



**CONSOLIDATED FINANCIAL STATEMENTS**  
together with  
**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS**  
as of March 31,2020

**KUMAGAI GUMI CO., LTD.**  
TOKYO, JAPAN

## Consolidated Balance Sheet

March 31, 2020

	(JPY million)	(US\$ thousand)
<b>Assets</b>		
<b>Current assets</b>		
Cash and deposits	¥ 75,155	\$ 689,495
Notes receivable, accounts receivable from completed construction contracts and other	190,642	1,749,009
Costs on uncompleted construction contracts	7,864	72,147
Accounts receivable - other	29,827	273,642
Other	7,400	67,890
Allowance for doubtful accounts	(219)	(2,009)
<b>Total current assets</b>	<u>310,669</u>	<u>2,850,174</u>
<b>Non-current assets</b>		
<b>Property, plant and equipment</b>		
Buildings and structures	19,719	180,908
Machinery, vehicles, tools, furniture and fixtures	17,929	164,486
Land	14,795	135,734
Leased assets	643	5,899
Construction in progress	316	2,899
Accumulated depreciation	(28,055)	(257,385)
<b>Total property, plant and equipment</b>	<u>25,347</u>	<u>232,541</u>
<b>Intangible assets</b>	<u>540</u>	<u>4,954</u>
<b>Investments and other assets</b>		
Investment securities	22,870	209,817
Long-term loans receivable	779	7,147
Long-term non-operating accounts receivable	161	1,477
Claims provable in bankruptcy, claims provable in rehabilitation and other	29	266
Deferred tax assets	10,328	94,752
Other	4,289	39,349
Allowance for doubtful accounts	(204)	(1,872)
<b>Total investments and other assets</b>	<u>38,252</u>	<u>350,936</u>
<b>Total non-current assets</b>	<u>64,139</u>	<u>588,431</u>
<b>Deferred assets</b>		
Share issuance cost	<u>33</u>	<u>303</u>
<b>Total deferred assets</b>	<u>33</u>	<u>303</u>
<b>Total assets</b>	<u>¥ 374,841</u>	<u>\$ 3,438,908</u>

	(JPY million)	(US\$ thousand)
Liabilities		
Current liabilities		
Notes payable, accounts payable for construction contracts and other	¥ 96,503	\$ 885,349
Electronically recorded obligations - operating	29,572	271,303
Short-term loans payable	4,074	37,376
Income taxes payable	3,093	28,376
Advances received on uncompleted construction contracts	19,933	182,872
Deposits received	29,489	270,541
Provision for warranties for completed construction	422	3,872
Provision for loss on construction contracts	469	4,303
Provision for contingent loss	7,614	69,853
Provision for bonuses	3,689	33,844
Other	6,733	61,770
Total current liabilities	<u>201,591</u>	<u>1,849,459</u>
Non-current liabilities		
Long-term loans payable	8,184	75,083
Provision for stock payments	97	890
Retirement benefit liability	16,421	150,651
Other	514	4,715
Total non-current liabilities	<u>25,216</u>	<u>231,339</u>
Total liabilities	<u>226,807</u>	<u>2,080,798</u>
Net assets		
Shareholders' equity		
Capital stock	30,108	276,220
Capital surplus	25,157	230,798
Retained earnings	92,413	847,826
Treasury shares	(450)	(4,128)
Total shareholders' equity	<u>147,228</u>	<u>1,350,716</u>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	816	7,486
Foreign currency translation adjustment	391	3,587
Remeasurements of defined benefit plans	(401)	(3,679)
Total accumulated other comprehensive income	<u>806</u>	<u>7,394</u>
Total net assets	<u>148,034</u>	<u>1,358,110</u>
Total liabilities and net assets	<u>¥ 374,841</u>	<u>\$ 3,438,908</u>

# Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

For the year ended March 31, 2020

## Consolidated Statement of Income

	(JPY million)	(US\$ thousand)
Net sales of completed construction contracts	¥ 436,151	\$ 4,001,385
Cost of sales of completed construction contracts	390,653	3,583,972
Gross profit on completed construction contracts	45,498	417,413
Selling, general and administrative expenses	20,058	184,019
Operating profit	25,440	233,394
Non-operating income		
Interest income	40	367
Dividend income	334	3,064
Share of profit of entities accounted for using equity method	201	1,844
Other	128	1,175
Total non-operating income	703	6,450
Non-operating expenses		
Interest expenses	188	1,725
Foreign exchange losses	20	183
Loss on transfer of receivables	52	477
Commission for syndicate loan	33	303
Amortization of share issuance cost	49	450
Other	83	760
Total non-operating expenses	425	3,898
Ordinary profit	25,718	235,946
Extraordinary income		
Gain on sales of non-current assets	7	64
Gain on sales of investment securities	18	165
Gain on sales of memberships	732	6,716
Reversal of provision for loss on anti-monopoly act	1,311	12,027
Total extraordinary income	2,068	18,972
Extraordinary losses		
Loss on retirement of non-current assets	43	394
Loss on valuation of investment securities	114	1,046
Compensation for damage	139	1,275
Loss on litigation	2	18
Provision for contingent loss	265	2,431
Loss on change in equity	77	706
Other	76	699
Total extraordinary losses	716	6,569
Profit before income taxes	27,070	248,349
Income taxes - current	6,182	56,716
Income taxes - deferred	1,441	13,220
Total income taxes	7,623	69,936
Profit	19,447	178,413
Profit attributable to owners of parent	¥ 19,447	\$ 178,413

## Consolidated Statement of Comprehensive Income

	(JPY million)	(US\$ thousand)
Profit	¥ 19,447	\$ 178,413
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,689)	(15,495)
Foreign currency translation adjustment	41	376
Remeasurements of defined benefit plans, net of tax	47	431
Share of other comprehensive income of entities accounted for using equity method	5	46
Total other comprehensive income	(1,596)	(14,642)
Comprehensive income	¥ 17,851	\$ 163,771
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	17,851	163,771
Comprehensive income attributable to non-controlling interests	—	—

## Consolidated Statement of Cash Flows

For the year ended March 31, 2020

	(JPY million)	(US\$ thousand)
Cash flows from operating activities		
Profit before income taxes	¥ 27,070	\$ 248,349
Depreciation	2,077	19,055
Amortization of share issuance cost	49	450
Increase (decrease) in allowance for doubtful accounts	42	385
Increase (decrease) in provision for contingent loss	(3,122)	(28,642)
Increase (decrease) in provision for loss on anti-monopoly act	(3,933)	(36,083)
Increase (decrease) in retirement benefit liability	(9)	(83)
Interest and dividend income	(374)	(3,431)
Interest expenses	188	1,725
Foreign exchange losses (gains)	17	156
Share of loss (profit) of entities accounted for using equity method	(201)	(1,844)
Loss (gain) on valuation of investment securities	114	1,046
Loss (gain) on sales of investment securities	(18)	(165)
Loss (gain) on sales of non-current assets	(7)	(64)
Loss on retirement of non-current assets	43	394
Decrease (increase) in trade receivables	(14,925)	(136,927)
Decrease (increase) in costs on construction contracts in progress	(561)	(5,147)
Increase (decrease) in trade payables	5,799	53,202
Increase (decrease) in advances received on construction contracts in progress	5,190	47,615
Decrease (increase) in other assets and other	(457)	(4,193)
Other, net	(9,006)	(82,624)
Subtotal	<u>7,976</u>	<u>73,174</u>
Interest and dividends received	382	3,505
Interest paid	(188)	(1,725)
Income taxes paid	(7,825)	(71,789)
Net cash provided by (used in) operating activities	<u>345</u>	<u>3,165</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,199)	(20,174)
Proceeds from sales of property, plant and equipment	36	330
Purchase of investment securities	(32)	(294)
Proceeds from sales of investment securities	1,497	13,734
Purchase of shares of subsidiaries and associates	(2,334)	(21,413)
Loan advances	(35)	(321)
Collection of loans receivable	140	1,284
Other, net	629	5,771
Net cash provided by (used in) investing activities	<u>(2,298)</u>	<u>(21,083)</u>
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	105	963
Proceeds from long-term borrowings	424	3,890
Repayments of long-term borrowings	(1,120)	(10,275)
Purchase of treasury shares	(29)	(266)
Dividends paid	(4,676)	(42,899)
Other, net	(65)	(596)
Net cash provided by (used in) financing activities	<u>(5,361)</u>	<u>(49,183)</u>
Effect of exchange rate change on cash and cash equivalents	23	211
Net increase (decrease) in cash and cash equivalents	<u>(7,291)</u>	<u>(66,890)</u>
Cash and cash equivalents at beginning of period	<u>82,446</u>	<u>756,385</u>
Cash and cash equivalents at end of period	<u>¥ 75,155</u>	<u>\$ 689,495</u>

## Notes to the Consolidated Financial Statements

### 1. BASIS OF PRESENTING FINANCIAL STATEMENTS

Kumagai Gumi Co.,Ltd.(the Company) and its consolidated subsidiaries (the Companies) prepared their financial statements in accordance with accounting principles and practices generally accepted in Japan.

The accompanying consolidated financial statements of the Companies are translations of the consolidated financial statements prepared by the Company in accordance with the Japanese Financial Instruments and Exchange Law and audited by Gyosei & Co..

In consideration of the purpose of the consolidated financial statements, most of their footnotes have been omitted.

#### - Consolidation

The Company applies the control or influence standard for determining the criteria of subsidiaries and affiliates included within the scope of consolidation.

The consolidated financial statements include the accounts of the Company, seven of its consolidated subsidiaries and three of its affiliates accounted for applying the equity method as at and for the year ended March 31, 2020.

The subsidiaries which are consolidated with the Company are listed below:

Company Name	Fiscal Year-End
GAEART Co., Ltd.	31 Mar. 2020
Technos Co., Ltd.	31 Mar. 2020
K&E Co., Ltd.	31 Mar. 2020
Techno-Space Creates Co., Ltd.	31 Mar. 2020
FATEC Co., Ltd.	31 Mar. 2020
Technical Support Co., Ltd.	31 Mar. 2020
Taiwan Kumagai Co., Ltd.	31 Dec. 2019

All significant intercompany accounts and transactions are eliminated in consolidation. Investments in unconsolidated subsidiaries and affiliates that are not accounted for applying the equity method are stated at cost.

The Company consolidates such subsidiaries' financial statements as of each subsidiary's most recent year-end. Unusual significant transactions occurring between subsidiaries' year-ends and the Company's are adjusted on consolidation.

### 2. UNITED STATES DOLLAR AMOUNTS

The United States dollar amounts included in the accompanying consolidated financial statements are presented solely for convenience and are stated, as a matter of arithmetical computation only, at the rate of JPY109=US\$1, which was the approximate exchange rate at March 31, 2020.

These translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into United States dollars at that rate.

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### (1) Standards and methods for evaluating assets

##### 1. Security

###### Other Security

###### Security with market value

Market method based on the market price as of the consolidated closing date (all unrealized gains and losses are accounted for directly in net assets and the cost of sales is computed by the moving average method)

###### Security without market value

Cost method based on the moving-average method

##### 2. Inventories

###### Cost of uncompleted construction contracts

Valued using the specific identification method

###### Materials and supplies

Cost method based on the moving-average method (balance sheet value is calculated by the devaluation method based on a decline in profitability)

#### (2) Methods for depreciation

##### 1. Property and equipment (excluding leased assets)

###### Principally declining balance method

The useful lives and residual values are based on the same basis as provided for in the Corporation Tax Law.

##### 2. Intangible assets

###### Straight line method

Software for internal use is amortized over its estimated useful life (5 years) within the company.

##### 3. Leased asset

###### Leased assets under finance leases that do not transfer ownership

Straight-line method in which the remaining value of the leased assets deemed to be zero over the useful life of the leased assets

#### (3) Methods for deferred assets

##### Stock issuance cost

Amortized on a straight-line basis over 3 years

#### (4) Standards for reserves and allowances

##### 1. Allowance for doubtful accounts

In order to prepare for bad debt losses, the estimated uncollectible amount is posted based on the historical rate of bad debt calculated from the past record of bad debt over a certain period and individually assessed for doubtful receivables.

##### 2. Provision for warranties for completed construction

In order to cover the cost of warranty against defects pertaining to completed works, the amount calculated based on the actual rate over a certain period in the past is posted.

##### 3. Provision for loss on construction contracts

In order to prepare for future losses related to construction orders, the estimated loss amount is posted for construction that is expected to incur a loss from holding work at the end of the current consolidated fiscal year and that can reasonably be estimated.

##### 4. Provision for contingent loss

In order to prepare for possible future contingent losses, individual risks are considered for each contingency and the estimated loss amount reasonably calculated is posted.

##### 5. Provision for bonuses

In order to prepare for the payment of bonuses to employees, the amount attributable to the current consolidated fiscal year is posted to the estimated amount of bonuses.

##### 6. Provision for stock payments

In order to prepare for stock payments to be paid to the directors(excluding outside directors) and executive officers according to the stock payments regulations, the estimated stock payments for the current consolidated fiscal year is posted.

#### (5) Methods for net defined benefit liability

##### 1. Method of period attribution of the estimated amount of the net defined benefit liability



In calculating the retirement benefit obligation, the method of attributing the estimated retirement benefit amount to the period up to the end of the current consolidated fiscal year is based on the benefit calculation formula.

2. Method of amortization of actuarial gains and losses and prior service costs

Actuarial gains and losses are amortized on a straight-line basis over a certain number of years (5-9 years) within the average remaining years of service of employees at the time of occurrence of each consolidated fiscal year from the following consolidated fiscal year.

Prior service costs are amortized using the straight-line method over a certain number of years (9 years) within the average remaining service period of employees at the time of occurrence of each consolidated fiscal year.

(6) Standards for recognition of revenues and expenses

Net sales of completed construction contracts and cost of sales of completed construction contracts

The percentage-of-completion method (the estimation of the construction progress rate is the cost-to-cost method) for the portion of the progress made up to the end of the current consolidated fiscal year and the completed-contract method for other contracts.

The amount of completed construction in accordance with the percentage-of-completion method for the current consolidated fiscal year is 306,654 million yen.

(7) Methods for significant hedge accounting

1. Hedge accounting method

Special treatment is applied to interest rate swaps.

2. Hedging instruments and hedged items

Hedging instruments are interest rate swap transactions and hedged items are those in which cash flows fluctuate due to fluctuations in market interest rates. (floating-rate borrowings).

3. Hedging policy

The purpose of the policy is to hedge interest rate fluctuation risks based on the Derivative Transaction Handling Regulations, which are internal rules.

4. Hedging evaluation

The evaluation of effectiveness is omitted because it meets the requirements for the application of the special treatment for interest rate swaps.

(8) The components of cash and cash equivalents in consolidated statement of cash flows

Cash (cash and cash equivalents) in the consolidated statements of cash flows consist of cash on hand, deposits withdrawable from time to time, and short-term investments that are readily convertible into cash and are maturing within three months of the date of acquisition with minimal risk of changes in value.

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

1. Accounting method for consumption tax

Consumption tax and local consumption tax are accounted for under the tax-exclusive method

2. Adoption of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System

With respect to items subject to the review of the Non-Consolidated Taxation System conducted to coincide with transition from the Consolidated Taxation System to the Group Tax Sharing System, which was created under the Act on Partial Revision of the Income Tax Act, etc. (Act No. 8 of 2020), the Company and some of its domestic consolidated subsidiaries have not applied the provisions of Paragraph 44 of the Implementation Guidance on Tax Effect Accounting (ASBJ Guidance No. 28 issued February 16, 2018) in accordance with the treatment set out in Paragraph 3 of Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System (PITF No.39 issued March 31, 2020) and the amounts of deferred tax liabilities and deferred tax assets are based on the provisions of tax laws before the revision.