



**CONSOLIDATED FINANCIAL STATEMENTS**  
**together with**  
**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS**

as of March 31,2019

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

## Consolidated Balance Sheet

March 31, 2019

	(JPY million)	(US\$ thousand)
<b>Assets</b>		
<b>Current assets</b>		
Cash and deposits	¥ 82,449	\$ 742,784
Notes receivable, accounts receivable from completed construction contracts and other	175,696	1,582,847
Costs on uncompleted construction contracts	7,300	65,766
Accounts receivable - other	15,696	141,405
Other	7,000	63,063
Allowance for doubtful accounts	<u>(191)</u>	<u>(1,721)</u>
Total current assets	<u>287,950</u>	<u>2,594,144</u>
<b>Non-current assets</b>		
<b>Property, plant and equipment</b>		
Buildings and structures	18,378	165,568
Machinery, vehicles, tools, furniture and fixtures	17,464	157,333
Land	14,587	131,414
Leased assets	398	3,586
Construction in progress	730	6,577
Accumulated depreciation	<u>(26,721)</u>	<u>(240,730)</u>
Total property, plant and equipment	<u>24,836</u>	<u>223,748</u>
<b>Intangible assets</b>	<u>484</u>	<u>4,360</u>
<b>Investments and other assets</b>		
Investment securities	24,438	220,162
Long-term loans receivable	858	7,730
Long-term non-operating accounts receivable	157	1,414
Claims provable in bankruptcy, claims provable in rehabilitation and other	40	360
Deferred tax assets	11,045	99,505
Other	4,017	36,190
Allowance for doubtful accounts	<u>(189)</u>	<u>(1,703)</u>
Total investments and other assets	<u>40,366</u>	<u>363,658</u>
Total non-current assets	65,686	591,766
<b>Deferred assets</b>		
Share issuance cost	<u>82</u>	<u>739</u>
Total deferred assets	<u>82</u>	<u>739</u>
<b>Total assets</b>	<u>¥ 353,718</u>	<u>\$ 3,186,649</u>

	(JPY million)	(US\$ thousand)
Liabilities		
Current liabilities		
Notes payable, accounts payable for construction contracts and other	¥ 86,893	\$ 782,820
Electronically recorded obligations - operating	33,172	298,847
Short-term loans payable	3,030	27,297
Income taxes payable	4,821	43,432
Advances received on uncompleted construction contracts	14,739	132,784
Deposits received	19,411	174,874
Provision for warranties for completed construction	467	4,207
Provision for loss on construction contracts	626	5,640
Provision for contingent loss	10,736	96,721
Provision for loss on anti-monopoly act	3,933	35,432
Provision for bonuses	3,911	35,234
Other	9,402	84,703
Total current liabilities	<u>191,141</u>	<u>1,721,991</u>
Non-current liabilities		
Long-term loans payable	9,819	88,459
Provision for stock payments	42	378
Retirement benefit liability	16,499	148,640
Other	1,334	12,018
Total non-current liabilities	<u>27,694</u>	<u>249,495</u>
Total liabilities	<u>218,835</u>	<u>1,971,486</u>
Net assets		
Shareholders' equity		
Capital stock	30,108	271,243
Capital surplus	25,157	226,640
Retained earnings	77,642	699,477
Treasury shares	(426)	(3,837)
Total shareholders' equity	<u>132,481</u>	<u>1,193,523</u>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,502	22,541
Foreign currency translation adjustment	349	3,144
Remeasurements of defined benefit plans	(449)	(4,045)
Total accumulated other comprehensive income	<u>2,402</u>	<u>21,640</u>
Total net assets	<u>134,883</u>	<u>1,215,163</u>
Total liabilities and net assets	<u>¥ 353,718</u>	<u>\$ 3,186,649</u>

# Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

For the year ended March 31, 2019

## Consolidated Statement of Income

	(JPY million)	(US\$ thousand)
Net sales of completed construction contracts	¥ 389,058	\$ 3,505,027
Cost of sales of completed construction contracts	343,528	3,094,847
Gross profit on completed construction contracts	45,530	410,180
Selling, general and administrative expenses	19,066	171,766
Operating profit	26,464	238,414
Non-operating income		
Interest income	34	306
Dividend income	329	2,964
Share of profit of entities accounted for using equity method	159	1,432
Foreign exchange gains	3	27
Compensation for damage income	10	90
Other	94	848
Total non-operating income	629	5,667
Non-operating expenses		
Interest expenses	231	2,081
Commission for syndicate loan	183	1,649
Amortization of share issuance cost	49	441
Other	77	694
Total non-operating expenses	540	4,865
Ordinary profit	26,553	239,216
Extraordinary income		
Gain on sales of non-current assets	32	288
Gain on sales of investment securities	74	667
Gain on sales of memberships	0	0
Total extraordinary income	106	955
Extraordinary losses		
Loss on retirement of non-current assets	63	568
Compensation for damage	73	658
Loss on litigation	125	1,126
Provision for contingent loss	1,349	12,153
Provision for loss on anti-monopoly act	3,933	35,432
Other	10	90
Total extraordinary losses	5,553	50,027
Profit before income taxes	21,106	190,144
Income taxes - current	7,342	66,144
Income taxes - deferred	452	4,072
Total income taxes	7,794	70,216
Profit	13,312	119,928
Profit attributable to owners of parent	¥ 13,312	\$ 119,928

## Consolidated Statement of Comprehensive Income

	(JPY million)	(US\$ thousand)
Profit	¥ 13,312	\$ 119,928
Other comprehensive income		
Valuation difference on available-for-sale securities	(196)	(1,765)
Foreign currency translation adjustment	(167)	(1,505)
Remeasurements of defined benefit plans, net of tax	8	72
Share of other comprehensive income of entities accounted for using equity method	(1)	(9)
Total other comprehensive income	(356)	(3,207)
Comprehensive income	¥ 12,956	\$ 116,721
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	12,956	116,721
Comprehensive income attributable to non-controlling interests	—	—

## Consolidated Statement of Cash Flows

For the year ended March 31, 2019

	(JPY million)	(US\$ thousand)
Cash flows from operating activities		
Profit before income taxes	¥ 21,106	\$ 190,144
Depreciation	1,934	17,423
Amortization of share issuance cost	49	441
Increase (decrease) in allowance for doubtful accounts	(38)	(342)
Increase (decrease) in provision for contingent loss	(605)	(5,450)
Increase (decrease) in provision for loss on anti-monopoly act	3,933	35,432
Increase (decrease) in net defined benefit liability	(165)	(1,486)
Interest and dividend income	(363)	(3,270)
Interest expenses	231	2,081
Foreign exchange losses (gains)	(6)	(54)
Share of loss (profit) of entities accounted for using equity method	(159)	(1,432)
Loss (gain) on valuation of investment securities	(73)	(658)
Loss (gain) on sales of non-current assets	(32)	(288)
Loss on retirement of non-current assets	63	568
Decrease (increase) in notes and accounts receivable - trade	(36,504)	(328,865)
Decrease (increase) in costs on uncompleted construction contracts	(394)	(3,550)
Increase (decrease) in notes and accounts payable - trade	13,263	119,486
Increase (decrease) in advances received on uncompleted construction contracts	(6,759)	(60,892)
Decrease (increase) in other assets and other	377	3,396
Other, net	<u>(2,977)</u>	<u>(26,819)</u>
Subtotal	<u>(7,119)</u>	<u>(64,135)</u>
Interest and dividend income received	371	3,342
Interest expenses paid	(227)	(2,045)
Income taxes paid	<u>(5,423)</u>	<u>(48,856)</u>
Net cash provided by (used in) operating activities	<u>(12,398)</u>	<u>(111,694)</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(7,245)	(65,270)
Proceeds from sales of property, plant and equipment	15	135
Purchase of investment securities	(226)	(2,036)
Proceeds from sales of investment securities	217	1,955
Purchase of shares of subsidiaries and associates	(92)	(829)
Payments of loans receivable	(107)	(964)
Collection of loans receivable	159	1,432
Other, net	<u>(100)</u>	<u>(900)</u>
Net cash provided by (used in) investing activities	<u>(7,379)</u>	<u>(66,477)</u>
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(690)	(6,216)
Proceeds from long-term loans payable	550	4,955
Repayments of long-term loans payable	(1,490)	(13,423)
Proceeds from disposal of treasury shares	1	9
Purchase of treasury shares	(236)	(2,126)
Cash dividends paid	(4,210)	(37,928)
Other, net	<u>(51)</u>	<u>(460)</u>
Net cash provided by (used in) financing activities	<u>(6,126)</u>	<u>(55,189)</u>
Effect of exchange rate change on cash and cash equivalents	<u>(183)</u>	<u>(1,649)</u>
Net increase (decrease) in cash and cash equivalents	<u>(26,086)</u>	<u>(235,009)</u>
Cash and cash equivalents at beginning of period	<u>108,532</u>	<u>977,766</u>
Cash and cash equivalents at end of period	<u>¥ 82,446</u>	<u>\$ 742,757</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, 2019.

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

Company Name	Fiscal Year-End
GAEART Co., Ltd.	31 Mar. 2019
Technos Co., Ltd.	31 Mar. 2019
K&E Co., Ltd.	31 Mar. 2019
Techno-Space Creates Co., Ltd.	31 Mar. 2019
FATEC Co., Ltd.	31 Mar. 2019
Technical Support Co., Ltd.	31 Mar. 2019
Taiwan Kumagai Co., Ltd.	31 Dec. 2018

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 JPY111=US\$1, which was the approximate exchange rate at March 31, 2019.

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 loss on anti-monopoly act

In order to prepare for possible additional charge related to unitrust law, the estimated amount is posted.

##### 6. 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.

##### 7. Provision for stock payments

In order to prepare for share benefit to be paid to the directors(excluding outside directors) and executive officers according to the share benefit regulations, the estimated share benefit 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. Consolidated tax return system  
A consolidated tax return system is applied