work contract

Type	Name	Nature of transaction	Amount of transaction	Account	Balance at end of year
Other affiliates	Tokyo Electric Power Company Holdings, Incorporated	Installation of electric work	¥ 6,771 million \$ 62,119 thousand	Notes receivable, accounts receivable from completed construction contracts and other	¥ 5,487 million \$ 50,339 thousand
				Advances received on construction contracts in progress	¥ 72 million \$ 660 thousand
	TEPCO Power Grid, Incorporated	Installation of electric work	¥ 149,053 million \$1,367,458 thousand	Notes receivable, accounts receivable from completed construction contracts and other	¥ 30,232 million \$277,357 thousand
				Advances received on construction contracts in progress	¥ 1,166 million \$ 10,697 thousand
		Purchase of raw materials	¥ 34,016 million \$ 312,073 thousand	Notes payable, accounts payable for construction contracts and other	¥ 2,453 million \$ 22,504 thousand

Notes:  
1. Above transaction amounts do not include consumption taxes and above balances at the end of the year include consumption taxes.  
2. Terms and conditions of the transactions and its policies  
Terms and conditions for construction orders and purchase of raw materials are determined based on arm's length basis through negotiations considering market price, etc.

# CONSOLIDATED SUPPLEMENTAL SCHEDULES

## PER SHARE INFORMATION

	Yen		U.S. Dollars
	2019	2020	2020
Net assets per share	¥ 1,167.30	¥ 1,211.13	\$ 11.11
Earnings per share	96.46	110.23	1.01
Diluted earnings per share	88.78	101.35	0.92

Notes:  
1. The basis of calculating earnings per share and diluted earnings per share is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2020	2020
Earnings per share			
Profit attributable to owners of parent	¥ 19,703	¥ 22,515	\$ 206,559
Amount not attributable to common shareholders	–	–	–
Profit attributable to owners of parent applicable to common shares	19,703	22,515	206,559

	Thousands of Shares	
	2019	2020
Weighted average number of common shares during the year	204,259	204,258

	Millions of Yen		Thousands of U.S. Dollars
	2019	2020	2020
Diluted earnings per share			
Adjustment of profit attributable to owners of parent	(13)	(13)	(119)
[Interest expenses, net of tax included in the above]	[(13)]	[(13)]	[(119)]

	Thousands of Shares	
	2019	2020
Increase in common shares	17,513	17,754
[Convertible bond-type bonds with share acquisition rights included in the above]	[17,513]	[17,754]
Overview of dilutive securities that are not included in the computation of diluted earnings per share because of their anti-dilutive effect	–	–

2. The basis of calculating net assets per share is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2020	2020
Total net assets	¥ 245,954	¥ 255,821	\$ 2,346,981
Amount deducted from total net assets	7,521	8,438	77,412
[Non-controlling interests included in the above]	[7,521]	[8,438]	[77,412]
Total net assets related to common shares	238,432	247,382	2,269,559

	Thousands of Shares	
	2019	2020
Number of common shares outstanding at end of year	204,259	204,258

## SIGNIFICANT SUBSEQUENT EVENTS

Not applicable.

## (Schedule of bonds)

Company name	Issue type	Issuance date	As of April 1, 2019	As of March 31, 2020	Interest rate (%)	Collateral	Maturity
Kandenko Co., Ltd.	Euro-yen convertible bond-type bonds with share acquisition rights due 2021, subject to call	March 31, 2016	¥ 20,040 million \$183,853 thousand	¥ 20,019 million \$183,660 thousand (¥ 20,019 million) (\$183,660 thousand)	–	None	March 31, 2021
Total	–	–	¥ 20,040 million \$183,853 thousand	¥ 20,019 million \$183,660 thousand (¥ 20,019 million) (\$183,660 thousand)	–	–	–

Notes:  
1. Information on convertible bond-type bonds with share acquisition rights is as follows:

Shares to be issued	Common shares
Issuance price of share acquisition rights	Gratis
Issuance price of shares	¥ 1,126.5 \$ 10.33
Total issuance value	¥ 20,100 million \$184,403 thousand
Total issuance value of shares issued through the exercise of share acquisition rights	¥ – million
Grant ratio of share acquisition rights (%)	100
Exercise period of share acquisition rights	April 14, 2016 to March 17, 2021

Upon the exercise of each of the share acquisition rights, the bonds relating to the share acquisition rights shall be contributed. The value of the bonds shall be the same as their face amount.

2. The redemption schedule for five years subsequent to March 31, 2020 is summarized as follows:

Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years
¥ 20,000 million \$183,486 thousand	–	–	–	–

3. Figures in parentheses for balance at end of current period are scheduled redemption amounts within one year.



(Schedule of loans)

	As of April 1, 2019	As of March 31, 2020	Average interest rate (%)	Due
Short-term borrowings	¥ 6,165 million \$ 56,559 thousand	¥ 6,210 million \$ 56,972 thousand	0.7	—
Current portion of long-term borrowings	¥ 788 million \$ 7,229 thousand	¥ 621 million \$ 5,697 thousand	1.4	—
Current portion of lease obligations	¥ 525 million \$ 4,816 thousand	¥ 573 million \$ 5,256 thousand	—	—
Long-term borrowings (excluding current portion of long-term borrowings)	¥ 8,503 million \$ 78,009 thousand	¥ 7,881 million \$ 72,302 thousand	1.6	2023 to 2033
Lease obligations (excluding current portion of lease obligations)	¥ 981 million \$ 9,000 thousand	¥ 1,211 million \$ 11,100 thousand	—	2021 to 2027
Other interest-bearing debt	—	—	—	—
Total	¥ 16,963 million \$ 155,623 thousand	¥ 16,498 million \$ 151,357 thousand	—	—

Notes:

- Interest rates and balances at the end of the year are used to calculate average interest rate. The average interest rate of lease obligations has not been presented since lease obligations before deducting the amount equivalent to interest expense included in total lease payments are recorded on the consolidated balance sheet.
- The redemption schedule of long-term borrowings and lease obligations (excluding current portion) for five years subsequent to March 31, 2020 is summarized as follows:

	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years
Long-term borrowings	¥ 632 million \$ 5,798 thousand	¥ 642 million \$ 5,889 thousand	¥ 1,339 million \$ 12,284 thousand	¥ 619 million \$ 5,678 thousand
Lease obligations	¥ 438 million \$ 4,018 thousand	¥ 339 million \$ 3,110 thousand	¥ 238 million \$ 2,183 thousand	¥ 116 million \$ 1,064 thousand

(Schedule of Asset Retirement Obligations)

The amounts of asset retirement obligations as of April 1, 2019 and March 31, 2020 are less than 1% of the total liabilities and net assets as of April 1, 2019 and March 31, 2020. Therefore, the disclosure is omitted.

OTHERS

Quarterly information for the year ended March 31, 2020

Cumulative period	First quarter	Second quarter	Third quarter	Fourth quarter
Net sales	¥ 126,490 million \$ 1,160,458 thousand	¥ 278,993 million \$ 2,559,568 thousand	¥ 427,978 million \$ 3,926,403 thousand	¥ 616,143 million \$ 5,652,688 thousand
Profit before income taxes	¥ 7,471 million \$ 68,541 thousand	¥ 15,715 million \$ 144,174 thousand	¥ 22,588 million \$ 207,229 thousand	¥ 34,490 million \$ 316,422 thousand
Profit attributable to owners of parent	¥ 4,781 million \$ 43,862 thousand	¥ 9,936 million \$ 91,155 thousand	¥ 14,467 million \$ 132,724 thousand	¥ 22,515 million \$ 206,559 thousand
Earnings per share	¥ 23.41 \$ 0.21	¥ 48.65 \$ 0.44	¥ 70.83 \$ 0.64	¥ 110.23 \$ 1.01

Each quarter	First quarter	Second quarter	Third quarter	Fourth quarter
Earnings per share	¥ 23.41 \$ 0.21	¥ 25.24 \$ 0.23	¥ 22.18 \$ 0.20	¥ 39.40 \$ 0.36

Independent Auditors’ Report

Independent Auditors’ Report
To the Board of Directors of Kandenko Co., Ltd.
<p><i>Opinion</i></p> <p>We have audited the accompanying consolidated financial statements of Kandenko Co., Ltd., which comprise the consolidated balance sheets as of March 31, 2020, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and basis of presenting consolidated financial statements, other notes and consolidated supplemental schedules.</p> <p>In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Kandenko Co., Ltd. and its consolidated subsidiaries as of March 31, 2020, and their consolidated financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.</p> <p><i>Basis for Audit Opinion</i></p> <p>We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company and its consolidated subsidiaries in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.</p> <p><i>Responsibilities of Management, Audit &amp; Supervisory Board Members and the Audit &amp; Supervisory Board for the Consolidated Financial Statements</i></p> <p>Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.</p> <p>In preparing the consolidated financial statements, management is responsible for assessing whether it is appropriate to prepare the consolidated financial statements with the assumption of a going concern, and in accordance with accounting principles generally accepted in Japan, for disclosing, as necessary, matters related to going concern.</p> <p>Audit &amp; Supervisory Board members and the Audit &amp; Supervisory Board are responsible for overseeing the directors’ performance of duties within the maintenance and operation of the financial reporting process.</p> <p><i>Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements</i></p> <p>Our responsibilities are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion on the consolidated financial statements based on our audit from an independent point of view. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users of these consolidated financial statements. In accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:</p> <ul style="list-style-type: none"><li>Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor’s judgement. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.</li><li>When auditing the consolidated financial statements, obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances in making risk assessments, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.</li><li>Evaluate the appropriateness of accounting policies used by management and their method of application, as well as the reasonableness of accounting estimates by management and related notes thereto.</li></ul>

- Conclude on the appropriateness of management’s use of the going concern basis for preparing the consolidated financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related notes to the consolidated financial statements or, if the notes to the consolidated financial statements on material uncertainty are inadequate, to express a qualified opinion with exceptions on the consolidated financial statements. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation of the consolidated financial statements and the notes thereto are in accordance with accounting standards generally accepted in Japan, as well as evaluate the overall presentation, structure, and content of the consolidated financial statements, including the related notes thereto, and whether the consolidated financial statements fairly represent the underlying transactions and accounting events.
- Obtain sufficient appropriate audit evidence regarding the financial information of the Company and its consolidated subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit of the consolidated financial statements. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit process, and other matters required by auditing standards.

We also provide the Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements in Japan regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards in order to eliminate or reduce obstruction factors.

*Interest required to be disclosed by the Certified Public Accountants Act of Japan*

Our firm and its designated engagement partners do not have any interest in the Company and its consolidated subsidiaries which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

*Inoue Audit Corporation*

INOUE AUDIT CORPORATION  
Tokyo, Japan

26 June, 2020

## Company Profile (As of March 31, 2020)

### Company outline

Company name	Kandenko Co., Ltd.
Established	September 1, 1944
Head office	4-8-33 Shibaura, Minato-ku, Tokyo, Japan
Paid in capital	¥10,264 million
Total number of shares issued	205,288,338 shares
Employees	10,003 persons (consolidated), 7,350 persons (non-consolidated)

### Network

#### Domestic Offices

Head Office	4-8-33 Shibaura, Minato-ku, Tokyo, Japan
Tokyo Branch	4-8-33 Shibaura, Minato-ku, Tokyo, Japan
Kanagawa Branch	1-1-8 Hiranuma, Nishi-ku, Yokohama-shi, Kanagawa, Japan
Chiba Branch	2-1-24 Shinjuku, Chuo-ku, Chiba-shi, Chiba, Japan
Saitama Branch	1-9-6 Sakuragicho, Omiya-ku, Saitama-shi, Saitama, Japan
Ibaraki Branch	2-7-14 Jonan, Mito-shi, Ibaraki, Japan
Tochigi Branch	91-1 Imaizumicho, Utsunomiya-shi, Tochigi, Japan
Gunma Branch	215-6 Furuichimachi, Maebashi-shi, Gunma, Japan
Yamanashi Branch	4-12-25 Chuo, Kofu-shi, Yamanashi, Japan
Shizuoka Branch	8-12 Yoneyamacho, Numazu-shi, Shizuoka, Japan
Tama Branch	2-24-6 Myojincho, Hachioji-shi, Tokyo, Japan
Kansai Branch	Nakanoshima Festival Tower 20th Floor, 2-3-18 Nakanoshima, Kita-ku, Osaka, Japan
Nagoya Branch	Nagoya Toho Building 6th Floor, 1-2-7 Sakae, Naka-ku, Nagoya-shi, Aichi, Japan
Kyushu Branch	Yakuin Business Garden 4th Floor, 1-1-1 Yakuin, Chuo-ku, Fukuoka, Japan
Hokkaido Branch	Takeda Resona Building 3rd Floor, 4-1-2 Kitaichijo Nishi, Chuo-ku, Sapporo-shi, Hokkaido, Japan
Tohoku Branch	Sendai Daiichi Seimei Tower Building, 4-6-1 Ichibancho, Aoba-ku, Sendai-shi, Miyagi, Japan
Nagano Branch	1629-32 Midoricho, Nagano-shi, Nagano, Japan

#### Overseas Offices

Singapore Branch	1 Coleman Street, #10-5 The Adelphi, Singapore 179803
Taiwan Office	6F-1, No. 45, Section 1, Minchuan Eastern Road, Taipei, Taiwan
Yangon Office	Room1(A), University Paradise Condo, No.441, New University Avenue Road, Bahan Township, Yangon, Myanmar
Indonesia Office	12th Floor, Summitmas II Building, Jl. Jend. Sudirman Kav. 61-62, Jakarta 12190 Indonesia

### The Company's website



The Company sees its website as one of the important sources of information. Please visit our website where we post IR information, an introduction on our technologies and services, and the latest news.

<https://www.kandenko.co.jp/>  
(in Japanese)

●To shareholders and investors:

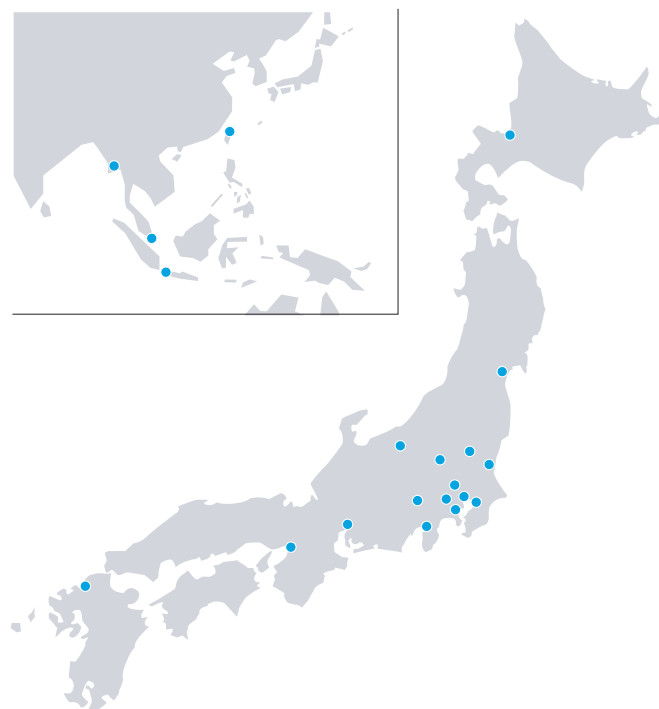


<https://www.kandenko.co.jp/ir>  
(in Japanese)

#### Overseas Offices



#### Domestic Offices



## Stock Information (As of March 31, 2020)

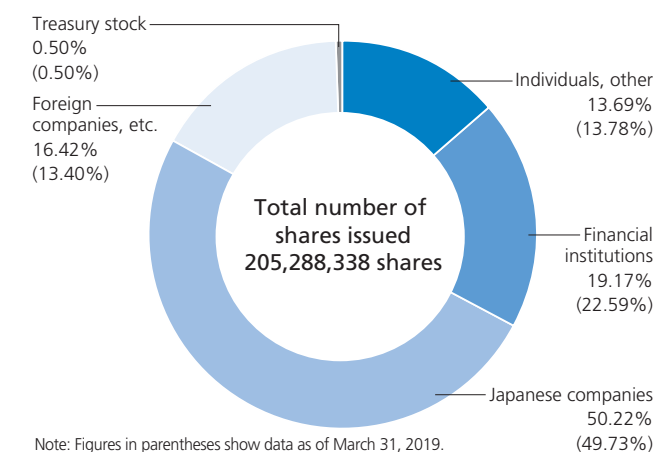
The shares of common stock of the Company are listed on the First Section of the Tokyo Stock Exchange.

On March 31, 2020, there were a total of 10,654 shareholders. The following table lists the 10 largest shareholders appearing on the register at that date.

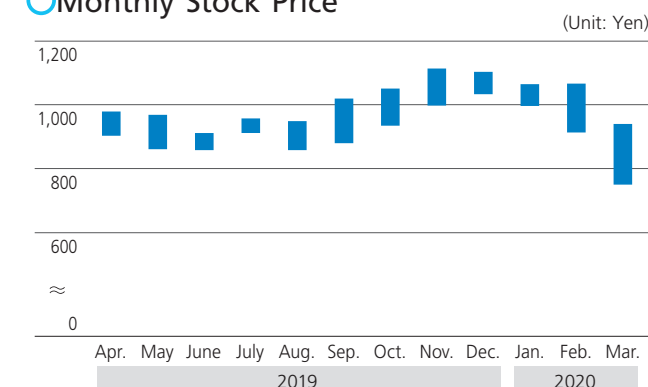
### Principal Shareholders

Name	Number of shares held	Shares held as a percentage of total outstanding shares
1 TEPCO Power Grid, Inc.	94,753,552	46.38
2 The Master Trust Bank of Japan, Ltd. (Trust Account)	9,363,400	4.58
3 Mizuho Bank, Ltd.	6,761,839	3.31
4 Japan Trustee Services Bank, Ltd. (Trust Account)	5,879,600	2.87
5 Kandenko Group Employees Shareholding Association	5,680,025	2.78
6 STATE STREET BANK AND TRUST COMPANY 505001	2,841,052	1.39
7 Japan Trustee Services Bank, Ltd. (Trust Account 9)	2,651,200	1.29
8 JP MORGAN CHASE BANK 385151	2,144,550	1.04
9 Japan Trustee Services Bank, Ltd. (Trust Account 5)	1,834,400	0.89
10 SSBTC CLIENT OMNIBUS ACCOUNT	1,755,269	0.85

### Number of Shares Held by Type of Shareholder (As of March 31, 2020)



### Monthly Stock Price



### Stock-Related Information

Fiscal year-end	March 31
Ordinary general meeting of shareholders	June
Record dates for dividend payments	March 31 for the fiscal year-end dividend. September 30 for the interim dividend.
Record date	The date on which shares must be owned for shareholders to exercise voting rights at the general meeting of shareholders is March 31. If other votes are required, the record date will be set and announced in advance.
Method of public notification	Notification will be given electronically. However, if we cannot issue an electronic notification, we will place a notice in the Nihon Keizai Shimbun, published in Tokyo. Kandenko's URL for public notices is as follows. <a href="https://www.kandenko.co.jp/">https://www.kandenko.co.jp/</a>
Transfer agent	Sumitomo Mitsui Trust Bank, Limited 1-4-1 Marunouchi, Chiyoda-ku, Tokyo 100-8233, Japan
Transfer agent contact point (inquiries about stock-related matters)	Sumitomo Mitsui Trust Bank, Limited Stock Transfer Agency Department 2-8-4 Izumi, Suginami-ku, Tokyo 168-0063, Japan Tel: 0120-782-031 (toll-free)