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## Independent Auditor's Report

The Board of Directors  
SEIKITOKYU KOGYO CO., LTD.

Pursuant to Article 444, Section 4 of the Companies Act, we have audited the accompanying consolidated financial statements, which comprise the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in net assets and the notes to the consolidated financial statements of SEIKITOKYU KOGYO CO., LTD. (the "Company") applicable to the fiscal year from April 1, 2018 through March 31, 2019.

### *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 designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the 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 audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we 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 the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls 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. 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 referred to above present fairly, in all material respects, the financial position and results of operations of the SEIKITOKYU KOGYO Group, which consisted of the Company and consolidated subsidiaries, applicable to the fiscal year ended March 31, 2019 in conformity with accounting principles generally accepted in Japan.

### *Conflicts of Interest*

We have no interest in the Company which should be disclosed in compliance with the Certified Public Accountants Act.

*Ernst & Young ShinNihon LLC*

May 21, 2019

## SEIKITOKYU KOGYO CO., LTD

Consolidated Balance Sheet  
for the year ended March 31, 2019

Assets	Yen	U.S. dollars	Liabilities and Net assets	Yen	U.S. dollars
	(millions)	(thousands) (Note 3)		(millions)	(thousands) (Note 3)
	2019	2019		2019	2019
Current assets:			Current liabilities:		
Cash and deposits (Note 11)	¥ 15,736	\$ 141,775	Short-term loans payable (Note 11)	¥ 1,739	\$ 15,672
Trade receivables (Notes 7 and 11)			Trade payables (Note 11)		
Notes	2,775	25,003	Notes	8,748	78,814
Accounts	21,802	196,430	Accounts	12,554	113,105
Net trade receivables	24,577	221,433	Total trade payables	21,301	191,920
Inventories			Advances received on uncompleted construction contracts	3,794	34,187
Cost on uncompleted construction contracts	4,959	44,677	Provision for warranties for completed construction	26	232
Raw materials and supplies	354	3,187	Provision for loss on construction contracts	13	118
Total inventories	5,312	47,864	Provision for bonuses	1,076	9,696
Short-term loans receivable	8	75	Allowance for losses on Anti-Monopoly Act	4,347	39,163
Other current assets	2,603	23,457	Other current liabilities	2,625	23,649
Total current assets	48,237	434,603	Total current liabilities	34,921	314,636
Property, plant and equipment (Notes 5 and 6):	19,417	174,940	Long-term liabilities:		
Intangible assets:	225	2,028	Long-term loans payable (Note 11)	665	5,992
Deferred tax assets-non-current:	1,361	12,262	Net defined benefit liability	3,694	33,280
Investments and long-term loans:			Other long-term liabilities	83	744
Investment securities			Total long-term liabilities	4,441	40,016
Other securities (Note 11)	254	2,284	Net assets:		
Guarantee deposits and other investments	1,414	12,739	Shareholders' equity (Note 8):		
Allowance for doubtful accounts	1,667	15,023	Common stock		
Total assets	¥ 70,907	\$ 638,856	Authorized - 150,000,000 shares	2,000	18,020
			Issued - 40,414,407 shares		
			Capital surplus	509	4,585
			Retained earnings	30,027	270,534
			Treasury stock - 11,648 shares	(6)	(54)
			Total shareholders' equity	32,529	293,085
			Accumulated other comprehensive income:		
			Unrealized gain on investment securities	15	134
			Remeasurements of defined benefit plans	(1,001)	(9,014)
			Total accumulated other comprehensive income	(986)	(8,881)
			Total net assets	31,544	284,204
			Total liabilities and net assets	¥ 70,907	\$ 638,856

See accompanying notes to consolidated financial statements.

# SEIKITOKYU KOGYO CO., LTD

## Consolidated Statement of Income for the year ended March 31, 2019

	Yen (millions)	U.S. dollars (thousands) (Note 3)
	<u>2019</u>	<u>2019</u>
Completed construction contracts:		
Net sales	¥ 58,496	\$ 527,043
Cost of sales	<u>51,510</u>	<u>464,099</u>
Gross profit	<u>6,986</u>	<u>62,943</u>
Finished goods:		
Net sales	15,450	139,204
Cost of sales	<u>12,470</u>	<u>112,349</u>
Gross profit	<u>2,981</u>	<u>26,855</u>
Real estate business:		
Net sales	90	810
Cost of sales	<u>75</u>	<u>672</u>
Gross profit	<u>15</u>	<u>138</u>
Total:		
Net sales	74,037	667,056
Cost of sales	<u>64,055</u>	<u>577,120</u>
Gross profit	<u>9,982</u>	<u>89,936</u>
Selling, general and administrative expenses:	<u>4,418</u>	<u>39,803</u>
Operating income	5,564	50,133
Other income:		
Interest and dividends	7	59
Other (Note 9)	<u>106</u>	<u>958</u>
Subtotal	<u>113</u>	<u>1,017</u>
Other expenses:		
Interest	37	329
Other (Note 10)	<u>1,363</u>	<u>12,278</u>
Subtotal	<u>1,399</u>	<u>12,607</u>
Income before income taxes	<u>4,278</u>	<u>38,542</u>
Income taxes		
Current	849	7,650
Deferred	<u>(51)</u>	<u>(464)</u>
Net income	<u>3,480</u>	<u>31,356</u>
Net income attributable to owners of parent	<u>¥ 3,480</u>	<u>\$ 31,356</u>

SEIKITOKYU KOGYO CO., LTD.

Consolidated Statement of Changes in Net Assets  
for the year ended March 31, 2019

	Shareholders' equity (Notes 3,8)				Total shareholders' equity
	Common stock	Capital surplus	Retained earnings (Millions of yen)	Treasury stock	
Balance at April 1, 2018	¥ 2,000	¥ 500	¥ 26,950	¥ (24)	¥ 29,426
Changes during the period					
Dividend of surplus			(404)		(404)
Net income attributable to owners of parent			3,480		3,480
Purchase of treasury stock				(1)	(1)
Disposal of treasury stock		9		19	28
Net changes of items other than shareholders' equity					-
Total changes during period	-	9	3,077	18	3,104
Balance as of March 31, 2019	¥ 2,000	¥ 509	¥ 30,027	¥ (6)	¥ 32,529

	Accumulated other comprehensive income			Total net assets
	Unrealized gain on investment securities	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	
			(Millions of yen)	
Balance at April 1, 2018	¥ 24	¥ (1,352)	¥ (1,328)	¥ 28,098
Changes during the period				
Dividend of surplus				(404)
Net income attributable to owners of parent				3,480
Purchase of treasury stock				(1)
Disposal of treasury stock				28
Net changes of items other than shareholders' equity	(9)	351	342	342
Total changes during period	(9)	351	342	3,445
Balance as of March 31, 2019	¥ 15	¥ (1,001)	¥ (986)	¥ 31,544

SEIKITOKYU KOGYO CO., LTD.

Consolidated Statement of Changes in Net Assets  
for the year ended March 31, 2019

	Shareholders' equity (Notes 3,8)				Total shareholders' equity
	Common stock	Capital surplus	Retained earnings	Treasury stock	
	(Thousands of U.S. dollars)				
Balance at April 1, 2018	\$ 18,020	\$ 4,505	\$ 242,814	\$ (217)	\$ 265,122
Changes during the period					
Dividend of surplus			(3,637)		(3,637)
Net income attributable to owners of parent			31,356		31,356
Purchase of treasury stock				(5)	(5)
Disposal of treasury stock		80		169	248
Net changes of items other than shareholders' equity					
Total changes during period	-	80	27,719	164	27,962
Balance as of March 31, 2019	\$ 18,020	\$ 4,585	\$ 270,534	\$ (54)	\$ 293,085

	Accumulated other comprehensive income			Total net assets
	Unrealized gain on investment securities	Retirement benefits liability adjustments	Total accumulated other comprehensive income	
	(Thousands of U.S. dollars)			
Balance at April 1, 2018	\$ 218	\$ (12,180)	\$ (11,961)	\$ 253,161
Changes during the period				
Dividend of surplus				(3,637)
Net income attributable to owners of parent				31,356
Purchase of treasury stock				(5)
Disposal of treasury stock				248
Net changes of items other than shareholders' equity	(85)	3,166	3,081	3,081
Total changes during period	(85)	3,166	3,081	31,043
Balance as of March 31, 2019	\$ 134	\$ (9,014)	\$ (8,881)	\$ 284,204

## Notes to Consolidated Financial Statements

### 1. Summary of Significant Accounting Policies

#### (a) Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared from the accounts maintained by SEIKITOKYU KOGYO CO., LTD. (the “Company”) and its consolidated subsidiaries in accordance with the provisions set forth in the Financial Instruments and Exchange Act of Japan and the Companies Act of Japan and in conformity with accounting principles generally accepted in Japan, which may differ in some material respects from accounting principles generally accepted and applied in countries and jurisdictions other than Japan.

Certain items presented in the Japanese consolidated financial statements have been reclassified for presentation solely for the convenience of readers outside Japan.

In addition, the notes to the consolidated financial statements include certain information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

#### (b) Consolidation Policies

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries. All significant intercompany accounts, intercompany transactions and unrealized profits have been eliminated in consolidation.

As of March 31, 2019, the number of consolidated subsidiaries was 7 and none of the subsidiaries and affiliates are accounted for by the equity method.

#### (c) Closing dates for consolidated subsidiaries

All the subsidiaries are consolidated using their financial statements as of their respective fiscal year end, which falls on March 31 as same as the consolidated fiscal year end.

#### (d) Method of Accounting for Construction Contracts

The Company and its consolidated subsidiaries recognize revenue and cost by applying the percentage of completion method for the construction projects for which the percentage of completion can be reliably estimated at the end of the reporting period. To estimate the progress of such construction project, a method to calculate the percentage of the cost incurred to the estimated total project cost (i.e. cost-to-cost method) is applied. For other construction projects, the completed-contract method is applied.

Revenue recognized by applying the percentage of completion method was ¥19,812 million (U.S.\$178,504 thousand) for the year ended March 31, 2019.

#### (e) Inventories

Inventories are stated at cost, cost being determined by the identified cost method for cost on uncompleted construction contracts or by the moving average method for raw materials and supplies, and adjusted for any substantial permanent decline in value.

Each item of inventory is initially recorded at acquisition cost, and when net realizable value is less than the cost (i.e., profitability of inventory has declined), the amount of cost is reduced to net realizable value.

(f) Investments

Other securities (securities which are neither trading, held-to-maturity securities nor investments in subsidiaries and affiliates) with market value are carried at the market value on the balance sheet date. The difference between the acquisition cost and the market value of other securities is recognized as unrealized gain on investment securities in the consolidated balance sheet, net of tax effect. Non-marketable securities classified as other securities are carried at cost. The cost of other securities sold is computed based on the moving average method.

(g) Property, Plant and Equipment (Excluding leased assets)

The Company and its consolidated subsidiaries compute depreciation of Property, plant and equipment by the declining balance method, however, buildings (excluding structures attached to the buildings) acquired on or after April 1, 1998 are depreciated by the straight-line method. Rates for depreciation are based on the estimated useful lives of the assets according to their general class, type of construction, and use.

The estimated useful lives are principally as follows:

Buildings and structures .....	7~50 years
Machinery, vehicle, tools, furniture and fixtures .....	5~ 7 years

(h) Intangible Assets (Excluding leased assets)

Computer software for internal use is amortized by the straight-line method over the estimated useful lives (5 years).

(i) Leases

Depreciation of leased assets under finance leases that do not transfer ownership of the leased assets to the lessee is calculated by the straight-line method over the lease period with a residual value of zero.

(j) Income Taxes

Deferred tax assets and liabilities have been recognized in the consolidated financial statements for the year ended March 31, 2019 with respect to the differences between the financial reporting and tax bases of assets and liabilities, and were measured using the enacted tax rates and laws which will be in effect when the differences are expected to be reversed. Valuation allowances are provided for the deferred tax assets that are not considered to be recoverable.

(k) Allowance for Doubtful Accounts

General provision for doubtful accounts is recorded by applying a certain reserve percentage of the receivables based on the experience from past transactions. When considered necessary, specific reserves are provided based on the assessment of individual receivables.

(l) Provision for Warranties for Completed Construction

Provision for warranties for completed construction is recorded at an estimated amount, based on the actual number of defects and related warranty costs stipulated in completed construction contracts.

(m) Provision for Loss on Construction Contracts

Provision for loss on construction contracts is recorded for estimated future losses related to the construction contracts in progress.

(n) Provision for Bonuses

Provision for bonuses is stated at the estimated amount of bonuses which the Company and its consolidated subsidiaries are obliged to pay to their employees.

(o) Allowance for losses on Anti-Monopoly Act

Allowance for losses on Anti-Monopoly Act is provided based on an estimated amount of payment for surcharges under the Anti-Monopoly Act.

(p) Net defined benefit liability

Net defined benefit liability for employees has been recorded as the amount of retirement benefit obligations after deducting pension plan assets, calculated based on the estimated amounts of the balance sheet dates. The retirement benefit obligation for employees is attributed to each period by the straight-line method.

Prior service cost is amortized by the straight-line method over a period of principally 13 years, which is shorter than the average remaining years of service of the employees.

Actuarial gains and losses are amortized from the following year in which the gains or losses are recognized. Amortization is primarily calculated by the straight-line method over 10 years, which is shorter than the average remaining years of service of the employees.

Unrecognized prior service costs and unrecognized actuarial gains and losses are recorded as remeasurements of defined benefit plans in accumulated other comprehensive income in net assets after consideration of tax effects.

(q) Consumption Taxes

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

(r) Consolidated Taxes

Consolidated tax return filing system.

2. Changes in Presentation

Changes due to the application of “Partial Revision of Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018 ( “Statement No. 28”))

The Companies applied Statement No.28 from the beginning of this fiscal year. Accordingly, the Companies changed the presentation, such that Deferred tax assets-current is classified as part of Deferred tax assets-non-current.

3. Basis of Translation

The consolidated financial statements as of and for the year ended March 31, 2019 presented herein are denominated in Japanese yen and, solely for the convenience of the readers, have been translated into U.S. dollars at the rate of ¥110.99 = U.S.\$1, the approximate rate of exchange in effect on March 31, 2019. This translation should not be construed as a representation that any of the yen amounts could be



converted into U.S. dollar amounts at the above or any other rate.

#### 4. Dividends

##### 1) Dividends paid

Resolution	Type of shares	Yen	U.S. dollars	Source of dividends	Yen	U.S. dollars	Record date	Effective date
		(millions)	(thousands)		Dividends per share	Dividends per share		
Annual general meeting of the shareholders on June 22, 2018	Common stock	¥403	\$3,637	Retained earnings	¥10.00	\$0.09	March 31, 2018	June 25, 2018

##### 2) Dividends with a record date in the year ended March 31, 2019 and an effective date in the year ending March 31, 2020:

Resolution	Type of shares	Yen	U.S. dollars	Source of dividends	Yen	U.S. dollars	Record date	Effective date
		Total dividends	Total dividends		Dividends per share	Dividends per share		
Annual general meeting of the shareholders on June 21, 2019	Common stock	¥1,090	\$9,829	Retained earnings	¥27.00	\$0.24	March 31, 2019	June 24, 2019

#### 5. Property, Plant and Equipment

Property, plant and equipment at March 31, 2019 were as follows:

	Yen (millions)	U.S. dollars (thousands)
	2019	2019
Buildings and structures	¥ 2,771	\$ 24,964
Machinery, equipment, vehicles, tools, furniture and fixtures	3,244	29,223
Land	13,100	118,025
Construction in progress	303	2,727
Total	¥19,417	\$174,940

#### 6. Collateral Assets and Corresponding Liabilities

The following assets are provided as collateral for the borrowings at March 31, 2019:

	Yen (millions)	U.S. dollars (thousands)
	2019	2019
Buildings	¥ 433	\$ 3,899
Land	9,921	89,387
Total	¥10,354	\$93,286

Corresponding Liabilities at March 31, 2019

	Yen (millions)	U.S. dollars (thousands)
	2019	2019
Short-term loans payable	¥1,731	\$15,596
Long-term loans payable	665	5,992
Total	¥2,396	\$21,588

7. Receivables Fully Offset Against Allowance for Doubtful Accounts

	Yen (millions)	U.S. dollars (thousands)
	2019	2019
Long-term trade receivables	¥498	\$4,483

8. Shareholders' Equity

In accordance with the Companies Act of Japan (the "Act"), the Company provides legal retained earnings, which is included in retained earnings. The Act requires that an amount equal to at least 10% of the amounts to be disbursed as distribution of earnings be appropriated to the legal retained earnings until the total of the legal retained earnings plus the legal capital surplus or either of them equals 25% of the common stock account.

The Act further provides that neither legal capital surplus nor the legal retained earnings is available for the payment of dividends, but either may be used to reduce or eliminate accumulated deficits by a resolution of the shareholders, or may be transferred to the common stock account by a resolution of the shareholders. The Act also provides that, if the total amount of legal capital surplus and the legal retained earnings exceeds 25% of the amount of common stock, the excess may be distributed to the shareholders, either as a return of capital or as dividends, subject to the approval of the shareholders.

9. Other Income

The composition of "Other income-Other" for the year ended March 31, 2019 is as follows:

	Yen (millions)	U.S. dollars (thousands)
	2019	2019
Interest income	¥ 0	\$ 1
Dividend income	6	58
Rent income	21	191
Gain on sales of non-current assets	39	347
Fiduciary obligation fee	29	260
Other	18	160
Total	¥113	\$1,017

10. Other Expenses

The composition of "Other expenses-Other" for the year ended March 31, 2019 is as follows:

	Yen (millions)	U.S. dollars (thousands)
	2019	2019
Interest expenses	¥ 21	\$ 188
Guarantee commission	16	141
Bill fluidizing commission	6	55
Loss on sales of non-current assets	0	1
Loss on retirement of non-current	25	223
Provision of allowance for losses on Anti-Monopoly Act	1,310	11,804
Penalty	11	96
Other	11	100
Total	¥1,399	\$12,607

#### 11. Financial Instruments

Cash of the Company and its consolidated subsidiaries is managed through short-term deposits. Funds are provided mainly by borrowings from banks.

Customers' credit risk on trade receivables (notes and accounts) is mitigated through credit control.

The Company and its consolidated subsidiaries assess fair values of investment securities quarterly at market quotations.

Funds from short-term loans payable and long-term loans payable are used for operating funds and capital investment.

The following table presents the carrying amounts of financial instruments on the consolidated balance sheet and the fair value at March 31, 2019, and the difference thereof.

	Yen (millions)		
	Carrying amount	Fair value	Unrealized gain (loss)
Assets			
Cash and deposits:	¥15,736	¥15,736	¥ –
Trade receivables:			
Notes and accounts	24,577	24,577	–
Investment securities:	50	50	–
Total	¥40,363	¥40,363	¥ –

	U.S. dollars (thousands)		
	Carrying amount	Fair value	Unrealized gain (loss)
Cash and deposits:	\$141,775	\$141,775	\$ –
Trade receivables:			
Notes and accounts	221,433	221,433	–
Investment securities:	453	453	–
Total	\$363,661	\$363,661	\$ –

Liabilities	Yen (millions)		
	Carrying amount	Fair value	Unrealized gain (loss)
Trade payables:			
Notes and accounts	¥21,301	¥21,301	¥–
Short-term Loans payable:	8	8	–
Long-term Loans payable:	2,396	2,396	–
Total	¥23,706	¥23,706	¥–

	U.S. dollars (thousands)		
	Carrying amount	Fair value	Unrealized gain (loss)
Trade payables:			
Notes and accounts	\$191,920	\$191,920	\$–
Short-term Loans payable:	76	76	–
Long-term Loans payable:	21,588	21,588	–
Total	\$213,583	\$213,583	\$–

Note 1: Fair value calculation methods for financial instruments.

#### Assets

##### Cash and deposits:

Since cash and deposits are settled on a short-term basis, the carrying amounts approximate fair values. The carrying amounts are therefore indicated as fair values.

##### Trade Receivables (notes and accounts):

Since these assets are settled on a short-term basis, the carrying amounts approximate fair values. The carrying amounts are therefore indicated as fair values.

##### Investment securities:

The fair value of these assets is determined by the prices listed on stock exchange.

#### Liabilities

##### Trade payables (notes and accounts):

Since these liabilities are settled on a short-term basis, the carrying amounts approximate fair values. The carrying amounts are therefore indicated as fair values.

##### Short-term Loans payable:

Since these liabilities are settled on a short-term basis, the carrying amounts approximate fair values. The carrying amounts are therefore indicated as fair values.

##### Long-term Loans payable:

Fair values of long-term loans payable are based on the present value of the total of principal and interest discounted by the interest rate to be applied if similar new loans were entered into.

In addition, the current portion of long-term loans payable which is included in short-term loans payable under current liabilities (¥1,731 million (U.S.\$15,596 thousand) on the consolidated balance sheet is included in “long-term loans payable” in the above table.

Note 2: Non-marketable securities (¥203 million (U.S.\$1,829 thousand) recorded on the consolidated balance sheet for the fiscal year ended March 31, 2019) are not included in “Investment securities” above, because these securities are without quotations and future cash flows cannot

be estimated, which makes it extremely difficult to assess their fair values.

## 12. Amounts Per Share

Amounts per share as of and for the year ended March 31, 2019 are as follows:

### As of March 31

	<u>Yen</u>	<u>U.S. dollars</u>
	2019	2019
Net assets	¥780.73	\$7.03

### For the year ended March 31

	<u>Yen</u>	<u>U.S. dollars</u>
	2019	2019
Net Income	¥86.16	\$0.78

## 13. Other Notes

In December 2016, the Company executed a syndicate loan contract with The Bank of Mitsubishi UFJ, Ltd. serving as the arranger (of which, the term loan as of the end of fiscal year is ¥2,396 million (U.S.\$21,588 thousand)).

The following financial covenants are attached to the syndicate loan mentioned above;

- (a) The amount of net assets recorded on the balance sheet and consolidated balance sheet on the final day of each accounting period in and after the fiscal year ended March 31, 2017 must be maintained to at least 75% of the amount of net assets recorded on the balance sheet and consolidated balance sheet for the fiscal year immediately preceding said fiscal year or for the fiscal year ended March 31, 2016, whichever is the higher amount.
- (b) Ordinary losses must not be recorded in two consecutive periods on the statements of income or consolidated statements of income in and after the fiscal year ended March 31, 2017.
- (c) Net losses must not be recorded in two consecutive periods on the statements of income or consolidated statements of income in and after the fiscal year ended March 31, 2017.
- (d) The total coverage ratio for the consolidated balance sheet, consolidated statements of income, and consolidated cash flow statement in and after the fiscal year ended March 31, 2017 must be maintained at 15.0 or lower.

It is stipulated under the loan that, in the event of changes in accounting standards, all concerned parties shall consult on the abovementioned financial covenants to determine the impact of the said changes.