

Status of Business Activities

1. Management Analysis of Financial Position, Business Performance, and Cash Flows

This section provides an overview of the Group’s financial position, business performance, and cash flows during the consolidated fiscal year under review, along with explanations of the significance of that information and the Group’s analysis and study of it from the perspective of management.

Forward-looking statements in the text reflect the judgment of management as of the end of the consolidated fiscal year under review.

The Group began applying a series of partial revisions made to the Tax Effect Accounting Standards (Corporate Accounting Standard No. 28, February 16, 2018) and other related changes at the beginning of the consolidated fiscal year under review. Information about the Group’s financial position includes analysis and comparison with the previous consolidated fiscal year based on figures to which the accounting standard in question and other changes have been applied retroactively.

(1) Business Performance

Demand for products such as Energy from Waste plants and biomass power plants remained robust during the fiscal year under review as growth in orders for construction and operation of such facilities led to order volume of 179,829 million yen, up 2,712 million yen from the previous year. In addition, smooth progress in the construction of ordered plants led to sales of 121,951 million yen, an increase of 3,752 million yen. As a result, the backlog rose 57,879 million yen to 330,939 million yen.

As growth in sales was augmented by improved profitability thanks to progress in efforts to cut costs, operating income rose 1,574 million yen to 11,604 million yen, ordinary profit rose 1,664 million yen to 12,334 million yen, and profit attributable to owners of parent rose 1,007 million yen to 8,854 million yen.

Results by Business Segment

(millions of yen)

Segment	Consolidated fiscal year under review				Change from previous consolidated fiscal year		
	Orders received	Sales amount	Operating income	Backlog	Orders received	Sales amount	Operating income
Domestic Environment and Energy Business	153,628	93,724	12,405	322,292	4,735	3,649	1,917
Overseas Environment and Energy Business	799	3,057	163	525	(3,073)	(343)	85
Package Boiler Business	17,476	16,954	904	3,872	(219)	(366)	(110)
Equipment and Systems Business	8,567	8,836	361	4,502	1,426	1,139	133
Subtotal	180,472	122,572	13,835	331,192	2,869	4,078	2,026
Adjustments	(642)	(621)	(2,231)	(252)	(156)	(326)	(452)
Total	179,829	121,951	11,604	330,939	2,712	3,752	1,574

The Group’s operating segments consist of the following four businesses, of which the flagship Domestic Environment and Energy Plant segment accounts for most net sales: Domestic Environment and Energy Plant, Overseas Environment and Energy Plant, Package Boiler, and Equipment and Systems business. (During the consolidated fiscal year under review, Domestic Environment and Energy Plant segment accounted for 76% of total net sales before excluding inter-segment sales and 90% of total operating income before excluding adjustments.)

Domestic Environment and Energy Business

The Domestic Environment and Energy segment’s principal business consists of construction of Energy from Waste plants for local government, sewage treatment plants, biomass power plants for private-sector companies, and other facilities (as part of the EPC business) as well as after-sales service for those facilities, including maintenance, operational management, and operation.

Demand in the EPC business tends to fluctuate significantly over the medium and long term because it is susceptible to factors such as government policy, for example in the form of environmental regulations and other laws and subsidies for local government and private-sector businesses, as well as trends in public and private-sector investment. By contrast, demand for after-sales businesses such as maintenance is forecast to remain stable over the 20 to 30 year life cycle following the start of plant operation.

Current robust demand in the EPC business is expected to continue in the near future, with Energy from Waste plants generating update and service life extension demand due to superannuation, with sewage treatment driving demand for transition to energy-saving and -creating equipment during updates to sludge incineration plants, and with private industry fueling demand for construction of new biomass power plants utilizing feed-in tariff programs for power. Demand is expected to grow in the future in the after-sales service business due to factors such as increased turnkey outsourcing of Energy from Waste plant management, a trend toward turnkey outsourcing of sewage projects, and an increase in the number of plants covered by after-sales service agreements and operational outsourcing needs due to growth in the number of plants delivered by the company to private industry.

Status of Business Activities

During the consolidated fiscal year under review, we received two new construction orders, including a DBO contract (construction and operations) for an Energy from Waste plant; three primary improvement orders; one equipment update order; eight construction orders for biomass power plants and other projects for private-sector customers; and one O&M order. As a result, order volume rose 4,735 million yen from the previous year to 153,628 million yen. Thanks to steady progress in construction of previously ordered plants, sales rose 3,649 million yen from the previous year to 93,724 million yen as sales growth and increased profitability due to cost-cutting drove operating income up 1,917 million yen to 12,405 million yen.

In addition to pursuing initiatives to secure sustained growth, for example by earning new orders for biomass power plants and strengthening the competitiveness of our sewage sludge incineration and power generation systems, we will work to strengthen and expand our revenue base by enhancing the after-sales service business, for example by strengthening the profitability of our Energy from Waste plant operation business, applying operational expertise horizontally to water treatment and biomass facilities, and strengthening maintenance structures.

Overseas Environment and Energy Business

The Overseas Environment and Energy segment's principal business consists of building and maintaining biomass power plants and Energy from Waste plants overseas. Overseas bases are located in Thailand and Taiwan, where we have local subsidiaries and from which we are expanding our business with a focus on Southeast Asia.

Demand for biomass power plants is expected to continue to grow against the backdrop of the region's rich endowment of biomass resources, and the market exhibits a high level of potential over the medium and long term; however, the environment will remain highly competitive due to intense rivalry with Indian and Chinese manufacturers for orders for the bagasse-fired plants that are Takuma's flagship product in the region. In addition, although demand for Energy from Waste facilities is growing due to urbanization, a stable market has not yet developed due to the lack of programs and standards as well as fund shortages being experienced by governments.

Order volume for the consolidated fiscal year under review fell 3,073 million yen to 799 million yen as an intensely competitive business environment prevented the Group from securing any new plant orders. Although sales fell 343 million yen to 3,057 million yen, operating income rose 85 million yen to 163 million yen due primarily to cost-cutting in plant construction.

In addition to pursuing initiatives to strengthen our competitiveness and create competitive advantages so that we can capture biomass power plant orders on an ongoing basis, we will work to build structures for capturing orders for Energy from Waste plants.

Package Boiler Business

The Package Boiler segment's principal business consists of the manufacture, sale, and maintenance of general-purpose boilers such as small steam boilers, which are used as heat sources in commercial and manufacturing facilities, and vacuum-type water heaters.

Although the domestic general-purpose boiler market has already matured, it is expected to yield a certain level of primarily replacement demand going forward, and demand is expected to grow overseas, primarily in Southeast Asia.

Although the Group continued its efforts to tap update demand and expand maintenance orders during the consolidated fiscal year under review, order volume slipped 219 million yen from the previous year, during which a number of large maintenance order were received, to 17,476 million yen as sales edged down 366 million yen to 16,954 million yen. Factors including the decline in sales and rising materials prices drove operating income down 110 million yen to 904 million yen.

We will continue to maintain and expand the domestic business with a focus on replacement demand and maintenance while striving to expand the overseas business through efforts centered on our local subsidiary in Thailand.

Equipment and Systems Business

The Equipment and Systems segment's principal business consists of the design and installation of building equipment such as air-conditioning equipment and water and sewage equipment as well as the manufacture, sale, and maintenance of equipment like clean devices and cleaning systems for the semiconductor industry.

Construction demand remained strong in the run-up to the Olympic Games Tokyo 2020 and the Paralympic Games Tokyo 2020, and the semiconductor manufacturing equipment market continued to expand. Based on the outlook for construction demand and the electronic device market, we expect strong demand to continue in the immediate future.

Order volume during the consolidated fiscal year under review rose 1,426 million yen from the previous year to 8,567 million yen thanks primarily to growth in the construction equipment business, while sales rose 1,139 million yen to 8,836 million yen, and operating income rose 133 million yen to 361 million yen.

Going forward, we will continue to work to secure stable profits by working steadily to capture robust demand.

Last April, the Group launched its 12<sup>th</sup> Medium-Term Business Plan, which covers FY2018 to FY2020 and sets forth cumulative consolidated ordinary profit of 33 billion yen over the three-year period covered by the plan as a numerical target. Ordinary profit of 12.3 billion yen and order volume of 330.9 billion yen during the consolidated fiscal year under review, which is the Plan's first year, indicate that we are making generally smooth progress toward achieving that target.

Going forward, we will continue to work diligently to achieve the Plan's target.

(2) Financial Position

Total assets at the end of the consolidated fiscal year under review increased 4,500 million yen from the end of the previous consolidated fiscal year to 155,988 million yen thanks primarily to an increase of 2,728 million yen in deferred tax assets.

Liabilities fell 1,861 million yen from the end of the previous consolidated fiscal year to 72,901 million yen as a decrease of 7,383 million yen in short-term loans payable offset growth of 3,347 million yen in unpaid corporate taxes and 2,761 million in notes and accounts payable.

Net assets rose 6,361 million yen from the end of the previous consolidated fiscal year to 83,087 million yen as an increase of 8,853 million yen in retained earnings due to the posting of profit attributable to owners of parent offset a decrease of 1,570 million yen in retained earnings due to the payments of cash dividends.

As a result, the capital adequacy ratio rose 2.6 points from the end of the previous consolidated fiscal year to 53.0%, and net assets per share rose 76.09 yen from the end of the previous consolidated fiscal year to 1,000.34 yen.

(3) Status of Cash Flow

Cash and cash equivalents at the end of the consolidated fiscal year under review rose 743 million yen from the previous consolidated fiscal year to 61,027 million yen.

Cash Flows from Operating Activities

Net cash provided by operating activities totaled 10,817 million yen (compared to net cash provided by operating activities of 5,140 million yen during the previous consolidated fiscal year). Principal factors included income before income taxes of 11,139 million yen and an increase of 1,864 million yen from accounts payable and advance money, which offset a decrease of 2,228 million yen from accounts receivable and advances received.

Cash Flows from Investing Activities

Net cash used in investing activities totaled 1,382 million yen (compared to net cash used in investing activities of 328 million yen during the previous consolidated fiscal year). Principal factors included expenditures of 801 million yen on the purchase of investment securities and of 482 million yen on the purchase of property, plant and equipment.

Cash Flows from Financing Activities

Net cash used in financing activities totaled 9,119 million yen (compared to net cash used in financing activities of 1,670 million yen during the previous consolidated fiscal year). Principal factors included a net decrease in short-term bank loans payable of 7,030 million yen and payment of 1,570 million yen on cash dividends.

The Takuma Group obtains working capital as well as funds for use in capital investment and research and development to expand its businesses in the future from group funds, advances from customers, and lending from financial institutions. Going forward, we do not expect to encounter difficulty in procuring the funds necessary to pursue our business activities. Additionally, we have entered into commitment line agreements with multiple financial institutions to supplement liquidity.

(4) Production Output, Orders Received and Sales

① Production Results

The following table summarizes the Group's production results during the consolidated fiscal year under review by business segment:

Segment	Production output (millions of yen)	Year-on-year (%)
Domestic Environment and Energy Business	63,021	0.7
Overseas Environment and Energy Business	2,005	(27.4)
Package Boiler Business	11,166	(1.5)
Equipment and Systems Business	7,406	16.0
Subtotal	83,599	0.7
Inter-segment transactions	(592)	134.4
Total	83,007	0.2

Notes:  
1. Amounts are expressed as total manufacturing expenses.  
2. Amounts do not include consumption tax or other taxes.

## Status of Business Activities

### ② Orders Received

The following table summarizes orders received by the Group during the consolidated fiscal year under review by business segment:

Segment	Orders received (millions of yen)	Year-on-year (%)	Backlog (millions of yen)	Year-on-year (%)
Domestic Environment and Energy Business	153,628	3.2	322,292	22.8
Overseas Environment and Energy Business	799	(79.4)	525	(81.1)
Package Boiler Business	17,476	(1.2)	3,872	15.6
Equipment and Systems Business	8,567	20.0	4,502	(5.6)
Subtotal	180,472	1.6	331,192	21.2
Inter-segment transactions	(642)	32.2	(252)	9.0
Total	179,829	1.5	330,939	21.2

Notes:

- Amounts do not include consumption tax or other taxes.
- Package Boiler Business figures include some speculative production. In addition to order-driven production, the orders received and the backlog figures in the above table include that portion of speculative production for which delivery to a specific customer has been finalized.

### ③ Sales

The following table summarizes the Group's sales results during the consolidated fiscal year under review by business segment:

Segment	Sales amount (millions of yen)	Year-on-year (%)
Domestic Environment and Energy Business	93,724	4.1
Overseas Environment and Energy Business	3,057	(10.1)
Package Boiler Business	16,954	(2.1)
Equipment and Systems Business	8,836	14.8
Subtotal	122,572	3.4
Inter-segment transactions	(621)	110.4
Total	121,950	3.2

Note:

Amounts do not include consumption tax or other taxes.

## 2. Contracts of Major Importance in the Group's Business

### (1) Technology In-licensing Contracts

Contractee	Contract target	Contract date	Name of other party	Contract term
Takuma Co., Ltd.	Continuous bed filtration of liquids	April 1979	Nordic Water Products AB (Sweden)	Until December 2038 (See Note 2.)
Takuma Co., Ltd.	Process for the organic and anaerobic treatment of waste	December 2011	Hitachi Zosen Inova AG (Switzerland)	For 10 years, then automatically renewed every year

Notes:

- Most of the above contracts entail payment of a fixed percentage of sales in addition to a one-time payment at the time the contract was entered into.
- The contract was renewed, extending its term to December 2038.

### (2) Technology Out-licensing Contracts

Contractee	Contract target	Contract date	Name of other party	Contract term
Takuma Co., Ltd.	N-type palm wastes fired water-tube boiler	September 1982	P.T. Super Andalas Steel (Indonesia)	For 15 years, then automatically renewed every year
Takuma Co., Ltd.	Auxiliary agent for filter-type dust collector	July 1993	MITSUI MINING & SMELTING CO., LTD. (Japan)	For 10 years, then automatically renewed every year
Takuma Co., Ltd.	Dust elimination technology in exhaust gas treatment systems using impulse waves	November 2005	Nihon Spindle Manufacturing Co., Ltd. (Japan)	For 10 years, then automatically renewed every year

Note:

Most of the above contracts entail receipt of payment of a fixed percentage of sales in addition to a one-time payment at the time the contract was entered into.

## 3. Research and Development Activities

Having identified the fields of environmental protection and renewable energy utilization as its principal business domains in an effort to achieve a sustainable, recycling-oriented society that is not excessively dependent on nuclear power or fossil fuels, the Takuma Group is focusing its management resources on business in these domains as it pursues research and development in keeping with the corporate vision it has set forth of being an indispensable presence in society as a leading company.

The Takuma Group has consolidated its technology-related departments into the Engineering Group, through which it is actively working to strengthen and pass on its technological capabilities and develop new technologies, products, and services through collaboration between the Takuma Group companies and joint research with outside research institutions, universities, and private-sector companies.

Expenditures on research and development during the consolidated fiscal year under review totaled 960 million yen. Principal research and development activities by business segment were as follows:

### (1) Environment and Energy Business

- In the area of waste treatment, we continue to utilize a demonstration incinerator with a next-generation stoker at one of our plants to develop such aspects of equipment operation as the reduction of harmful substances (e.g., nitrogen oxides, acidic gases, dioxins, and mercury) through combustion improvements and increases in power generation efficiency with the principal goal of developing proprietary technology to aid in reducing life cycle cost and boosting energy recovery. In addition, we continue to pursue a project known as “Development of a Next-generation Low-carbon High-efficiency Biogas Power System and Combined System Using CO<sub>2</sub> Separation Membranes,” which was adopted as an Evaluation and Demonstration Project for Advanced Waste Treatment Systems at Small and Medium-size Waste Treatment Facilities by the Ministry of the Environment. We are working to stabilize combustion and to develop technologies for remote monitoring using AI and IoT, for example by utilizing POCSYS, a comprehensive support system for operation, maintenance, and management that enables integrated use of a range of data that facilities previously managed and evaluated independently. In FY2019, we created Solution Lab to further expand POCSYS's functionality and service, and we will strive to utilize AI and IoT going forward to contribute to safer, more efficient facility operation that inspires peace of mind.
- In the area of energy, we continue to develop constituent technologies for burning a variety of biomass fuels including unutilized wood biomass to generate power, an area in which we are receiving many inquiries in connection with Japan's feed-in tariff program for power generated from renewable sources.
- In the area of water treatment, we continue to develop a sewage sludge incineration and power generation system as well as technologies related to a new system for eliminating nitrogen by means of the anammox process. For sewage sludge incineration and power generation, we continue to develop combustion and generation technology to allow stable incineration of sludge with varying water content. We also continue to develop technologies for expanding the range of wastewater with which the anammox process can be used.

The research and development budget for this segment of our business was 845 million yen.

### (2) Package Boiler Business

We developed and launched the Super EQOS EQi(H)-6001KM/AM oil-fired steam boiler as a high-end model in the Super EQOS series of high-efficiency, multifunctional boilers. The product uses an oil burner that can control output as desired down to a lower minimum level than previous models to reduce the number of combustion starts and stops, improve operating efficiency during low-load operation, and control combustion in response to the load for more efficient operation.

We also developed the Super EQOS EQO-2000KMR/AMR oil-fired, EQS-402/502NS/NM/LS/LM gas-fired, and EQS-402/502KS/KM/AS/AM oil-fired steam boilers as well as the GSAN-201 to -301 gas-fired and KSAN-201 to -301 oil-fired vacuum-type water heaters. These products use burners that can control output through multiple stages to boost efficiency through such means as reducing the number of combustion starts and stops and improving operating efficiency during low-load operation. They were launched in April 2019.

The research and development budget for this segment of our business was 43 million yen.

### (3) Equipment and Systems Business

In washing systems for semiconductor plants, we launched a joint research project with a university to develop products that utilize micro-bubble washing technology that boosts washing effectiveness with fine bubbles while reducing cleaning agent use. This development program includes assessing basic properties and using the university's facilities to conduct detailed analysis and evaluation.

In the area of chemical filters for clean rooms at semiconductor plants, we are developing filters that will deliver advanced functionality and longer service life.

Going forward, we will continue to improve our washing systems and chemical filters as we work to develop products that meet customer needs.

The research and development budget for this segment of our business was 72 million yen.

# Financial Statement

## Consolidated Balance Sheets

TAKUMA CO., LTD. and Consolidated Subsidiaries  
As of March 31, 2019 and 2018

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
<b>Current assets:</b>			
Cash and time deposits (Notes 4, 6 and 8)	¥ 61,769	¥ 60,864	\$ 556,529
Notes and accounts receivable (Note 6):			
Trade	49,046	50,049	441,899
Unconsolidated subsidiaries and affiliated companies	764	380	6,884
Other	281	381	2,526
Less allowance for doubtful accounts	(28)	(38)	(252)
Total	50,063	50,772	451,057
Inventories (Note 5)	4,356	4,307	39,246
Other	1,732	1,372	15,606
<b>Total current assets</b>	<b>117,920</b>	<b>117,315</b>	<b>1,062,438</b>
<b>Property, plant and equipment:</b>			
Land (Note 8)	3,013	3,011	27,145
Buildings and structures (Note 8)	11,905	12,287	107,267
Machinery, equipment, lease assets and construction in progress	8,969	10,653	80,805
(Note 8)	23,887	25,951	215,217
Less accumulated depreciation	(15,593)	(17,450)	(140,491)
<b>Total property, plant and equipment</b>	<b>8,294</b>	<b>8,501</b>	<b>74,726</b>
<b>Investments and other assets:</b>			
Investment securities (Notes 6, 7 and 8)	15,138	16,885	136,387
Investments in:			
Unconsolidated subsidiaries and affiliated companies	4,163	5,015	37,506
Other	5,460	1,823	49,201
Less allowance for doubtful accounts	(109)	(471)	(986)
Total	9,514	6,367	85,721
Deferred tax assets (Note 15)	4,810	2,081	43,335
Other	313	340	2,824
<b>Total investments and other assets</b>	<b>29,775</b>	<b>25,673</b>	<b>268,267</b>
<b>Total assets</b>	<b>¥ 155,989</b>	<b>¥ 151,489</b>	<b>\$ 1,405,431</b>
LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
<b>Current liabilities:</b>			
Short-term loans payable (Notes 6 and 9)	¥ 645	¥ 7,675	\$ 5,811
Current portion of long-term debt (Notes 6 and 9)	117	470	1,052
Notes and accounts payable (Note 6):			
Trade	37,587	34,913	338,651
Unconsolidated subsidiaries and affiliated companies	334	234	3,006
Other	1,227	979	11,057
Total	39,148	36,126	352,714
Accrued income taxes	3,628	281	32,690
Advances received	9,798	13,592	88,276
Allowance for guarantees on completed work	149	86	1,344
Allowance for losses on sales contracts	1,739	373	15,672
Provision for loss on liquidation of subsidiaries and associates	999	-	9,001
Other	6,023	5,709	54,265
<b>Total current liabilities</b>	<b>62,246</b>	<b>64,312</b>	<b>560,825</b>
<b>Long-term liabilities:</b>			
Long-term debt (Notes 6 and 9)	342	459	3,083
Allowance for directors' and executive officers' retirement benefits	185	183	1,664
Net defined benefit liability (Note 10)	9,746	9,406	87,808
Other	382	403	3,448
<b>Total long-term liabilities</b>	<b>10,655</b>	<b>10,451</b>	<b>96,003</b>
<b>Total liabilities</b>	<b>72,901</b>	<b>74,763</b>	<b>656,828</b>
<b>Contingent liabilities (Note 11)</b>			
<b>Net assets (Note 12):</b>			
Common stock	13,367	13,367	120,438
Authorized: 321,840,000 shares			
Issued: 83,000,000 shares			
Capital surplus	3,768	3,768	33,951
Retained earnings	60,866	52,949	548,390
Treasury stock, at cost	(235)	(235)	(2,122)
331,644 shares in 2019 and 331,385 shares in 2018			
Total shareholders' equity	77,766	69,849	700,657
Unrealized gains on securities	5,390	7,161	48,558
Deferred gains and losses on hedges	8	(46)	75
Foreign currency translation adjustments	(4)	2	(37)
Remeasurements of defined benefit plans	(463)	(559)	(4,170)
Total accumulated other comprehensive income	4,931	6,558	44,426
Non-controlling interests in consolidated subsidiaries	391	319	3,520
<b>Total net assets</b>	<b>83,088</b>	<b>76,726</b>	<b>748,603</b>
<b>Total liabilities and net assets</b>	<b>¥ 155,989</b>	<b>¥ 151,489</b>	<b>\$ 1,405,431</b>

See accompanying notes.



# Financial Statement

## Consolidated Statements of Operations

TAKUMA CO., LTD. and Consolidated Subsidiaries  
For the years ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Net sales (Note 17)	¥ 121,951	¥ 118,199	\$ 1,098,753
Cost of sales (Notes 10, 13, 14 and 17)	94,491	93,372	851,340
Gross profit	27,460	24,827	247,413
Selling, general and administrative expenses (Notes 10, 14 and 17)	15,856	14,797	142,862
Operating income (Note 17)	11,604	10,030	104,551
Other income (expenses):			
Interest and dividend income	419	367	3,776
Interest expense	(59)	(66)	(535)
Foreign currency exchange loss	(57)	(157)	(509)
Gain on sales of investment securities (Note 7)	-	111	-
Gain on liquidation of subsidiaries and associates	-	90	-
Provision for loss on liquidation of subsidiaries and associates	(999)	-	(9,001)
Loss on valuation of investment securities	(155)	(60)	(1,396)
Loss on disposal of property, plant and equipment	(58)	(44)	(527)
Provision for doubtful accounts	(49)	-	(446)
Equity in earnings of affiliated companies	473	461	4,265
Other, net	21	79	189
Other income (expenses), net	(464)	781	(4,184)
Income before income taxes	11,140	10,811	100,367
Income taxes (Note 15):			
Current	4,179	1,352	37,649
Deferred	(1,991)	1,581	(17,936)
Total income taxes	2,188	2,933	19,713
Profit	8,952	7,878	80,654
Profit attributable to non-controlling interests in consolidated subsidiaries	98	31	882
Profit attributable to owners of parent	¥ 8,854	¥ 7,847	\$ 79,772
Per share:	Yen		U.S. dollars (Note 1)
Net income	¥ 107.10	¥ 94.93	\$ 0.96
Diluted net income	-	-	-
Cash dividends applicable to the year	22.00	16.00	0.20

See accompanying notes.

## Consolidated Statements of Comprehensive Income

TAKUMA CO., LTD. and Consolidated Subsidiaries  
For the years ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Profit	¥ 8,952	¥ 7,878	\$ 80,654
Other comprehensive income:			
Unrealized gains (losses) on securities	(1,772)	2,275	(15,966)
Deferred gains and losses on hedges	58	(3)	519
Foreign currency translation adjustments	(9)	(4)	(77)
Remeasurements of defined benefit plans	96	31	870
Total other comprehensive income	(1,627)	2,299	(14,654)
Comprehensive income (Note 16)	¥ 7,325	¥ 10,177	\$ 66,000
Comprehensive income attributed to:			
Owners of the parent	¥ 7,227	¥ 10,125	\$ 65,114
Non-controlling interests	98	52	886

## Consolidated Statements of Changes in Net Assets

TAKUMA CO., LTD. and Consolidated Subsidiaries  
For the years ended March 31, 2019 and 2018

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Unrealized gains on securities	Deferred gains and losses on hedges	Foreign currency translation adjust- ments	Remeasure- ments of defined benefit plans	Total accumulated other comprehensive income	Non- controlling interests in consolidated subsidiaries	Total net assets
For the year ended March 31, 2019	Millions of yen											
Balance at the beginning of current period	¥ 13,367	¥ 3,768	¥ 52,949	¥ (235)	¥ 69,849	¥ 7,161	¥ (46)	¥ 2	¥ (559)	¥ 6,558	¥ 319	¥ 76,726
Cash dividends (¥19.00 per share)	-	-	(1,571)	-	(1,571)	-	-	-	-	-	-	(1,571)
Profit attributable to owners of parent	-	-	8,854	-	8,854	-	-	-	-	-	-	8,854
Change in scope of consolidation	-	-	657	-	657	-	-	-	-	-	-	657
Change in scope of equity method	-	-	(23)	-	(23)	-	-	-	-	-	-	(23)
Purchase of treasury stock	-	-	-	(0)	(0)	-	-	-	-	-	-	(0)
Other changes during the year, net	-	-	-	-	-	(1,771)	54	(6)	96	(1,627)	72	(1,555)
Balance at the end of current period	¥ 13,367	¥ 3,768	¥ 60,866	¥ (235)	¥ 77,766	¥ 5,390	¥ 8	¥ (4)	¥ (463)	¥ 4,931	¥ 391	¥ 83,088
For the year ended March 31, 2018	Millions of yen											
Balance at the beginning of current period	¥ 13,367	¥ 3,768	¥ 46,258	¥ (234)	¥ 63,159	¥ 4,886	¥ (21)	¥ 6	¥ (591)	¥ 4,280	¥ 288	¥ 67,727
Cash dividends (¥14.00 per share)	-	-	(1,156)	-	(1,156)	-	-	-	-	-	-	(1,156)
Profit attributable to owners of parent	-	-	7,847	-	7,847	-	-	-	-	-	-	7,847
Purchase of treasury stock	-	-	-	(1)	(1)	-	-	-	-	-	-	(1)
Other changes during the year, net	-	-	-	-	-	2,275	(25)	(4)	32	2,278	31	2,309
Balance at the end of current period	¥ 13,367	¥ 3,768	¥ 52,949	¥ (235)	¥ 69,849	¥ 7,161	¥ (46)	¥ 2	¥ (559)	¥ 6,558	¥ 319	¥ 76,726
For the year ended March 31, 2019	Thousands of U.S. dollars (Note 1)											
Balance at the beginning of current period	\$ 120,438	\$ 33,951	\$ 477,057	\$ (2,119)	\$ 629,327	\$ 64,523	\$ (419)	\$ 21	\$ (5,040)	\$ 59,085	\$ 2,874	\$ 691,286
Cash dividends (\$0.17 per share)	-	-	(14,152)	-	(14,152)	-	-	-	-	-	-	(14,152)
Profit attributable to owners of parent	-	-	79,772	-	79,772	-	-	-	-	-	-	79,772
Change in scope of consolidation	-	-	5,919	-	5,919	-	-	-	-	-	-	5,919
Change in scope of equity method	-	-	(206)	-	(206)	-	-	-	-	-	-	(206)
Purchase of treasury stock	-	-	-	(3)	(3)	-	-	-	-	-	-	(3)
Other changes during the year, net	-	-	-	-	-	(15,965)	494	(58)	870	(14,659)	646	(14,013)
Balance at the end of current period	\$ 120,438	\$ 33,951	\$ 548,390	\$ (2,122)	\$ 700,657	\$ 48,558	\$ 75	\$ (37)	\$ (4,170)	\$ 44,426	\$ 3,520	\$ 748,603

# Financial Statement

## Consolidated Statements of Cash Flows

TAKUMA CO., LTD. and Consolidated Subsidiaries  
For the years ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
<b>Cash flows from operating activities:</b>			
Income before income taxes	¥ 11,140	¥ 10,811	\$ 100,367
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation	798	790	7,187
Impairment loss	40	-	364
Loss (gain) on sales of investment securities	7	(111)	67
Loss (gain) on liquidation of subsidiaries and associates	-	(90)	-
Loss (gain) on valuation of investment securities	155	60	1,396
Increase (decrease) in allowance for doubtful accounts	(5)	20	(45)
Increase (decrease) in allowance for bonuses	4	307	33
Increase (decrease) in allowance for losses on sales contracts	1,367	(3,205)	12,315
Increase (decrease) in provision for loss on liquidation of subsidiaries and associates	999	-	9,001
Increase (decrease) in net defined benefit liability	470	441	4,235
Interest and dividend income	(419)	(367)	(3,776)
Interest expense	59	66	535
Equity in losses (earnings) of affiliated companies	(473)	(461)	(4,265)
Net decrease (increase) in notes and accounts receivable and advances received	(2,229)	200	(20,083)
Decrease (increase) in inventories	3	(387)	25
Decrease (increase) in other current assets	(27)	(305)	(243)
Net increase (decrease) in notes and accounts payable and advance money	1,865	1,959	16,801
Increase (decrease) in other current liabilities	431	(426)	3,888
Other	(3,192)	(798)	(28,761)
Subtotal	10,993	8,504	99,040
Interest and dividend received	647	456	5,832
Interest paid	(60)	(66)	(541)
Income taxes received (paid)	(763)	(3,753)	(6,871)
Net cash provided by operating activities	10,817	5,141	97,460
<b>Cash flows from investing activities:</b>			
Net decrease (increase) in time deposits	(14)	4	(126)
Purchase of property, plant and equipment	(482)	(343)	(4,347)
Purchase of intangible fixed assets	(51)	(125)	(462)
Purchase of investment securities	(802)	(561)	(7,221)
Sale of investment securities	105	230	944
Disbursement for loans receivable	-	(151)	-
Collection of loans receivable	112	550	1,011
Other	(250)	68	(2,252)
Net cash used in investing activities	(1,382)	(328)	(12,453)
<b>Cash flows from financing activities:</b>			
Net increase (decrease) in short-term bank loans	(7,030)	-	(63,339)
Payment of long-term debt	(470)	(468)	(4,233)
Purchase of treasury stock	(0)	(1)	(3)
Payment of cash dividends	(1,571)	(1,157)	(14,152)
Dividends paid to non-controlling interests	(28)	(21)	(250)
Other	(21)	(23)	(187)
Net cash used in financing activities	(9,120)	(1,670)	(82,164)
<b>Effect of exchange rate changes on cash and cash equivalents</b>	(11)	8	(103)
Net increase in cash and cash equivalents	304	3,151	2,740
<b>Cash and cash equivalents at beginning of year</b>	60,283	57,132	543,141
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	440	-	3,963
<b>Cash and cash equivalents at end of year (Note 4)</b>	¥ 61,027	¥ 60,283	\$ 549,844

See accompanying notes.

## Notes to Consolidated Financial Statements

TAKUMA CO., LTD. and Consolidated Subsidiaries

### 1. Basis of presenting financial statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. However, necessary adjustments are made upon consolidation. The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of TAKUMA CO., LTD. (the “Company”) prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Japanese Financial Instruments and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2019, which was ¥110.99 to U.S.\$1.00. The 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 U.S. dollars at this or any other rate of exchange.

### 2. Summary of significant accounting policies

#### (1) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its 25 significant subsidiaries (the “Companies”). Takuma Plant Service Co., Ltd., Imabari High Trust Co., Ltd. and Machida High Trust Co., Ltd., which were unconsolidated subsidiaries, have been included in the consolidation from the consolidated fiscal year ended March 31, 2019 because of their increased significance. Suminoe High Trust Co., Ltd., which was a newly established subsidiary, has been included in the consolidation from the consolidated fiscal year ended March 31, 2019. In addition, Campo Recycle Plaza Co., Ltd. has been excluded from the consolidation because of its decreased significance in the current consolidated fiscal year. All significant intercompany transactions and unrealized profits among the Companies have been eliminated in consolidation. Investments in certain significant affiliates over which the Company and/or its subsidiaries are able to exert influence to a material degree with regard to financial and operating decision making, other than consolidated subsidiaries, are accounted for by the equity method after the elimination of unrealized intercompany profits.

Investments in the remaining unconsolidated subsidiaries and affiliated companies are not accounted for by the equity method because of the immaterial effect on the consolidated financial statements. Therefore, such investments are carried at cost, adjusted for any substantial and non-recoverable decline in value. Income from those unconsolidated subsidiaries and affiliated companies is recognized only when the Companies receive dividends therefrom.

#### (2) Foreign currency translation

Revenue and expense are translated at the rates of exchange prevailing on the transaction date. Assets and liabilities denominated in foreign currencies are generally translated at the rate of exchange prevailing at the balance sheet date, and the resulting translation gains and losses are included in earnings.

The financial statements of a consolidated overseas subsidiary are translated into Japanese yen at the year-end rate, except that net asset accounts are translated at historical rates and income statement items resulting from transactions with the Company are translated at rates used by the Company. The resulting translation adjustments are shown as “Foreign currency translation adjustments,” a separate component of net assets.

#### (3) Cash and cash equivalents

In preparing the consolidated statements of cash flows, cash and cash equivalents include cash on hand, readily available deposits and short-term investments with maturities not exceeding three months from the date of acquisition and which have high liquidity and low risk of price fluctuation.

#### (4) Securities

Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at cost determined by moving average cost. Available-for-sale securities with available fair market value are stated at fair market value, and unrealized gains and losses on these securities are reported net of applicable income taxes as a separate component of net assets. Realized gains and losses on the sale of such securities are computed at cost using moving average cost. Available-for-sale securities with no available fair market value are stated at cost determined by moving average cost.

If the market value of equity securities issued by unconsolidated subsidiaries and affiliated companies or available-for-sale securities declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of the decline. If the fair market value of such securities is not readily available, such securities should be written down to net asset value with a corresponding charge in the income statement in the event the net asset value declines significantly. In these cases, the fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

#### (5) Allowance for doubtful accounts

The Companies provide an allowance for doubtful accounts by estimating the uncollectible amounts of certain individual accounts and by applying a percentage based on collection experience to the remaining receivables.

# Financial Statement

- (6) Inventories  
Merchandise and finished goods are stated at cost using the moving average method. Work-in-process is stated at cost determined by the identified cost method. Materials and supplies are stated at cost using the average method. For these inventories, the carrying amounts on the balance sheet are written down to reflect decreases in profitability.
- (7) Property, plant and equipment  
Property, plant and equipment are depreciated principally using the declining balance method over the estimated useful life of the asset. However, buildings acquired after March 31, 1998 and facilities attached to buildings and structures acquired after March 31, 2016 are depreciated using the straight-line method. The range of useful lives is principally from 3 to 60 years for buildings and structures and from 2 to 20 years for machinery, equipment and other. Maintenance and repairs, including minor renewals and improvements, are charged to income as incurred.  
  
Lease assets under finance leases in which the ownership of the lease assets is not transferred to the lessee are depreciated using the straight-line method over the lease term with an assumption of no residual value.
- (8) Allowance for losses on sales contracts  
For sales orders on hand at the balance sheet date for projects in which the estimated cost is expected to exceed the price of the order by a wide margin, an allowance for losses on sales contracts is recognized at the estimated aggregate amount.
- (9) Allowance for guarantees on completed work  
Allowance for guarantees on completed work is based on estimated amounts of expenditure in the warranty period after products are delivered.
- (10) Provision for loss on liquidation of subsidiaries and associates  
To prepare for the loss on liquidation of subsidiaries and associates, a provision is made based on the estimated amounts.
- (11) Allowance for directors' and executive officers' retirement benefits  
Directors and executive officers are generally entitled to receive retirement benefits based on the Companies' internal rules. The Companies provide an allowance for directors' and executive officers' retirement benefits based on the amount that would be required if all directors and executive officers retired at the balance sheet date.
- (12) Net defined benefit liability  
In calculating retirement benefit obligations, the method of attributing expected benefits to periods employs principally a benefit formula basis. Actuarial gains and losses are recognized in expenses using the straight-line method principally over 10 years commencing with the following period. Prior service costs are recognized in expenses using the straight-line method principally over 10 years.
- (13) Revenue recognition  
When the outcome of an individual contract can be estimated reliably, the domestic companies apply the percentage-of-completion method to work performed during the year, otherwise, the completed contract method is applied. The degree of completion, or the percentage of the contract performed during the period under review, is measured by the proportion of the cost incurred during the period to the estimated total cost.
- (14) Income taxes  
The Companies are subject to corporation tax, inhabitants tax and enterprise tax based on taxable income. The Companies recognize the tax effects of the temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting. The provision for income taxes is computed based on the pretax income of each of the Companies, with certain required adjustments. The asset-liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.  
  
The Companies have adopted the consolidated tax return system.
- (15) Net income and cash dividends per share  
Net income per share is computed based on the weighted average number of shares of common stock outstanding during each period. Diluted net income per share is computed with the assumption that all convertible bonds were converted into common stock at the beginning of each period. Cash dividends per share represent interim dividends declared by the Board of Directors in each year and year-end dividends approved by the shareholders at the annual meeting held subsequent to the end of the fiscal year.
- (16) Derivatives and hedge accounting  
The Companies generally state derivative financial instruments at fair value and recognize changes in the fair value as gains or losses unless the derivative financial instruments are used for hedging purposes. If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies generally defer recognition of gain or loss resulting from a change in the fair value of the derivative financial instrument until the related loss or gain on the hedged item is recognized.  
  
The Companies use currency forward contracts to hedge accounts receivable and payable denominated in foreign currencies (mainly U.S. dollars) against the risk of fluctuation in exchange rates that comes from foreign currency transactions. Certain foreign exchange contracts are subject to appropriation if they satisfy the requirements of appropriation treatment. Interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not re-measured at market value.
- (17) Reclassifications  
Certain prior year amounts have been reclassified to conform to the 2019 presentation.

## 3. Accounting standards issued but not yet adopted

- “Accounting Standard for Revenue Recognition” (Accounting Standards Board of Japan Statement No. 29, March 30, 2018)
  - “Implementation Guidance on Accounting Standard for Revenue Recognition” (Accounting Standards Board of Japan Guidance No. 30, March 30, 2018)
- (1) Overview  
This is a comprehensive accounting standard for revenue recognition. Revenue is recognized using the following five steps.  
Step 1: Identify the contract with a customer.  
Step 2: Identify the performance obligations in the contract.  
Step 3: Determine the transaction price.  
Step 4: Allocate the transaction price to the performance obligations in the contract.  
Step 5: Recognize revenue when (or as) the reporting organization satisfies a performance obligation.
- (2) Effective date  
Effective from the beginning of the fiscal year ending March 31, 2022.
- (3) Effects of application of the standard and guidance  
The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of the standard and guidance on the consolidated financial statements.

## 4. Cash and cash equivalents

Amounts of cash and cash equivalents as of March 31, 2019 and 2018 were reconciled with cash and time deposits as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Cash and time deposits	¥ 61,769	¥ 60,864	\$ 556,529
Time deposits with maturities exceeding three months from the date of acquisition	(742)	(581)	(6,685)
Total cash and cash equivalents	¥ 61,027	¥ 60,283	\$ 549,844

## 5. Inventories

Inventories were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Merchandise and finished goods	¥ 816	¥ 733	\$ 7,355
Work-in-process	2,087	1,887	18,800
Materials and supplies	1,453	1,687	13,091
Total inventories	¥ 4,356	¥ 4,307	\$ 39,246

## 6. Financial instruments

- (1) Status of financial instruments

(a) Financial instruments policy  
Under Group policy, investment in financial instruments is limited primarily to short-term deposits and bank loans for raising funds. Derivative transactions are used to hedge risks of fluctuations in foreign exchange and interest rates.

(b) Financial instruments, risks and risk management structure  
The Companies are working to reduce customer credit risk associated with notes and accounts receivable and operating receivables through customer based due dates and other balance controls in accordance with the Companies' regulations. Investment securities consists mainly of stocks and are periodically checked for the fair value of the listed shares. Notes and accounts payables, or operating payables, are due within one year. Short-term financing is primarily for operating funds while long-term debt is for capital investment.  
  
With floating rate loans, which are exposed to interest rate fluctuation risk, Group companies use derivative transactions (interest rate swaps) as a part of their long-term loans to hedge the risk of interest rate fluctuation on bank loans and to fix interest payments.  
  
To cope with operating receivables and loans exposed to liquidity risk, each Group company prepares monthly cash-flow plans and enters into loan commitment agreements with several financial institutions for raising working capital flexibly and stably.

(c) Supplementary remarks on fair values of financial instruments  
The fair values of financial instruments do not reflect the market risks concerning the derivative trading.



# Financial Statement

## (2) Fair value of financial instruments

Amounts recognized on the consolidated balance sheets, fair values and differences as of March 31, 2019 and 2018, except items for which no fair value was obtainable, were as follows:

### (Cash and time deposits)

The fair value of cash and time deposits is based on relevant book value because they are mostly settled within a short period of time and the fair value is nearly equal to the book value.

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Amounts recognized on the consolidated balance sheets	¥ 61,769	¥ 60,864	\$ 556,529
Fair value	61,769	60,864	556,529
Difference	¥ -	¥ -	\$ -

### (Notes and accounts receivable)

The fair value of notes and accounts receivable is based on the relevant book value because they are mostly settled within a short period of time and the fair value is nearly equal to the book value.

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Amounts recognized on the consolidated balance sheets	¥ 49,507	¥ 50,355	\$ 446,051
Fair value	49,507	50,355	446,051
Difference	¥ -	¥ -	\$ -

### (Investment securities)

The fair value of stocks is based on stock exchange prices, and the fair values of bonds are based on stock exchange prices or prices provided by financial institutions.

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Amounts recognized on the consolidated balance sheets	¥ 14,943	¥ 16,795	\$ 134,634
Fair value	14,943	16,795	134,634
Difference	¥ -	¥ -	\$ -

### (Notes and accounts payable)

The fair value of notes and accounts payable is based on the relevant book value because they are mostly settled within a short period of time and the fair value is nearly equal to the book value.

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Amounts recognized on the consolidated balance sheets	¥ 37,869	¥ 35,107	\$ 341,193
Fair value	37,869	35,107	341,193
Difference	¥ -	¥ -	\$ -

### (Accrued income taxes)

The fair value of accrued income taxes is based on the relevant book value because they are settled within a short period of time and the fair value is nearly equal to the book value.

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Amounts recognized on the consolidated balance sheets	¥ 3,628	¥ 7,675	\$ 32,690
Fair value	3,628	7,675	32,690
Difference	¥ -	¥ -	\$ -

### (Short-term loans payable)

The fair value of short-term loans payable is based on the relevant book value because they are settled within a short period of time and the fair value is nearly equal to the book value.

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Amounts recognized on the consolidated balance sheets	¥ 645	¥ 7,675	\$ 5,811
Fair value	645	7,675	5,811
Difference	¥ -	¥ -	\$ -

### (Long-term debt)

The fair value of long-term debt is calculated by a method that discounts total principal plus interest by an assumed interest rate for a similar new loan. Short-term financing is primarily for operating funds, while long-term debt is for capital investment.

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Amounts recognized on the consolidated balance sheets	¥ 459	¥ 929	\$ 4,135
Fair value	462	934	4,160
Difference	¥ 3	¥ 5	\$ 25

Items for which no fair value was obtainable  
(Non-listed equity securities)

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Amounts recognized on the consolidated balance sheets			
Equity securities issued by affiliates	¥ 3,811	¥ 4,333	\$ 34,333
Other	195	90	1,754

## (3) Redemption schedule of monetary assets with contractual maturities and repayment schedule of short-term loans payable and long-term debt

	Millions of yen					
As of March 31, 2019	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
Cash and time deposits	¥ 61,769	¥ -	¥ -	¥ -	¥ -	¥ -
Notes and accounts receivable	40,827	8,670	10	-	-	-
Investment securities	-	-	-	-	-	-
Total	¥ 102,596	¥ 8,670	¥ 10	¥ -	¥ -	¥ -
Short-term loans payable	¥ 645	¥ -	¥ -	¥ -	¥ -	¥ -
Long-term debt	117	80	182	80	-	-
Total	¥ 762	¥ 80	¥ 182	¥ 80	¥ -	¥ -

	Millions of yen					
As of March 31, 2018	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
Cash and time deposits	¥ 60,864	¥ -	¥ -	¥ -	¥ -	¥ -
Notes and accounts receivable	47,648	2,177	530	-	-	-
Investment securities	-	-	-	-	-	-
Total	¥ 108,512	¥ 2,177	¥ 530	¥ -	¥ -	¥ -
Short-term loans payable	¥ 7,675	¥ -	¥ -	¥ -	¥ -	¥ -
Long-term debt	470	117	80	182	80	-
Total	¥ 8,145	¥ 117	¥ 80	¥ 182	¥ 80	¥ -

	Thousands of U.S. dollars					
As of March 31, 2019	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
Cash and time deposits	\$ 556,529	\$ -	\$ -	\$ -	\$ -	\$ -
Notes and accounts receivable	367,843	78,121	87	-	-	-
Investment securities	-	-	-	-	-	-
Total	\$ 924,372	\$ 78,121	\$ 87	\$ -	\$ -	\$ -
Short-term loans payable	\$ 5,811	\$ -	\$ -	\$ -	\$ -	\$ -
Long-term debt	1,052	721	1,641	721	-	-
Total	\$ 6,863	\$ 721	\$ 1,641	\$ 721	\$ -	\$ -

## 7. Securities

(1) Acquisition costs and book values of available-for-sale securities with available fair values as of March 31, 2019 and 2018 were as follows:

	Millions of yen		
As of March 31, 2019	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities	¥ 6,417	¥ 14,319	¥ 7,902
Subtotal	6,417	14,319	7,902
Securities with book values not exceeding acquisition costs:			
Equity securities	759	624	(135)
Subtotal	759	624	(135)
Total	¥ 7,176	¥ 14,943	¥ 7,767
As of March 31, 2018	Millions of yen		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities	¥ 5,923	¥ 16,324	¥ 10,401
Subtotal	5,923	16,324	10,401
Securities with book values not exceeding acquisition costs:			
Equity securities	551	471	(80)
Subtotal	551	471	(80)
Total	¥ 6,474	¥ 16,795	¥ 10,321



# Financial Statement

As of March 31, 2019	Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities	\$ 57,813	\$ 129,007	\$ 71,194
Subtotal	57,813	129,007	71,194
Securities with book values not exceeding acquisition costs:			
Equity securities	6,839	5,626	(1,213)
Subtotal	6,839	5,626	(1,213)
Total	\$ 64,652	\$ 134,633	\$ 69,981

(2) Available-for-sale securities sold for the years ended March 31, 2019 and 2018 were as follows:

Information on the available-for-sale securities sold for the year ended March 31, 2019 is not provided because there was no significant gain.

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Total sales amount	¥ -	¥ 230	\$ -
Gains	-	111	-

## 8. Pledged assets

The following assets were pledged to secure short-term loans payable, long-term debt, and contingent liabilities under guarantees for bank loans of affiliated companies and fulfillment of contracts as of March 31, 2019 and 2018:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Buildings and structures	¥ 129	¥ 193	\$ 1,158
Machinery and equipment	24	36	218
Investment securities	150	450	1,351
Cash and time deposits	274	256	2,467
Time deposits as construction contract guarantees	86	102	779
Total	¥ 663	¥ 1,037	\$ 5,973

## 9. Short-term loans payable and long-term debt

Short-term loans payable as of March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Secured	¥ -	¥ -	\$ -
Unsecured	645	7,675	5,811
	¥ 645	¥ 7,675	\$ 5,811

Current portion of long-term debt as of March 31, 2019 and 2018 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Secured	¥ 37	¥ 72	\$ 331
Unsecured	80	398	721
	¥ 117	¥ 470	\$ 1,052

Long-term debt as of March 31, 2019 and 2018 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Secured	¥ -	¥ 37	\$ -
Unsecured	342	422	3,083
	¥ 342	¥ 459	\$ 3,083

The annual average interest rate applicable to bank loans at March 31, 2019 and 2018 was as follows:

	2019	2018
Short-term loans payable	0.6%	0.6%
Current portion of long-term debt	2.0%	1.5%
Long-term debt	2.6%	2.4%

## 10. Employees' retirement benefits

(1) Outline of adopted retirement benefit scheme

The Companies provide three types of post-employment benefit plans, unfunded lump-sum payment plans, funded non-contributory pension plans and defined contribution plans, under which all eligible employees are entitled to benefits based on the level of wages and salary at the time of retirement or termination, length of service and certain other factors.

(2) Defined benefit plans

Movement in retirement benefit obligations (except plan applied simplified method) for the years ended March 31, 2019 and 2018 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Balance at April 1, 2018 and 2017	¥ 8,826	¥ 8,446	\$ 79,521
Service cost	600	576	5,403
Interest cost	48	46	430
Actuarial loss (gain)	(4)	62	(34)
Benefits paid	(360)	(304)	(3,241)
Balance at March 31, 2019 and 2018	¥ 9,110	¥ 8,826	\$ 82,079

Movement in net defined benefit liability of plan applied simplified method for the years ended March 31, 2019 and 2018 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Balance at April 1, 2018 and 2017	¥ 580	¥ 565	\$ 5,226
Retirement benefit costs	102	99	917
Contributions paid by the employer	(22)	(29)	(195)
Benefits paid	(35)	(54)	(317)
Other	11	(1)	98
Balance at March 31, 2019 and 2018	¥ 636	¥ 580	\$ 5,729

Reconciliation from retirement benefit obligations and plan assets to net defined benefit liability as of March 31, 2019 and 2018 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Funded retirement benefit obligations	¥ 589	¥ 571	\$ 5,306
Plan assets	(414)	(415)	(3,726)
	175	156	1,580
Unfunded retirement benefit obligations	9,571	9,250	86,228
Total net defined benefit liability (asset) at March 31, 2019 and 2018	9,746	9,406	87,808
Net defined benefit liability	9,746	9,406	87,808
Total net defined benefit liability (asset) at March 31, 2019 and 2018	¥ 9,746	¥ 9,406	\$ 87,808

Retirement benefit costs for the years ended March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Service cost	¥ 600	¥ 576	\$ 5,403
Interest cost	48	46	430
Amortization of actuarial differences	139	157	1,254
Amortization of prior service cost	(4)	(49)	(35)
Retirement benefit costs based on the simplified method	102	99	918
Total retirement benefit costs for the fiscal years ended March 31, 2019 and 2018	¥ 885	¥ 829	\$ 7,970

Remeasurements of defined benefit plans for the years ended March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Prior service costs	¥ (4)	¥ (49)	\$ (35)
Actuarial gains and losses	143	94	1,288
Total remeasurements of defined benefit plans for the fiscal years ended March 31, 2019 and 2018	¥ 139	¥ 45	\$ 1,253

# Financial Statement

Accumulated remeasurements of defined benefit plans as of March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Prior service costs yet to be recognized	¥ 6	¥ 10	\$ 52
Actuarial gains and losses yet to be recognized	(673)	(816)	(6,059)
Total balance at March 31, 2019 and 2018	¥ (667)	¥ (806)	\$ (6,007)

The principal actuarial assumptions at March 31, 2019 and 2018 were as follows:

	2019	2018
Discount rate	principally 0.64%	principally 0.64%
Expected rate of salary increase	principally 6.7%	principally 6.6%

## (3) Defined contribution plan

The amount of contribution required for the defined contribution plans of the Companies for the years ended March 31, 2019 and 2018 was ¥135 million (\$1,213 thousand) and ¥132 million, respectively.

## 11. Contingent liabilities

The Companies were contingently liable under guarantees for bank loans of affiliated companies and other companies as of March 31, 2019 and 2018 as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Unsecured	¥ 209	¥ 239	\$ 1,881

## 12. Net assets

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Japanese Corporate Law (the “Law”), in cases in which a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Law, legal earnings reserve and additional paid-in capital can be used to eliminate or reduce a deficit or be capitalized by a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the nonconsolidated financial statements of the Company in accordance with Japanese laws and regulations.

The appropriation of retained earnings with respect to a given financial year is made by resolution of the shareholders at a general meeting held subsequent to the close of such financial year. The accounts for that year do not, therefore, reflect such appropriations.

## 13. Provision for losses on sales contracts

Provision for losses on sales contracts included in cost of sales for the years ended March 31, 2019 and 2018 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
	¥ 1,400	¥ 373	\$ 12,613

## 14. Research and development expenses

Research and development expenses are charged to income as incurred. Such expenses included in cost of sales and selling, general and administrative expenses for the years ended March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
	¥ 961	¥ 929	\$ 8,656

## 15. Income taxes

The Companies are subject to a number of taxes based on income, which, in the aggregate, indicated a statutory rate in Japan of approximately 30.6% and 30.8% for the years ended March 31, 2019 and 2018, respectively.

The significant differences between the statutory tax rate and the Companies' effective tax rate for financial statement purposes were set forth in the table below.

	2019	2018
Statutory tax rate	30.6%	30.8%
Nondeductible expenses	1.7	1.1
Dividend income	(0.5)	(0.2)
Equity in earnings of affiliated companies	(1.3)	(1.3)
Council tax	0.7	0.6
Tax credits	(2.3)	(2.0)
Valuation allowance	(1.7)	(1.3)
Change in scope of consolidation	(10.0)	-
Other	2.4	(0.6)
The Companies' effective tax rate	19.6%	27.1%

Components of the Companies' deferred tax assets and liabilities as of March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Deferred tax assets:			
Net defined benefit liability	¥ 2,985	¥ 2,876	\$ 26,893
Allowance for doubtful accounts	1,844	140	16,610
Accrued cost of sales	1,553	1,483	13,996
Other	4,736	4,843	42,673
Total deferred tax assets	11,118	9,342	100,172
Valuation allowance	(3,788)	(3,975)	(34,132)
Net deferred tax assets	¥ 7,330	¥ 5,367	\$ 66,040
Deferred tax liabilities:			
Unrealized gains on securities	¥ (2,363)	¥ (3,143)	\$ (21,292)
Valuation difference in land of consolidated subsidiary	(140)	(152)	(1,259)
Other	(180)	(168)	(1,623)
Total deferred tax liabilities	(2,683)	(3,463)	(24,174)
Net deferred tax assets	¥ 4,647	¥ 1,904	\$ 41,866

# Financial Statement

## 16. Comprehensive income

Amounts reclassified to net income in the current period that were recognized in other comprehensive income in the current or previous periods and the tax effects for each component of other comprehensive income were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Unrealized gains on securities			
Increase (decrease) during the year	¥ (2,552)	¥ 3,395	\$ (22,994)
Reclassification adjustments	(0)	(111)	(0)
Subtotal, before tax	(2,552)	3,284	(22,994)
Tax (expense) or benefit	780	(1,009)	7,028
Subtotal, net of tax	¥ (1,772)	¥ 2,275	\$ (15,966)
Deferred gains and losses on hedges			
Increase (decrease) during the year	¥ 82	¥ (13)	\$ 738
Reclassification adjustments	-	-	-
Subtotal, before tax	82	(13)	738
Tax (expense) or benefit	(24)	10	(219)
Subtotal, net of tax	¥ 58	¥ (3)	\$ 519
Foreign currency translation adjustments			
Increase (decrease) during the year	¥ (9)	¥ (4)	\$ (77)
Reclassification adjustments	-	-	-
Subtotal, before tax	(9)	(4)	(77)
Tax (expense) or benefit	-	-	-
Subtotal, net of tax	¥ (9)	¥ (4)	\$ (77)
Remeasurements of defined benefit plans			
Increase (decrease) during the year	¥ 4	¥ (63)	\$ 34
Reclassification adjustments	135	108	1,219
Subtotal, before tax	139	45	1,253
Tax (expense) or benefit	(43)	(14)	(383)
Subtotal, net of tax	¥ 96	¥ 31	\$ 870
Total other comprehensive income	¥ (1,627)	¥ 2,299	\$ (14,654)

## 17. Segment information

(Supplemental information - Accounting Standard for Disclosures about Segments of an Enterprise and Related Information)

### (1) General information about reportable segments

In the Group, businesses for which separate financial information is available are grouped into the following four reporting segments in accordance with the similarity of products and services of the respective business. The results of each reporting segment are reviewed periodically by the Board of Directors to assess the segment's business performance.

#### Domestic Environment and Energy

General waste treatment plants, industrial waste treatment plants, waste recycling plants, wastewater treatment plants, sludge combustion plants, biomass power plants and gas-turbine cogeneration systems

#### Overseas Environment and Energy

Waste combusting power plants and biomass power plants

#### Package Boiler

Compact through-flow boilers and vacuum water heating systems

#### Equipment and System Business

Construction equipment, equipment for semi-conductor industry and cleaning systems

### (2) Basis of measurement about reported segment profit or loss and other material items

Accounting methods used for reporting segments are the same those explained in the Note 2, "Summary of significant accounting policies."

Profits of reporting units are operating income. Internal revenue and transfers between reporting segments are recorded using prevailing market prices.

### (3) Information about reported segment profit or loss and other material items

Reportable segment information for the years ended March 31, 2019 and 2018 was as follows:

Year ended March 31, 2019	Millions of yen						
	Domestic Environment and Energy	Overseas Environment and Energy	Package Boiler	Equipment and System Business	Total	Adjustment	Consolidated
Sales:							
Outside customers	¥ 93,558	¥ 3,057	¥ 16,868	¥ 8,468	¥ 121,951	¥ -	¥ 121,951
Intersegment	166	-	87	368	621	(621)	-
Total	93,724	3,057	16,955	8,836	122,572	(621)	121,951
Reportable segment income	¥ 12,405	¥ 164	¥ 905	¥ 362	¥ 13,836	¥ (2,232)	¥ 11,604
Others:							
Depreciation	¥ 574	¥ 10	¥ 159	¥ 20	¥ 763	¥ 35	¥ 798
Year ended March 31, 2018	Millions of yen						
	Domestic Environment and Energy	Overseas Environment and Energy	Package Boiler	Equipment and System Business	Total	Adjustment	Consolidated
Sales:							
Outside customers	¥ 89,850	¥ 3,401	¥ 17,267	¥ 7,681	¥ 118,199	¥ -	¥ 118,199
Intersegment	225	-	54	16	295	(295)	-
Total	90,075	3,401	17,321	7,697	118,494	(295)	118,199
Reportable segment income	¥ 10,488	¥ 78	¥ 1,015	¥ 229	¥ 11,810	¥ (1,780)	¥ 10,030
Others:							
Depreciation	¥ 559	¥ 12	¥ 170	¥ 19	¥ 760	¥ 30	¥ 790
Year ended March 31, 2019	Thousands of U.S. dollars						
	Domestic Environment and Energy	Overseas Environment and Energy	Package Boiler	Equipment and System Business	Total	Adjustment	Consolidated
Sales:							
Outside customers	\$ 842,938	\$ 27,545	\$ 151,975	\$ 76,295	\$ 1,098,753	\$ -	\$ 1,098,753
Intersegment	1,503	-	785	3,317	5,605	(5,605)	-
Total	844,441	27,545	152,760	79,612	1,104,358	(5,605)	1,098,753
Reportable segment income	\$ 111,769	\$ 1,475	\$ 8,153	\$ 3,260	\$ 124,657	\$ (20,106)	\$ 104,551
Others:							
Depreciation	\$ 5,168	\$ 95	\$ 1,429	\$ 184	\$ 6,876	\$ 311	\$ 7,187

Adjustments in reportable segment income include eliminations of transactions between segments and corporate expenses not allocated to reportable segment expenses, including selling, general and administrative expenses not attributable to reportable segments.

Total reportable segment income is adjusted with operating income reported on the Consolidated Statements of Operations.

Disclosure of information relating to segment assets is omitted since assets are not allocated to business segments.

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- (Related information)  
Reportable segment information for the years ended March 31, 2019 and 2018 was as follows:
- (1) Information about products and services  
Disclosure of this information is omitted since similar information is disclosed in Note 17, “Segment information.”
- (2) Information about geographic areas  
Revenues  
Since over 90% of net sales reported on the Consolidated Statements of Operations were sales to outside customers within Japan, disclosure of this information is omitted.  
Tangible fixed assets  
Since 90% of tangible noncurrent assets reported on the consolidated balance sheet (in terms of values) were located within Japan, disclosure of this information is omitted.
- (3) Information about major customers  
Since no outside customer accounted for 10% or more of net sales reported on the income statement, disclosure of this information is omitted.
- (Information related to noncurrent asset impairment loss by reporting segment)  
The note is omitted because it is not important.
- (Information related to amortization and unamortized balance of goodwill)  
Not applicable
- (Information related to gain on negative goodwill by reporting segment)  
Not applicable



Independent Auditor’s Report

To the Board of Directors of TAKUMA CO., LTD.:

We have audited the accompanying consolidated financial statements of TAKUMA CO., LTD. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2019 and 2018, and the consolidated statements of operations, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

**Management’s Responsibility for the Consolidated Financial Statements**

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.

**Auditor’s Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of TAKUMA CO., LTD. and its consolidated subsidiaries as at March 31, 2019 and 2018, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

**Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2019 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

June 26, 2019  
Osaka, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity.