

**Consolidated Financial Statements**

**KYUDENKO CORPORATION**

*Year ended March 31, 2020  
with Independent Auditor's Report*



# KYUDENKO CORPORATION and Consolidated Subsidiaries

## Consolidated Financial Statements

**Year ended March 31, 2020**

### **Contents**

#### **Consolidated Financial Statements**

Independent Auditor's Report .....	1
Consolidated Balance Sheet .....	4
Consolidated Statement of Income.....	6
Consolidated Statement of Comprehensive Income .....	7
Consolidated Statement of Changes in Net Assets .....	8
Consolidated Statement of Cash Flows.....	10
Notes to Consolidated Financial Statements .....	12

## **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

## **Independent Auditor's Report**

The Board of Directors  
KYUDENKO CORPORATION

### **Opinion**

We have audited the accompanying consolidated financial statements of KYUDENKO CORPORATION and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2020, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Responsibilities of Management, the Audit and Supervisory Board Members and the Audit and Supervisory Board 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Audit and Supervisory Board Members and the Audit and Supervisory Board are responsible for overseeing the Group's financial reporting process.

We also provide the Audit and Supervisory Board Members and the Audit and Supervisory Board with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

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

### **Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2020 are presented solely for convenience. Our audit also included the translation of Japanese 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.

Ernst & Young ShinNihon LLC  
Fukuoka, Japan  
June 25, 2020

吉村 祐二



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Yuji Yoshimura  
Designated Engagement Partner  
Certified Public Accountant



# KYUDENKO CORPORATION and Consolidated Subsidiaries

## Consolidated Balance Sheet

March 31, 2020

	March 31,		
	2019	2020	2020
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
<b>Assets</b>			
Current assets:			
Cash on hand and in banks (Notes 16, 18 and 21)	¥ 41,017	¥ 55,851	\$ 513,201
Notes receivable, accounts receivable on completed construction contracts and other accounts receivable (Notes 3, 18 and 23)	150,612	139,746	1,284,083
Short-term investments (Notes 18 and 19)	20	1,007	9,255
Costs of uncompleted construction contracts	5,106	7,285	66,941
Merchandise	1,765	1,527	14,038
Raw materials and supplies	979	1,145	10,528
Other current assets (Note 16)	6,791	9,723	89,349
Allowance for doubtful accounts (Note 18)	(23)	(18)	(170)
Total current assets	206,268	216,269	1,987,226
Fixed assets:			
Property and equipment:			
Buildings and structures (Notes 4 and 16)	66,155	69,346	637,204
Machinery, vehicles, tools, furniture and fixtures (Notes 4 and 16)	41,095	40,709	374,066
Leased assets	6,126	7,043	64,716
Land (Note 16)	28,874	28,911	265,655
Construction in progress	1,757	772	7,102
Accumulated depreciation	(60,259)	(64,158)	(589,530)
Total property and equipment	83,750	82,625	759,216
Intangible assets:			
Goodwill (Note 22)	343	182	1,679
Other intangible assets	986	1,465	13,468
Total intangible assets	1,329	1,648	15,148
Investments and other assets:			
Investments in securities (Notes 16, 18 and 19)	42,684	44,486	408,774
Investments in unconsolidated subsidiaries and affiliates (Notes 16 and 18)	11,088	11,543	106,072
Long-term loans receivable (Note 16)	1,179	1,209	11,115
Asset for retirement benefits (Note 6)	1,646	847	7,785
Deferred tax assets (Note 13)	5,720	6,539	60,090
Other (Note 16)	5,291	4,844	44,518
Allowance for doubtful accounts	(1,688)	(1,534)	(14,095)
Total investments and other assets	65,922	67,938	624,260
Total fixed assets	151,002	152,212	1,398,625
Total assets	¥ 357,271	¥ 368,482	\$ 3,385,852

	March 31,		
	2019 (Millions of yen)	2020 (Millions of yen)	2020 (Thousands of U.S. dollars) (Note 1)
<b>Liabilities</b>			
Current liabilities:			
Notes payable, accounts payable on construction contracts and other accounts payable (Notes 3 and 18)	¥ 88,360	¥ 73,584	\$ 676,140
Electronically recorded obligations (Notes 3 and 18)	21,094	27,894	256,309
Short-term borrowings (Notes 5 and 16)	87	30	275
Current portion of long-term debt (Notes 5, 16 and 18)	1,902	1,769	16,263
Lease obligations (Note 5)	942	1,147	10,540
Income taxes payable (Note 13)	8,412	6,257	57,500
Advances received on uncompleted construction contracts (Note 23)	12,909	23,440	215,384
Provision for loss on construction contracts	—	12	115
Other current liabilities	8,434	8,586	78,901
Total current liabilities	142,144	142,723	1,311,431
Long-term liabilities:			
Long-term debt (Notes 5, 16 and 18)	13,660	11,890	109,256
Lease obligations (Note 5)	2,596	3,016	27,718
Provision for retirement benefits for directors and audit and supervisory board members	324	337	3,100
Liability for retirement benefits (Note 6)	13,936	10,714	98,454
Other long-term liabilities (Notes 7 and 13)	2,432	2,357	21,660
Total long-term liabilities	32,949	28,316	260,190
Total liabilities	175,094	171,039	1,571,622
Commitments and contingencies (Note 15)			
<b>Net assets (Note 8)</b>			
Shareholders' equity:			
Common stock:			
Authorized – 250,000,000 shares			
Issued – 71,165,783 and 70,864,961 shares in 2019 and 2020, respectively	12,561	12,561	115,423
Capital surplus	13,012	12,982	119,293
Retained earnings	159,401	177,642	1,632,296
Treasury stock, at cost	(10)	(8)	(73)
Total shareholders' equity	184,965	203,179	1,866,940
Accumulated other comprehensive loss			
Unrealized holding gain on securities	3,585	745	6,851
Unrealized loss on hedging instruments	(423)	(540)	(4,964)
Translation adjustments	179	212	1,950
Retirement benefit liability adjustments (Note 6)	(7,988)	(7,985)	(73,377)
Total accumulated other comprehensive loss	(4,647)	(7,567)	(69,539)
Non-controlling interests	1,858	1,831	16,829
Total net assets	182,176	197,442	1,814,230
Total liabilities and net assets	¥ 357,271	¥ 368,482	\$ 3,385,852

See accompanying notes to consolidated financial statements.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Income

Year ended March 31, 2020

	Year ended March 31,		
	2019	2020	2020
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Net sales (Note 22):			
Construction contracts (Note 9)	¥ 388,327	¥ 407,506	\$ 3,744,436
Other	19,816	21,432	196,932
Total net sales	408,143	428,939	3,941,369
Cost of sales (Notes 10 and 12):			
Construction contracts	331,391	351,520	3,229,993
Other	16,191	17,325	159,195
Total cost of sales	347,582	368,845	3,389,189
Gross profit:			
Construction contracts	56,935	55,986	514,442
Other	3,625	4,106	37,737
Total gross profit	60,561	60,093	552,180
Selling, general and administrative expenses (Notes 11 and 12)	23,813	24,071	221,186
Operating income (Note 22)	36,747	36,022	330,993
Non-operating income (expenses):			
Interest income	62	66	614
Dividend income	564	662	6,091
Interest expenses	(372)	(385)	(3,539)
Equity in earnings of affiliates	754	685	6,300
Gain on investments in partnership	976	1,117	10,265
Rent income	312	323	2,972
Extra retirement payments	(80)	(60)	(555)
Compensation expenses	—	(129)	(1,188)
Provision of allowance for doubtful accounts of subsidiary	(153)	(92)	(850)
Other, net	1,113	433	3,980
Ordinary income	39,924	38,643	355,084
Extraordinary income (loss):			
Gain on sales of property and equipment	63	6	56
Loss on disposal and sales of fixed assets	(553)	(172)	(1,588)
Gain on sales of investments in securities (Note 19)	40	241	2,217
Impairment loss on investments in securities (Note 19)	(185)	(294)	(2,705)
Impairment loss on investment in unconsolidated subsidiary	(0)	—	—
Loss on sales of investments in securities (Note 19)	(15)	(0)	(5)
Loss on valuation of utility rights	(13)	—	—
Profit before income taxes	39,260	38,423	353,058
Income taxes (Note 13):			
Current	12,001	11,805	108,476
Deferred	569	295	2,714
Profit	26,689	26,322	241,867
Profit (loss) attributable to:			
Non-controlling interests	(1)	76	706
Owners of parent	¥ 26,691	¥ 26,245	\$ 241,161



KYUDENKO CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income

Year ended March 31, 2020

	Year ended March 31		
	2019	2020	2020
	(Millions of yen)		(Thousands of U.S. dollars)
			(Note 1)
<b>Profit</b>	¥ 26,689	¥ 26,322	\$ 241,867
<b>Other comprehensive income (loss) (Note 14):</b>			
Unrealized holding loss on securities	(678)	(2,832)	(26,026)
Unrealized gain (loss) on hedging instruments	254	(25)	(236)
Translation adjustments	(143)	33	304
Retirement benefit liability adjustments	(231)	3	28
Share of other comprehensive loss of affiliates accounted for by the equity method	(106)	(98)	(900)
Total other comprehensive loss	(904)	(2,919)	(26,830)
Comprehensive income	¥ 25,785	¥ 23,402	\$ 215,037
<b>Comprehensive (loss) income attributable to:</b>			
Owners of parent	¥ 25,803	¥ 23,325	\$ 214,326
Non-controlling interests	¥ (17)	¥ 77	\$ 710

# KYUDENKO CORPORATION and Consolidated Subsidiaries

## Consolidated Statement of Changes in Net Assets

Year ended March 31, 2020

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Unrealized holding gain on securities	Unrealized loss on hedging instruments	Translation adjustments	Retirement benefit liability adjustments	Total accumulated other comprehensive loss	Non- controlling interests	Total net assets
	<i>(Millions of yen)</i>											
Balance at April 1, 2018	¥ 12,555	¥ 12,853	¥ 139,809	¥ (8)	¥ 165,209	¥ 4,261	¥ (570)	¥ 306	¥ (7,757)	¥ (3,759)	¥ 2,689	¥ 164,139
Issuance of new shares	6	6	—	—	13	—	—	—	—	—	—	13
Cash dividends paid	—	—	(7,116)	—	(7,116)	—	—	—	—	—	—	(7,116)
Profit attributable to owners of parent for the period	—	—	26,691	—	26,691	—	—	—	—	—	—	26,691
Purchase of treasury stock	—	—	—	(1)	(1)	—	—	—	—	—	—	(1)
Disposal of treasury stock	—	—	—	—	—	—	—	—	—	—	—	—
Transfer to capital surplus from retained earnings	—	—	—	—	—	—	—	—	—	—	—	—
Purchase of treasury stock of consolidated subsidiary	—	2	—	—	2	—	—	—	—	—	—	2
Purchase of shares of consolidated subsidiaries	—	150	—	—	150	—	—	—	—	—	—	150
Increase in retained earnings due to change in accounting period of a subsidiary	—	—	16	—	16	—	—	—	—	—	—	16
Net changes in items other than those in shareholders' equity	—	—	—	—	—	(676)	147	(127)	(231)	(887)	(830)	(1,718)
Net changes during the year	6	159	19,591	(1)	19,755	(676)	147	(127)	(231)	(887)	(830)	18,037
Balance at April 1, 2019	<b>12,561</b>	<b>13,012</b>	<b>159,401</b>	<b>(10)</b>	<b>184,965</b>	<b>3,585</b>	<b>(423)</b>	<b>179</b>	<b>(7,988)</b>	<b>(4,647)</b>	<b>1,858</b>	<b>182,176</b>
Issuance of new shares	—	—	—	—	—	—	—	—	—	—	—	—
Cash dividends paid	—	—	(7,101)	—	(7,101)	—	—	—	—	—	—	(7,101)
Profit attributable to owners of parent for the period	—	—	26,245	—	26,245	—	—	—	—	—	—	26,245
Purchase of treasury stock	—	—	—	(995)	(995)	—	—	—	—	—	—	(995)
Disposal of treasury stock	—	(997)	—	997	—	—	—	—	—	—	—	—
Transfer to capital surplus from retained earnings	—	929	(929)	—	—	—	—	—	—	—	—	—
Purchase of treasury stock of consolidated subsidiary	—	10	—	—	10	—	—	—	—	—	—	10
Purchase of shares of consolidated subsidiaries	—	27	—	—	27	—	—	—	—	—	—	27
Increase in retained earnings due to change in accounting period of a subsidiary	—	—	27	—	27	—	—	—	—	—	—	27
Net changes in items other than those in shareholders' equity	—	—	—	—	—	(2,839)	(116)	32	3	(2,920)	(27)	(2,947)
Net changes during the year	—	(30)	18,241	2	18,213	(2,839)	(116)	32	3	(2,920)	(27)	15,266
Balance at March 31, 2020	<b>¥ 12,561</b>	<b>¥ 12,982</b>	<b>¥ 177,642</b>	<b>¥ (8)</b>	<b>¥ 203,179</b>	<b>¥ 745</b>	<b>¥ (540)</b>	<b>¥ 212</b>	<b>¥ (7,985)</b>	<b>¥ (7,567)</b>	<b>¥ 1,831</b>	<b>¥ 197,442</b>

# KYUDENKO CORPORATION and Consolidated Subsidiaries

## Consolidated Statement of Changes in Net Assets (continued)

Year ended March 31, 2020

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Unrealized holding gain on securities	Unrealized loss on hedging instruments	Translation adjustments	Retirement benefit liability adjustments	Total accumulated other comprehensive loss	Non- controlling interests	Total net assets
<i>(Thousands of U.S. dollars) (Note 1)</i>												
Balance at April 1, 2019	\$ 115,423	\$ 119,571	\$ 1,464,680	\$ (96)	\$ 1,699,579	\$ 32,944	\$ (3,892)	\$ 1,647	\$ (73,405)	\$ (42,705)	\$ 17,080	\$ 1,673,955
Issuance of new shares	—	—	—	—	—	—	—	—	—	—	—	—
Cash dividends paid	—	—	(65,253)	—	(65,253)	—	—	—	—	—	—	(65,253)
Profit attributable to owners of parent for the period	—	—	241,161	—	241,161	—	—	—	—	—	—	241,161
Purchase of treasury stock	—	—	—	(9,145)	(9,145)	—	—	—	—	—	—	(9,145)
Disposal of treasury stock	—	(9,168)	—	9,168	—	—	—	—	—	—	—	—
Transfer to capital surplus from retained earnings	—	8,541	(8,541)	—	—	—	—	—	—	—	—	—
Purchase of treasury stock of consolidated subsidiary	—	100	—	—	100	—	—	—	—	—	—	100
Purchase of shares of consolidated subsidiaries	—	248	—	—	248	—	—	—	—	—	—	248
Increase in retained earnings due to change in accounting period of a subsidiary	—	—	249	—	249	—	—	—	—	—	—	249
Net changes in items other than those in shareholders' equity	—	—	—	—	—	(26,092)	(1,072)	302	28	(26,834)	(251)	(27,086)
Net changes during the year	—	(277)	167,616	22	167,361	(26,092)	(1,072)	302	28	(26,834)	(251)	140,274
Balance at March 31, 2020	\$ 115,423	\$ 119,293	\$ 1,632,296	\$ (73)	\$ 1,866,940	\$ 6,851	\$ (4,964)	\$ 1,950	\$ (73,377)	\$ (69,539)	\$ 16,829	\$ 1,814,230

See accompanying notes to consolidated financial statements.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Cash Flows

Year ended March 31, 2020

	<b>2019</b>	<b>2020</b>	<b>2020</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
			<i>(Note 1)</i>
<b>Cash flows from operating activities</b>			
Profit before income taxes	¥ 39,260	¥ 38,423	\$ 353,058
Depreciation and amortization	6,074	5,961	54,778
Increase (decrease) in allowance for doubtful accounts	575	(13)	(120)
Decrease in liability for retirement benefits and provision for retirement benefits for directors and audit and supervisory board members	(3,295)	(3,319)	(30,502)
Increase in provision for loss on construction contracts	—	12	115
Loss on valuation of utility rights	13	—	—
Gain on investments in partnership	(976)	(1,117)	(10,265)
Interest and dividend income	(626)	(729)	(6,706)
Interest expenses	372	385	3,539
Foreign exchange loss	22	46	429
Equity in earnings of affiliates	(541)	(306)	(2,813)
(Gain) loss on sales of property and equipment, net	(63)	25	236
Loss on disposal of fixed assets	553	140	1,294
Impairment loss on investments in securities	185	294	2,705
Gain on sales of investments in securities	(24)	(240)	(2,211)
(Increase) decrease in notes and accounts receivable on completed construction contracts	(23,007)	11,011	101,176
Decrease (increase) in costs of uncompleted construction contracts	1,585	(2,302)	(21,152)
Decrease in inventories	3,597	71	655
Increase (decrease) in notes and accounts payable on construction contracts	10,751	(7,981)	(73,343)
Increase in advances received on uncompleted construction contracts	6,073	10,678	98,119
Increase in long-term accounts payable	20	26	243
(Decrease) increase in consumption taxes payable, net	(1,896)	1,566	14,396
Other, net	(2,866)	(976)	(8,969)
Subtotal	35,786	51,657	474,663
Interest and dividend income received	604	762	7,008
Interest expenses paid	(384)	(385)	(3,539)
Income taxes paid	(9,952)	(13,812)	(126,922)
Net cash provided by operating activities	¥ 26,054	¥ 38,222	\$ 351,210

KYUDENKO CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Cash Flows (continued)

Year ended March 31, 2020

	2019	2020	2020
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
			<i>(Note 1)</i>
<b>Cash flows from investing activities</b>			
Payments into time deposits	¥ (644)	¥ (1,014)	\$ (9,325)
Proceeds from withdrawal of time deposits	488	954	8,768
Purchase of property and equipment	(2,877)	(3,998)	(36,741)
Proceeds from sales of property and equipment	211	279	2,569
Payments of disposal of property, plant and equipment	(501)	(78)	(717)
Purchase of investments in securities	(9,334)	(8,649)	(79,478)
Proceeds from sales of investments in securities	2,405	1,076	9,887
Payments of long-term loans receivable	(289)	(381)	(3,502)
Collection of long-term loans receivable	181	222	2,043
Other, net	(938)	(546)	(5,018)
Net cash used in investing activities	(11,298)	(12,136)	(111,514)
<b>Cash flows from financing activities</b>			
Net (decrease) increase in short-term borrowings	(348)	3	27
Proceeds from long-term debt	7,496	–	–
Repayments of long-term debt	(8,040)	(1,963)	(18,043)
Purchase of treasury stock	(1)	(998)	(9,177)
Cash dividends paid	(7,108)	(7,099)	(65,232)
Cash dividends paid to non-controlling shareholders	(6)	(4)	(42)
Proceeds from stock issuance to non-controlling shareholders	–	8	73
Repayments to non-controlling shareholders	(22)	(22)	(208)
Purchase of subsidiaries' shares not resulting in changes in scope of consolidation	(0)	(46)	(430)
Other, net	(988)	(1,125)	(10,344)
Net cash used in financing activities	(9,021)	(11,250)	(103,378)
Effect of exchange rate changes on cash and cash equivalents	(48)	(2)	(19)
Net increase in cash and cash equivalents	5,686	14,833	136,298
Cash and cash equivalents at the beginning of the year	34,505	40,192	369,316
Increase (decrease) in cash and cash equivalents resulting from changes in accounting period of consolidated subsidiary	1	(61)	(565)
Cash and cash equivalents at the end of the year	¥ 40,192	¥ 54,964	\$ 505,049
<i>(Note 21)</i>			

# KYUDENKO CORPORATION and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements

March 31, 2020

### 1. Basis of Presentation

KYUDENKO CORPORATION (the “Company”) and its domestic subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, and its foreign subsidiaries maintain their books of account in conformity with those of their countries of domicile.

The accompanying consolidated financial statements of the Company and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a format which is more familiar to readers outside Japan.

Certain amounts in the prior year’s consolidated financial statements have been reclassified to conform to the current year’s presentation. Such reclassifications had no effect on consolidated profit or net assets.

The U.S. dollar amounts in the accompanying consolidated financial statements have been translated from yen amounts solely for the convenience of the reader, as a matter of arithmetic computation only, at ¥108.83 = U.S.\$1.00, the rate of exchange prevailing on March 31, 2020. This translation should not be construed as a representation that the yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

As permitted by the Financial Instruments and Exchange Act of Japan, amounts of less than one million yen for the years ended March 31, 2020 and 2019 have been omitted. Consequently, the totals shown in the accompanying consolidated financial statements for the years ended March 31, 2020 and 2019 (both in yen and in U.S. dollars) do not necessarily agree with the sum of the individual amounts.

# KYUDENKO CORPORATION and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 2. Summary of Significant Accounting Policies

#### (a) Principles of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

The accompanying consolidated financial statements include the accounts of the Company and any significant companies controlled directly or indirectly by the Company

Investments in companies over which the Company exercises significant influence in terms of their operating and financial policies have been accounted for by the equity method.

As of March 31, 2020, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 48 and 9 (48 and 7 in 2019), respectively.

Kyudenko New Energy Co., Ltd., which had been a major consolidated subsidiary, merged into the Company on April 1, 2019. The Company established RYUHO SOGO SETSUBI Co., Ltd., which was newly included in the scope of consolidation on April 1, 2019. UKUJIMA MIRAI ENERGY HOLDINGS LIMITED LIABILITY CO. and UKUJIMA MIRAI ENERGY GODOKAISHA were newly accounted for by equity method because their materiality has been increasing.

Effective April 1, 2019, Sanyudensetsu Co., Ltd. changed its fiscal year end from January 31 to March 31 to conform with the consolidated fiscal year end. Profit or loss of the subsidiary for the two months from February 1 to March 31, 2019 has been recognized in retained earnings. Corresponding changes in cash and cash equivalents are indicated as “Increase (decrease) in cash and cash equivalents resulting from changes of accounting period of consolidated subsidiaries” in the consolidated statement of cash flows.

Kyulien Environment Improving Co., Ltd., Asia Projects Engineering Pte. Ltd. and Kyudenko South East Asia Pte. Ltd. are consolidated by using their financial statements as of their respective fiscal year end, which falls on December 31. Necessary adjustments are made to their financial statements to reflect any significant transactions between their fiscal year-ends and March 31.

All significant intercompany balances and transactions have been eliminated in consolidation.

Certain subsidiaries were excluded from the scope of consolidation because the effect of their sales, net profit or loss, total assets and retained earnings on the accompanying consolidated financial statements was immaterial. Such unconsolidated subsidiaries and affiliates are accounted for by the equity method, unless they are clearly immaterial. Certain unconsolidated subsidiaries and affiliates were excluded from the scope of application of the equity method because their profit or loss and retained earnings attributable to the Company's interest were not material either individually or in aggregate to the consolidated financial statements.



# KYUDENKO CORPORATION and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### **2. Summary of Significant Accounting Policies (continued)**

#### **(a) Principles of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates (continued)**

Unrealized intercompany gains among the Company and the consolidated subsidiaries have been eliminated and the portion attributable to non-controlling interests has been charged to non-controlling interests.

Investments in subsidiaries and affiliates which are neither consolidated nor accounted for by the equity method are carried at cost or less. Where there has been a permanent decline in the value of such investments, the Company has written down the investments.

#### **(b) Foreign currency translation**

All monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date, except that receivables and payables hedged by qualified forward foreign exchange contracts are translated at the corresponding contract rates. All other assets and liabilities denominated in foreign currencies are translated at their historical rates. Gain or loss on each translation is credited or charged to profit (loss).

The balance sheet accounts and income statement accounts of the foreign consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date, except for the components of net assets excluding non-controlling interests which are translated at their historical exchange rates. Differences arising from the translation are presented as translation adjustments and non-controlling interests in the consolidated financial statements.

#### **(c) Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand, cash in banks which can be withdrawn at any time and short-term investments with a maturity of three months or less when purchased which can easily be converted to cash and are subject to little risk of change in value.

#### **(d) Inventories**

Costs on uncompleted construction contracts are stated at cost determined on an individual project basis. Merchandise and raw materials and supplies are stated principally at the lower of cost or market, cost being determined principally by the periodic average method.

# KYUDENKO CORPORATION and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 2. Summary of Significant Accounting Policies (continued)

#### (e) Short-term investments and investments in securities

Securities other than equity securities issued by unconsolidated subsidiaries and affiliates are classified into three categories: trading, held-to-maturity or other securities. Trading securities are carried at fair value and held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. In cases where an embedded derivative in a compound financial instrument cannot be separately measured, the entire compound financial instrument is measured at fair value with changes in value charged or credited to profit (loss).

Non-marketable securities classified as other securities are carried at cost determined by the moving average method. Investments in limited liability partnerships and other similar partnerships, which are deemed to be securities under Article 2, Clause 2 of the Financial Instruments and Exchange Act of Japan, are valued at the amount of the underlying equity in their net assets based on the latest financial statements available as of the closing date stipulated in the partnership agreement.

#### (f) Property and equipment and depreciation (excluding leased assets)

Depreciation of property and equipment (excluding leased assets) of the Company and its consolidated subsidiaries is calculated principally by the declining-balance method based on the estimated useful lives and the residual value in accordance with the Corporation Tax Law of Japan, except for certain buildings of the Company and domestic consolidated subsidiaries, which are depreciated by the straight-line method. Facilities attached to buildings and other non-building structures acquired on or after April 1, 2016 are also depreciated by the straight-line method.

#### (g) Intangible assets (excluding leased assets)

Intangible assets (excluding leased assets) are amortized by the straight-line method. Computer software for internal use is amortized by the straight-line method over the estimated useful life of five years.

#### (h) Goodwill

Goodwill is amortized by the straight-line method over reasonable periods, considering each individual condition.

# KYUDENKO CORPORATION and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 2. Summary of Significant Accounting Policies (continued)

#### (i) Leases

Leased assets under finance lease contracts which do not transfer ownership to the lessee are depreciated to a residual value of zero by the straight-line method over the respective lease terms.

#### (j) Allowance for doubtful accounts

Allowance for doubtful accounts is provided based on past experience for normal receivables and on an estimate of collectability of receivables from companies in financial difficulty.

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

Provision for loss on construction contracts is provided with respect to uncompleted construction projects for which anticipated future losses are expected and a reasonable estimate of the amount can be made at the fiscal year end.

#### (l) Retirement benefits

Asset and liability for retirement benefits for employees have been provided at an amount calculated based on the retirement benefit obligation after the fair value of the pension plan assets are deducted. Retirement benefits are attributed to each period by the benefit formula method over the estimated years of service of the eligible employees.

Prior service cost is being amortized as incurred by the straight-line method over periods within the estimated average remaining years of service of the eligible employees.

Actuarial gain or loss is amortized in the years following the year in which the gain or loss is recognized primarily by the straight-line method over periods within the estimated average remaining years of service of the eligible employees.

All of the consolidated subsidiaries use a simplified method for calculating retirement benefit expenses and liabilities mainly based on the assumption that the benefits payable, which are mainly calculated as if all eligible employees voluntarily terminated their employment at fiscal year-end, approximate the retirement benefit obligation at year-end.

In addition, provision for retirement benefits for directors and audit and supervisory board members of certain consolidated subsidiaries are provided at the amount payable at year-end in accordance with each company's internal regulations.

# KYUDENKO CORPORATION and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 2. Summary of Significant Accounting Policies (continued)

#### (m) Income taxes

Income taxes are calculated based on taxable income and charged to income on an accrual basis. Deferred tax assets and liabilities are computed based on the temporary differences between the financial reporting and the tax bases of the assets and liabilities that will result in taxable or deductible amounts in the future. Computations of deferred tax assets and liabilities are based on the tax rates which have been enacted as of the balance sheet date.

#### (n) Research and development costs

Research and development costs are charged to profit (loss) as incurred.

#### (o) Recognizing revenues and costs of construction contracts

Revenues and costs of construction contracts for which contract revenues, contract costs and the percentage of completion can be reliably estimated are recognized by the percentage-of-completion method. The percentage of completion is calculated at the cost incurred as a percentage of the estimated total cost. The completed-contract method continues to be applied for construction contracts for which the percentage-of-completion cannot be reliably estimated.

#### (p) Consumption taxes

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

#### (q) Derivative financial instruments

The Company and certain subsidiaries enter into forward foreign exchange contracts in order to hedge the risk arising from fluctuations in foreign currency exchange rates on transactions denominated in foreign currencies and interest-rate swaps in order to hedge the risk arising from fluctuations in interest rates on certain loans from financial institutions and interest and currency rate swaps in order to hedge the risk arising from fluctuations in foreign currency exchange rates and interest rates on all loans denominated foreign currencies from financial institutions. The Company and its consolidated subsidiaries do not enter into derivative transactions for speculative purposes.

Hedging instruments are interest-rate swaps, interest and currency rate swaps and forward foreign exchange contracts. Hedged items are interest payments on loans, foreign currency loans and associated interest payments and forecasted transactions in foreign currencies.

# KYUDENKO CORPORATION and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 2. Summary of Significant Accounting Policies (continued)

#### (q) Derivative financial instruments (continued)

Derivative financial instruments are carried at fair value with changes in unrealized gain or loss charged or credited to profit (loss), except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss is deferred as a component of net assets.

Deferral hedge accounting is adopted for derivatives which qualify as hedges, under which unrealized gain or loss is deferred. Simplified methods, “Special treatment” and “Allocation method” which is the net amounts to be paid or received under the interest rate swap contract are added to or deducted from the interest on the liabilities and foreign currency liabilities are translated at the corresponding currency swap contract rates, is applied for interest and currency rate swaps which qualify for such treatment. The allocation method, “Allocation method” which requires that recognized foreign currency receivables and payables be translated at the corresponding forward foreign exchange rates, is applied for forward foreign exchange contracts which qualify for such treatment.

Hedge effectiveness is not assessed if the substantial terms and conditions of the hedging instruments and the hedged items are the same. An assessment of hedge effectiveness is omitted for interest and currency rate swaps which meet certain conditions. No evaluation is performed for hedge effectiveness of forward foreign exchange contracts since the derivative contracts are based on forecasted transactions which are certain to be executed.

#### (r) Accounting standards issued but not yet effective

##### Accounting Standard and Implementation Guidance on Revenue Recognition

On March 31, 2020, the Accounting Standard Board of Japan (hereinafter referred to as the “ASBJ”) revised “Accounting Standard for Revenue Recognition” (ASBJ Statement No.29) and “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No.30).

##### (1) Overview

This is a comprehensive accounting standard for revenue recognition. Specifically, the accounting standard establishes the following five-step model that will apply to revenue from customers:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

# KYUDENKO CORPORATION and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 2. Summary of Significant Accounting Policies (continued)

#### (r) Accounting standards issued but not yet effective (continued)

##### (2) Scheduled date of adoption

The Company expects to adopt the accounting standard and implementation guidance from the beginning of the fiscal year ending March 31, 2022.

##### (3) Impact of the adoption of accounting standard and implementation guidance

The Company is currently evaluating the effect of the adoption of this accounting standard and implementation guidance on its consolidated financial statements.

#### Accounting Standard for Disclosure of Accounting Estimates

On March 31, 2020, the ASBJ issued the “Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No.31).

##### (1) Overview

This accounting standard has been released to provide guidance on disclosure of information that deepens the understanding of users of the financial statements about estimates that have a risk of a significant impact on the financial statements for the following accounting period.

##### (2) Scheduled date of adoption

The Company expects to adopt the accounting standard from the end of the fiscal year ending March 31, 2021.

#### (s) Change in presentation

“Insurance and dividend income” of “Non-operating income (expenses)” was presented as a separate account for the fiscal year ended March 31, 2019, but because it amounted to 10% or less of total non-operating income for the fiscal year ended March 31, 2020, it was included in “Other, net.” In order to reflect this change in preparation method, the consolidated financial statements for the fiscal year ended March 31, 2019 have been reclassified. As a result, in the consolidated statement of income for the fiscal year ended March 31, 2019, ¥443 million and ¥670 million that were presented in “Insurance and dividend income” account and “Other, net” account of “Non-operating income (expenses)” have been reclassified as ¥1,113 million in “Other, net.”

# KYUDENKO CORPORATION and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 2. Summary of Significant Accounting Policies (continued)

#### (t) Additional information

At this time, the Company has implemented strict measures to address the impact of the new coronavirus infection. The Company is continuing its business activities and is currently maintaining the same level of utilization as usual. However, this infectious disease has had a wide impact on the economy and corporate activities, and it is difficult to predict its future spread and when it will be brought under control, the Company estimates the total cost of construction based on the percentage-of-completion method, the provision for loss on construction contracts, and the collectability of deferred tax assets based on the assumption that these effects will continue in the fiscal year ending March 31, 2021, based on external information available at the end of March 31, 2020.

### 3. Notes Receivable, Notes Payable and Electronically recorded obligations

The balance sheet date for the year ended March 31, 2019 fell on a bank holiday. Consequently, the following notes receivable, notes payable and Electronically recorded obligations with the due date of March 31 were included in the respective balances and settled on the next business day.

	<u>2019</u>	<u>2020</u>	<u>2020</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Notes receivable	¥ 844	¥ –	\$ –
Notes payable	2,776	–	–
Electronically recorded obligations	3,560	–	–

### 4. Reductions in Acquisition Costs Due to Subsidies and Capital Gains

The amounts of the Company received from the Japanese national government and capital gains recognized upon the expropriation by the government and the exchange for similar transactions and deducted from the acquisition costs of property and equipment at March 31, 2019 and 2020 are as follows:

	<u>2019</u>	<u>2020</u>	<u>2020</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Structures	¥ 283	¥ 283	\$ 2,602
Machinery	2,809	2,809	25,816
	<u>¥3,092</u>	<u>¥3,092</u>	<u>\$ 28,419</u>



# KYUDENKO CORPORATION and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 5. Short-Term Borrowings, Long-Term Debt and Lease Obligations

The annual weighted-average interest rates applicable to short-term borrowings (excluding the current portion of long-term debt) were 0.26% and 0.03% for the years ended March 31, 2019 and 2020, respectively.

Long-term debt, convertible bond-type bonds with share subscription rights and lease obligations at March 31, 2019 and 2020 consisted of the following:

	<u>2019</u>	<u>2020</u>	<u>2020</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Loans from banks due through 2033 with interest rates ranging from 0.116% to 3.137%	¥ 15,563	¥ <b>13,660</b>	\$ <b>125,519</b>
Lease obligations due through 2028	3,538	<b>4,163</b>	<b>38,259</b>
	<u>19,101</u>	<u><b>17,824</b></u>	<u><b>163,779</b></u>
Less current portion	(2,845)	<b>(2,917)</b>	<b>(26,804)</b>
	<u>¥ 16,256</u>	<u><b>¥ 14,906</b></u>	<u><b>\$ 136,974</b></u>

The aggregate annual maturities of long-term debt and lease obligations as of March 31, 2020 are summarized as follows:

<u>Years ending March 31,</u>	<u>(Millions of yen)</u>	<u>(Thousands of U.S. dollars)</u>
2021	¥ 2,917	\$ 26,804
2022	2,749	25,266
2023	7,551	69,389
2024	1,557	14,311
2025	696	6,395
2026 and thereafter	2,352	21,611
	<u>¥ 17,824</u>	<u><b>\$ 163,779</b></u>

# KYUDENKO CORPORATION and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 6. Retirement Benefit Plans

The Company has defined benefit plans (corporate pension plans), defined contribution plans (corporate pension plans) and lump-sum payment plans, and the consolidated subsidiaries also have defined benefit plans (multiple-employer pension plans), defined contribution plans (corporate pension plans) and lump-sum payment plans. The Company and its consolidated subsidiaries may pay additional retirement benefits under certain circumstances.

For the defined benefit plans and lump-sum payment plans of most of consolidated subsidiaries, liabilities and expenses for retirement benefits are calculated using the simplified method.

(a) Defined benefit plans (excluding the retirement benefit obligation calculated by the simplified method)

1) The changes in the retirement benefit obligation for the years ended March 31, 2019 and 2020 were as follows:

	<b>2019</b>	<b>2020</b>	<b>2020</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Balance at the beginning of the year	¥ 46,052	¥ 45,389	\$ 417,070
Service cost	2,100	2,129	19,564
Interest cost	277	272	2,502
Actuarial gain and loss	94	(653)	(6,003)
Retirement benefit paid	(3,134)	(2,198)	(20,202)
Balance at the end of the year	¥ 45,389	¥ 44,939	\$ 412,931

2) The changes in the plan assets for the years ended March 31, 2019 and 2020 were as follows:

	<b>2019</b>	<b>2020</b>	<b>2020</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Balance at the beginning of the year	¥ 31,454	¥ 33,932	\$ 311,795
Expected return on plan assets	629	678	6,235
Actuarial gain and loss	(165)	(1,283)	(11,793)
Contributions by the Company	4,530	4,397	40,404
Retirement benefit paid	(2,570)	(1,873)	(17,218)
Other	54	55	507
Balance at the end of the year	¥ 33,932	¥ 35,906	\$ 329,931

# KYUDENKO CORPORATION and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 6. Retirement Benefit Plans (continued)

(a) Defined benefit plans (excluding the retirement benefit obligation calculated by the simplified method) (continued)

3) The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets at March 31, 2019 and 2020 for the Company's and its consolidated subsidiaries' defined benefit plans:

	<b>2019</b>	<b>2020</b>	<b>2020</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Funded retirement benefit obligation	¥ 36,017	¥ <b>35,540</b>	<b>\$ 326,572</b>
Plan assets at fair value	(33,932)	<b>(35,906)</b>	<b>(329,931)</b>
	2,085	<b>(365)</b>	<b>(3,359)</b>
Unfunded retirement benefit obligation	9,371	<b>9,398</b>	<b>86,359</b>
Net liability for retirement benefits in the consolidated balance sheet	11,457	<b>9,032</b>	<b>82,999</b>
Liability for retirement benefits	11,457	<b>9,398</b>	<b>86,359</b>
Asset for retirement benefits	—	<b>(365)</b>	<b>(3,359)</b>
Net liability for retirement benefits in the consolidated balance sheet	¥ 11,457	¥ <b>9,032</b>	<b>\$ 82,999</b>

4) The components of retirement benefit expenses for the years ended March 31, 2019 and 2020 were as follows:

	<b>2019</b>	<b>2020</b>	<b>2020</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Service cost	¥ 2,045	¥ <b>2,073</b>	<b>\$ 19,056</b>
Interest cost	277	<b>272</b>	<b>2,502</b>
Expected return on plan assets	(629)	<b>(678)</b>	<b>(6,235)</b>
Amortization of actuarial gain and loss	100	<b>459</b>	<b>4,219</b>
Amortization of prior service cost	(172)	<b>175</b>	<b>1,611</b>
Other	80	<b>60</b>	<b>555</b>
Retirement benefit expenses	¥ 1,701	¥ <b>2,362</b>	<b>\$ 21,709</b>

Contributions from employees of ¥54 million and ¥55 million (\$507 thousand) for the years ended March 31, 2019 and 2020 are not included in above service cost.

# KYUDENKO CORPORATION and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 6. Retirement Benefit Plans (continued)

(a) Defined benefit plans (excluding the retirement benefit obligation calculated by the simplified method) (continued)

5) The components of retirement benefit liability adjustments included in other comprehensive income (before tax effect) for the years ended March 31, 2019 and 2020 were as follows:

	<b>2019</b>	<b>2020</b>	<b>2020</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Prior service cost	¥ (172)	¥ 175	\$ 1,611
Actuarial gain and loss	(159)	(170)	(1,570)
Total	¥ (332)	¥ 4	\$ 41

6) The components of retirement benefit liability adjustments included in accumulated other comprehensive income (before tax effect) as of March 31, 2019 and 2020 were as follows:

	<b>2019</b>	<b>2020</b>	<b>2020</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Unrecognized prior service cost	¥ 7,953	¥ 7,778	\$ 71,469
Unrecognized actuarial gain and loss	3,534	3,705	34,047
Total	¥ 11,487	¥ 11,483	\$ 105,517

7) The fair value of plan assets, by major category, as a percentage of total plan assets at March 31, 2019 and 2020 was as follows:

	<b>2019</b>	<b>2020</b>
Bonds	54%	50%
Stocks	26%	23%
General accounts of life insurance	8%	7%
Alternative investments	7%	18%
Other	5%	2%
Total	100%	100%

The expected return on assets has been estimated based on the present and anticipated allocation to each asset class and the expected long-term returns on assets held in each category at present and in the future.

# KYUDENKO CORPORATION and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 6. Retirement Benefit Plans (continued)

(a) Defined benefit plans (excluding the retirement benefit obligation calculated by the simplified method) (continued)

8) Weighted average assumptions used in accounting for the above plans were as follows:

	2019	2020
Discount rates	0.6%	0.6%
Expected rates of return on plan assets	2.0%	2.0%

(b) Defined benefit plans accounted for using the simplified method

1) The changes in liability for retirement benefits calculated using the simplified method for the years ended March 31, 2019 and 2020 were as follows:

	2019	2020	2020
	(Millions of yen)		(Thousands of U.S. dollars)
Balance at the beginning of the year	¥ 794	¥ 833	\$ 7,654
Retirement benefit expenses	655	566	5,207
Retirement benefit paid	(160)	(120)	(1,111)
Contributions	(450)	(444)	(4,081)
Other	(6)	0	2
Balance at the end of the year	¥ 833	¥ 834	\$ 7,669

2) The following table sets forth the funded status of the plans accounted for using the simplified method and the amounts recognized in the consolidated balance sheet at March 31, 2019 and 2020 for the defined benefit plans:

	2019	2020	2020
	(Millions of yen)		(Thousands of U.S. dollars)
Funded retirement benefit obligation	¥ 4,323	¥ 4,455	\$ 40,936
Plan assets at fair value	(3,693)	(3,866)	(35,525)
	630	588	5,411
Unfunded retirement benefit obligation	202	245	2,258
Net liability for retirement benefits in the consolidated balance sheet	833	834	7,669
Liability for retirement benefits	1,228	1,316	12,095
Asset for retirement benefits	(395)	(481)	(4,425)
Net liability for retirement benefits in the consolidated balance sheet	¥ 833	¥ 834	\$ 7,669

# KYUDENKO CORPORATION and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 6. Retirement Benefit Plans (continued)

#### (b) Defined benefit plans accounted for using the simplified method (continued)

- 3) Retirement benefit expenses calculated using the simplified method amounted to ¥655 million and ¥566 million (\$5,207 thousand) for the years ended March 31, 2019 and 2020, respectively

#### (c) Defined contribution plans

Contributions made to defined contribution plans by the Company for the years ended March 31, 2019 and 2020 were ¥440 million and ¥453 million (\$4,164 thousand), respectively.

### 7. Asset Retirement Obligations

Asset retirement obligations which are included in the other liabilities mainly represent future obligations to restore leased property to its original condition associated with the removal of the consolidated subsidiaries' renewable energy generation facilities.

The asset retirement obligations are measured at the present value of the future liabilities applying discount rates of 0.604% to 1.994% corresponding with 17 years, which is the estimated useful life of those facilities from the acquisition date.

The following table indicates the changes in asset retirement obligations included in "Other long-term liabilities" for the years ended March 31, 2019 and 2020:

	<b>2019</b>	<b>2020</b>	<b>2020</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Balance at the beginning of the year	¥ 1,157	<b>¥ 1,316</b>	<b>\$ 12,096</b>
Increase due to acquisition of property and equipment	140	—	—
Adjustment due to passage of time	19	<b>19</b>	<b>181</b>
Balance at the end of the year	<u>¥ 1,316</u>	<u><b>¥ 1,336</b></u>	<u><b>\$ 12,278</b></u>

# KYUDENKO CORPORATION and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 8. Net Assets

Under the Corporate Law of Japan (the “Corporate Law”), the entire amount paid for new shares is required to be designated as common stock, in principle. However, a company may designate an amount not exceeding 50% of the proceeds of the issuance of new shares as additional paid-in-capital, which is included in capital surplus.

The Corporate Law provides that an amount equal to 10% of the amount to be distributed as distributions of capital surplus (other than capital reserve) and retained earnings (other than legal reserve) be transferred to capital reserve and legal reserve, respectively, until the sum of capital reserve and legal reserve equals 25% of the stated common stock. Such distributions can be made at any time by resolution of the shareholders or by the Board of Directors, if certain conditions are met, but neither capital reserve nor legal reserve is available for distributions.

The Company’s capital reserve included in capital surplus at March 31, 2019 and 2020 amounted to ¥12,543 million and ¥12,543 million (\$115,261 thousand), respectively.

There was no legal reserve for the years ended March 31, 2019 and 2020.

#### (a) Shares issued and outstanding / Treasury shares

For the year ended March 31, 2019:

<i>Types of shares</i>	<i>Number of shares at April 1, 2018</i>	<i>Increase</i>	<i>Decrease</i>	<i>Number of shares at March 31, 2019</i>
		<i>(Number of Shares)</i>		
Shares issued:				
Common stock	71,158,510	7,273	—	71,165,783
Treasury stock:				
Common stock	18,891	440	—	19,331

Detail of the increase in shares issued is as follows:

Issuance of new shares due to exercise of share subscription rights	
2nd unsecured convertible bond-type bonds with share subscription rights	7,273

Details of the increase and decrease in treasury stock are as follows:

Increase due to purchase of shares of less than one standard unit	440
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KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

**8. Net Assets (continued)**

(a) Shares issued and outstanding / Treasury shares (continued)

For the year ended March 31, 2020:

<i>Types of shares</i>	<i>Number of shares at April 1, 2019</i>	<i>Increase</i>	<i>Decrease</i>	<i>Number of shares at March 31, 2020</i>
		<i>(Number of Shares)</i>		
Shares issued:				
Common stock	<b>71,165,783</b>	–	<b>300,822</b>	<b>70,864,961</b>
Treasury stock:				
Common stock	<b>19,331</b>	<b>300,361</b>	<b>300,822</b>	<b>18,870</b>

Detail of the decrease in shares issued is as follows:

Decrease due to the resolution of retirement of treasury stock at the Board Meeting held on June 10, 2019	<b>300,822</b>
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Details of the increase and decrease in treasury stock are as follows:

Increase due to purchase of shares of less than one standard unit	<b>361</b>
Increase due to the resolution of acquisition of treasury stock at the Board Meeting held on June 10, 2019	<b>300,000</b>
Decrease due to the resolution of retirement of treasury stock at the Board Meeting held on June 10, 2019	<b>300,822</b>

(b) Share subscription rights

For the year ended March 31, 2019

<i>Issuer</i>	<i>Description</i>	<i>Type of shares</i>	<i>Number of shares subject to share subscription rights</i>			<i>At March 31, 2019</i>
			<i>At April 1, 2018</i>	<i>Increase</i>	<i>Decrease</i>	
				<i>(Number of Shares)</i>		
The Company	2nd unsecured convertible bond-type bonds with share subscription rights	Common stock	7,216	57	7,273	–

1. Number of shares subject to share subscription rights represents the number of shares to be issued upon exercise of the share subscription rights.
2. The increase during the year was due to adjustments to the conversion value, and the decrease was due to exercise of the share subscription rights.

# KYUDENKO CORPORATION and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 8. Net Assets (continued)

#### (c) Dividends

##### 1) Dividends paid

For the year ended March 31, 2019:

	<i>Total dividends</i> (Millions of yen)	<i>Record date</i>	<i>Effective date</i>
Resolution: Meeting of the Board of Directors on April 27, 2018			
Cash dividends (¥50.00 per share)	¥ 3,557	March 31, 2018	June 6, 2018
Resolution: Meeting of the Board of Directors on October 26, 2018			
Cash dividends (¥50.00 per share)	¥ 3,558	September 30, 2018	December 3, 2018

For the year ended March 31, 2020:

	<i>Total dividends</i> (Millions of yen)	<i>(Thousands of U.S. dollars)</i>	<i>Record date</i>	<i>Effective date</i>
Resolution: Meeting of the Board of Directors on April 26, 2019				
Cash dividends (¥50.00 (\$0.45) per share)	¥ 3,558	\$ 32,695	March 31, 2019	June 5, 2019
Resolution: Meeting of the Board of Directors on October 31, 2019				
Cash dividends (¥50.00 (\$0.45) per share)	¥ 3,543	\$ 32,557	September 30, 2019	December 2, 2019

### 9. Net Sales from Construction Contracts Recognized by Percentage-of-Completion Method

Net sales from construction contracts recognized by the percentage-of-completion method for the years ended March 31, 2019 and 2020 amounted to ¥224,182 million and ¥248,034 million (\$2,279,096 thousand), respectively.

# KYUDENKO CORPORATION and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 10. Provision (Reversal of Provision) for Loss on Construction Contracts

Provision for loss on construction contracts included in cost of sales for the year ended March 31, 2020 represents a provision of ¥12 million (\$115 thousand). There was no provision or reversal of provision recognized for the year ended March 31, 2019.

### 11. Selling, General and Administrative Expenses

Major items included in selling, general and administrative expenses for the years ended March 31, 2019 and 2020 were as follows:

	<b>2019</b>	<b>2020</b>	<b>2020</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Salaries and wages	¥10,070	¥ 10,420	\$ 95,746
Retirement benefit expenses	423	520	4,784
Retirement benefits expenses for directors and audit and supervisory board members	(48)	54	497
Depreciation and amortization	932	1,054	9,688

### 12. Research and Development Costs

Research and development costs included in cost of sales and selling, general and administrative expenses for the years ended March 31, 2019 and 2020 amounted to ¥326 million and ¥290 million (\$2,671 thousand), respectively.

### 13. Income Taxes

Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries consist of corporation tax, inhabitants' taxes and enterprise tax, which, in the aggregate, resulted in a statutory rate of approximately 30.46% for the years ended March 31, 2019 and 2020, respectively. Income taxes of the foreign consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

# KYUDENKO CORPORATION and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 13. Income Taxes (continued)

The reconciliation between the effective tax rates reflected in the consolidated statement of income and the effective statutory tax rates for year ended March 31, 2019 is as follows. The reconciliation for the year ended March 31, 2020 has been omitted as the difference was less than 5% of the statutory tax rate.

	<b>2019</b>
Effective statutory tax rate	30.46%
Effect of:	
Permanently non-deductible expenses	1.02
Permanently non-taxable dividend income and others	(0.28)
Capita levy on inhabitant tax	0.50
Valuation allowance	0.42
Other, net	(0.10)
Effective tax rate	32.02%

The significant components of deferred tax assets and liabilities as of March 31, 2019 and 2020 were as follows:

	<b>2019</b>	<b>2020</b>	<b>2020</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Deferred tax assets:			
Liability for retirement benefits	¥ 4,204	¥ 4,568	\$ 41,979
Accrued bonuses	2,252	2,350	21,600
Unrealized profits on fixed assets	970	782	7,194
Enterprise tax payable	498	431	3,964
Other	3,305	3,360	30,881
Gross deferred tax assets	11,231	11,494	105,620
Valuation allowance	(1,210)	(913)	(8,392)
Total deferred tax assets	10,021	10,581	97,228
Deferred tax liabilities:			
Unrealized holding gain on other securities	(1,568)	(390)	(3,585)
Reserve for deductions in acquisition costs of property and equipment	(1,233)	(1,216)	(11,179)
Reserve for special depreciation	(431)	(207)	(1,907)
Other	(1,385)	(2,466)	(22,666)
Total deferred tax liabilities	(4,619)	(4,281)	(39,339)
Net deferred tax assets	¥ 5,402	¥ 6,300	\$ 57,888

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

**14. Other Comprehensive Income**

Reclassification adjustments and tax effects allocated to each component of other comprehensive income (loss) for the years ended March 31, 2019 and 2020 were as follows:

	<b>2019</b>	<b>2020</b>	<b>2020</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Unrealized holding loss on securities:			
Amount arising during the year	¥ (1,180)	¥ (4,060)	\$ (37,314)
Reclassification adjustments for gain and loss included in profit attributable to owners of parent	197	51	473
Amount before tax effect	(982)	(4,009)	(36,841)
Tax effect	304	1,176	10,814
Unrealized holding loss on securities	(678)	(2,832)	(26,026)
Unrealized gain (loss) on hedging instruments:			
Amount arising during the year	365	(36)	(339)
Reclassification adjustments for gain and loss included in profit attributable to owners of parent	—	—	—
Amount before tax effect	365	(36)	(339)
Tax effect	(111)	11	103
Unrealized gain (loss) on hedging instruments:	254	(25)	(236)
Translation adjustments:			
Amount arising during the year	(143)	33	304
Retirement benefit liability adjustments:			
Amount arising during the year	(259)	(630)	(5,790)
Reclassification adjustments for gain and loss included in profit attributable to owners of parent	(72)	634	5,831
Amount before tax effect	(332)	4	41
Tax effect	101	(1)	(12)
Retirement benefits liability adjustments	(231)	3	28
Share of other comprehensive loss of affiliates accounted for by the equity method:			
Amount arising during the year	(106)	(98)	(900)
Total other comprehensive loss	¥ (904)	¥ (2,919)	\$ (26,830)

# KYUDENKO CORPORATION and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 15. Commitments and Contingencies

At March 31, 2019 and 2020, the Company and its consolidated subsidiaries were contingently liable for guarantees as follows:

Commitments for non-consolidated companies, affiliates not accounted for by the equity method and third parties

	<b>2019</b>	<b>2020</b>	<b>2020</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Debt guarantee:			
Mizuho Bank, Ltd. (Atsumi Greenpower Co.)	¥ 291	¥ 205	\$ 1,883
Development Bank of Japan Inc. (Nagashima Windhill Co.)	179	131	1,209
The Hokuriku Bank, Ltd. and others (Matusima Fuuryoku Co.)	1,880	2,127	19,547
Amount borne by other joint obligors out of joint obligation for payments concerning fuel supply agreement:			
Sumitomo Corporation (Aible Energy LCC)	333	—	—
Bond insurance:			
Sumitomo Mitsui Banking Corporation (KYUDENKO MALAYSIA SDN. BHD.)	43	40	370
Sumitomo Mitsui Banking Corporation (KYUDENKO (THAILAND) CO., LTD.)	7	0	7
MUFG Bank, Ltd. (KYUDENKO VIETNAM CO., LTD.)	77	93	858
Total	<u>¥ 2,812</u>	<u>¥ 2,598</u>	<u>\$ 23,877</u>

Endorsement for transfer of notes receivable

<b>2019</b>	<b>2020</b>	<b>2020</b>
<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
¥ 3	¥ 18	\$ 167

# KYUDENKO CORPORATION and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 15. Commitments and Contingencies (continued)

The Company has entered into subordinated loan commitment contracts as a subordinated creditor in joint financing for companies involved in the PFI business. (PFI is a private finance initiative which is a method of providing funds for major capital investments, where by private firms are contracted to complete and manage public projects.)

At March 31, 2019 and 2020, the Company had loan commitment agreements with 10 companies and 9 companies, respectively. The unused balances under the loan commitment contracts at March 31, 2019 and 2020 were as follows:

	<b>2019</b>	<b>2020</b>	<b>2020</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Total loan commitments	¥ 155	¥ 153	\$ 1,412
Aggregated borrowings	—	—	—
Unused balances	¥ 155	¥ 153	\$ 1,412

### 16. Pledged Assets

The assets pledged as collateral for short-term borrowings of ¥475 million and ¥327 million (\$3,009 thousand) and long-term debt of ¥3,706 million and ¥3,378 million (\$31,046 thousand) of the Company's investees involved in the renewable energy generation business and/or PFI business at March 31, 2019 and 2020 were as follows:

	<b>2019</b>	<b>2020</b>	<b>2020</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Cash on hand and in banks	¥ 536	¥ 583	\$ 5,362
Other current assets short-term			
loans receivable	6	6	57
Buildings and structures	35	26	247
Machinery, vehicles, tools, furniture and fixtures	2,596	2,290	21,047
Land	0	0	4
Investments in securities and investments in unconsolidated subsidiaries and affiliates	6,845	6,728	61,829
Long-term loans receivable	70	64	593
Investments and other assets-rental deposit	15	15	137
Total	¥ 10,106	¥ 9,716	\$ 89,281



# KYUDENKO CORPORATION and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 17. Amounts Per Share

Per share information as of March 31, 2019 and 2020 and for the years then ended is as follows:

	<u>2019</u>	<u>2020</u>	<u>2020</u>
	<i>(Yen)</i>		<i>(U.S. dollars)</i>
Profit attributable to owners of parent:			
Basic	¥ 375.17	¥ 370.00	\$ 3.40
Net assets	¥ 2,534.46	¥ 2,761.07	\$ 25.37

Basic profit attributable to owners of parent per share is computed based on the profit attributable to owners of parent available for distribution to shareholders of common stock and the weighted average number of shares of common stock outstanding during the year. Diluted profit attributable to owners of parent per share for the years ended March 31, 2020 and 2019 has not been presented because no potentially dilutive shares of common stock were outstanding.

Net assets per share are computed based on the net assets excluding non-controlling interests and the number of shares of common stock outstanding at the year end.

- (a) The bases for the calculation of basic profit attributable to owners of parent per share are as follows:

	<u>2019</u>	<u>2020</u>
	<i>(Thousands of shares)</i>	
Weighted average number of shares for basic profit attributable to owners of parent	71,143	70,933

The entire amounts of profit attributable to owners of parent of ¥26,691 million and ¥26,245 million (\$241,161 thousand) for the years ended March 31, 2019 and 2020 were attributed to common shareholders.

# KYUDENKO CORPORATION and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 17. Amounts Per Share (continued)

(b) The bases for the calculation of net assets per share are as follows:

	<u>2019</u>	<u>2020</u>	<u>2020</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Total net assets	¥ 182,176	¥ 197,442	\$ 1,814,230
Amounts deducted from total net assets:			
Non-controlling interests	(1,858)	(1,831)	(16,829)
Net assets attributable to shares of common stock	<u>¥ 180,317</u>	<u>¥ 195,611</u>	<u>\$ 1,797,400</u>
	<u>2019</u>	<u>2020</u>	
	<i>(Thousands of shares)</i>		
Number of shares of common stock in issue	71,165	70,864	
Less: Number of shares of treasury stock	(19)	(18)	
Number of shares of common stock used for the calculation of net assets per share	<u>71,146</u>	<u>70,846</u>	

### 18. Financial Instruments

#### Overview

(a) Policy for financial instruments

The Company and its consolidated subsidiaries utilize highly secure financial assets for short-term fund management. In addition, they obtain borrowings from financial institutions such as banks for short-term operating funds and capital expenditures. Derivative transactions are only used to reduce risks arising from future fluctuations in foreign currency exchange rates and interest rates, except for certain highly secure embedded derivatives in compound financial instruments used for surplus funds. The Company and its consolidated subsidiaries do not enter into derivatives for speculative purposes.

Furthermore, the Company and its consolidated subsidiaries examine their utilization based on internal rules and regulations each time.

# KYUDENKO CORPORATION and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 18. Financial Instruments (continued)

#### Overview (continued)

##### (b) Details of financial instruments, related risk and risk management system

Trade receivables, such as notes receivable, accounts receivable on completed construction contracts and other accounts receivable, are exposed to credit risk in relation to customers. With regard to this risk, the Company and its consolidated subsidiaries monitor the due dates and outstanding balances and make efforts to identify at an early point and mitigate risks of bad debts from customers who have financial difficulties.

Investments in securities mainly consist of equity securities and are exposed to market risk. The Company and its consolidated subsidiaries review the fair values of listed equity securities quarterly and the financial condition of the issuing entities.

Trade payables, such as notes payable, accounts payable on construction contracts and other accounts payable, and electronically recorded obligations, have payment due dates mainly within one year.

Short-term borrowings are taken out mainly to obtain funds for operating activities.

Long-term debt is used mainly for the purposes of capital investments.

Trade payables, short-term borrowings and long-term debt are exposed to liquidity risk. The Company and its consolidated subsidiaries manage the risk by preparing and updating its cash flow plans monthly. In order to avoid interest rate fluctuation risk and foreign exchange fluctuation risk, the Company uses interest rate swaps for certain loans borrowed from financial institutions, interest rate and currency swaps are used for all loans denominated in foreign currencies, and forward foreign exchange contracts are used for certain forecasted transactions denominated in foreign currencies. Furthermore, the Company and its consolidated subsidiaries examine the utilization of hedge transactions based on internal rules and regulations each time.

##### (c) Supplemental explanation on estimated fair value of financial instruments

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, the fair value is reasonably estimated. As the estimation of the fair value relies on various assumptions and factors, different assumptions and factors could result in different fair value.

# KYUDENKO CORPORATION and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 18. Financial Instruments (continued)

#### Estimated fair value of financial instruments

The carrying value of financial instruments on the consolidated balance sheet as of March 31, 2019 and 2020, the estimated fair value and the difference between them are shown in the following table. The table does not include financial instruments for which it is extremely difficult to determine the fair value:

	2019		
	Carrying value	Estimated fair value	Difference
	<i>(Millions of yen)</i>		
Cash on hand and in banks	¥ 41,017	¥ 41,017	¥ –
Notes receivable, accounts receivable on completed construction contracts and other accounts receivable	150,612		
Less: Allowance for doubtful accounts <sup>(*)</sup>	(23)		
	150,589	150,589	–
Investments in securities	21,772	21,772	–
Total assets	¥ 213,378	¥ 213,378	¥ –
Notes payable, accounts payable on construction contracts and other accounts payable	88,360	88,360	–
Electronically recorded obligations	21,094	21,094	–
Long-term debt <sup>(*)</sup>	15,563	15,611	48
Total liabilities	¥ 125,018	¥ 125,066	¥ 48
Derivatives	¥ 36	¥ 36	¥ –

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

18. Financial Instruments (continued)

Estimated fair value of financial instruments (continued)

	2020					
	Carrying value	Estimated fair value	Difference	Carrying value	Estimated fair value	Difference
	<i>(Millions of yen)</i>			<i>(Thousands of U.S. dollars)</i>		
Cash on hand and in banks	¥ 55,851	¥ 55,851	¥ –	\$ 513,201	\$ 513,201	\$ –
Notes receivable, accounts receivable on completed construction contracts and other accounts receivable	139,746			1,284,083		
Less: Allowance for doubtful accounts <sup>(*)</sup>	(18)			(170)		
	139,728	139,728	–	1,283,913	1,283,913	–
Investments in securities	19,001	19,001	–	174,602	174,602	–
Total assets	¥ 214,581	¥ 214,581	¥ –	\$ 1,971,716	\$ 1,971,716	\$ –
Notes payable, accounts payable on construction contracts and other accounts payable	73,584	73,584	–	676,140	676,140	–
Electronically recorded obligations	27,894	27,894	–	256,309	256,309	–
Long-term debt <sup>(*)</sup>	13,660	13,688	28	125,519	125,783	263
Total liabilities	¥ 115,138	¥ 115,167	¥ 28	\$ 1,057,969	\$ 1,058,233	\$ 263
Derivatives	¥ –	¥ –	¥ –	\$ –	\$ –	\$ –

(\*)1) The allowance for doubtful accounts was deducted from the notes receivable, accounts receivable on completed construction contracts and other accounts receivable.

(\*)2) The balances include the current portion of long-term debt.

# KYUDENKO CORPORATION and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 18. Financial Instruments (continued)

#### Estimated fair value of financial instruments (continued)

Note 1: Valuation methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions are as follows:

##### Assets

Cash on hand and in banks, notes receivable, accounts receivable on completed construction contracts and other accounts receivable

Since all these items are settled in a short period of time, the carrying value approximates fair value.

Investments in securities

The fair value of equity securities is based on quoted market prices. The fair value of debt securities is based on either quoted market prices or prices provided by the financial institutions making markets in these securities. The fair value of investment trusts is based on publicly available information.

##### Liabilities

Notes payable, accounts payable on construction contracts and other accounts payable and electronically recorded obligations

Since all these items are settled in a short period of time, the carrying value approximates fair value.

Long-term debt

The fair value of long-term debt is based on the present value of the total of principal and interest discounted by the interest rate to be applied if similar new borrowings are entered into.

##### Derivative transactions

The fair value of derivative transactions is based on prices provided by the counterparty financial institutions. The fair value of the interest rate and currency swaps was included in that of the hedged long-term debt as they are accounted for together with underlying hedged items under the simplified method.

Note 2: Unlisted equity securities of ¥32,000 million and ¥37,028 million (\$340,244 thousand) as of March 31, 2019 and 2020, respectively, were not included in the above table because it was extremely difficult to determine the fair value.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

18. Financial Instruments (continued)

Estimated fair value of financial instruments (continued)

Note 3: Redemption schedule for receivables and marketable securities with maturities at March 31, 2019 and 2020 were as follows:

	2019			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
	<i>(Millions of yen)</i>			
Cash in banks	¥ 40,928	¥ –	¥ –	¥ –
Notes receivable, accounts receivable on completed construction contracts and other accounts receivable	150,612	–	–	–
Short-term investments and investments in securities				
Other securities with maturities (debt securities)	–	2,050	832	253
Other securities with maturities (Other)	10	375	–	16,683
Total	<u>¥ 191,551</u>	<u>¥ 2,425</u>	<u>¥ 832</u>	<u>¥ 16,936</u>
	2020			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
	<i>(Millions of yen)</i>			
Cash in banks	¥ 55,793	¥ –	¥ –	¥ –
Notes receivable, accounts receivable on completed construction contracts and other accounts receivable	139,746	–	–	–
Short-term investments and investments in securities				
Other securities with maturities (debt securities)	1,000	1,050	832	253
Other securities with maturities (Other)	10	534	26	20,805
Total	<u>¥ 196,550</u>	<u>¥ 1,584</u>	<u>¥ 858</u>	<u>¥ 21,058</u>

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

18. Financial Instruments (continued)

Estimated fair value of financial instruments (continued)

	2020			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
	<i>(Thousands of U.S. dollars)</i>			
Cash in banks	\$ 512,664	\$ –	\$ –	\$ –
Notes receivable, accounts receivable on completed construction contracts and other accounts receivable	1,284,083	–	–	–
Short-term investments and investments in securities				
Other securities with maturities (debt securities)	9,188	9,648	7,649	2,324
Other securities with maturities (Other)	96	4,913	239	191,175
Total	<u>\$ 1,806,033</u>	<u>\$ 14,561</u>	<u>\$ 7,889</u>	<u>\$ 193,500</u>

The redemption schedule for long-term debt is disclosed in Note 5.



# KYUDENKO CORPORATION and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 19. Securities

(a) Information regarding marketable securities classified as other securities as of March 31, 2019 and 2020 is as follows:

	<b>2019</b>		
	Carrying value	Acquisition cost	Difference
	<i>(Millions of yen)</i>		
Securities whose carrying value exceeds their acquisition cost			
Equity securities	¥ 15,561	¥ 9,997	¥ 5,563
Debt securities	1,243	1,209	34
Others	167	95	71
Subtotal	16,972	11,302	5,669
Securities whose carrying value does not exceed their acquisition cost			
Equity securities	2,943	3,338	(394)
Debt securities	1,856	1,885	(29)
Others	20	20	(0)
Subtotal	4,820	5,244	(423)
Total	¥ 21,792	¥ 16,546	¥ 5,245

	<b>2020</b>					
	Carrying value	Acquisition cost	Difference	Carrying value	Acquisition cost	Difference
	<i>(Millions of yen)</i>			<i>(Thousands of U.S. dollars)</i>		
Securities whose carrying value exceeds their acquisition cost						
Equity securities	¥ 7,630	¥ 4,686	¥ 2,943	\$ 70,110	\$ 43,064	\$ 27,046
Debt securities	241	209	32	2,222	1,926	296
Others	147	95	51	1,356	878	477
Subtotal	8,019	4,991	3,027	73,688	45,868	27,819
Securities whose carrying value does not exceed their acquisition cost						
Equity securities	9,210	10,887	(1,677)	84,629	100,044	(15,415)
Debt securities	2,768	2,885	(116)	25,441	26,514	(1,072)
Others	10	10	(0)	98	98	(0)
Subtotal	11,989	13,784	(1,794)	110,169	126,656	(16,487)
Total	¥ 20,009	¥ 18,775	¥ 1,233	\$ 183,857	\$ 172,525	\$ 11,331

# KYUDENKO CORPORATION and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 19. Securities (continued)

- (b) Information regarding sales of securities classified as other securities for the years ended March 31, 2019 and 2020 was as follows:

	<b>2019</b>			<b>2020</b>		
	Proceeds from sales	Gain on sales	Loss on sales	Proceeds from sales	Gain on sales	Loss on sales
	<i>(Millions of yen)</i>			<i>(Thousands of U.S. dollars)</i>		
Equity securities	¥ 40	¥ 40	¥ –	\$ 101	\$ 101	\$ –
Others	24	0	15	86	–	5
	<u>¥ 65</u>	<u>¥ 40</u>	<u>¥ 15</u>	<u>\$ 8,892</u>	<u>\$ 2,217</u>	<u>\$ 5</u>

- (c) Impairment losses on securities classified as other securities of ¥185 million and ¥61 million (\$564 thousand) were recognized for the years ended March 31, 2019 and 2020, respectively. Also, impairment losses on securities classified as investments in unconsolidated subsidiaries and affiliates of ¥232 million (\$2,140 thousand) was recognized for the year ended March 31, 2020.

The securities whose fair value has declined by 30% or more are classified as securities whose fair value declined significantly.

Loss on impairment is recorded on securities whose fair value has declined by 50% or more, or whose fair value has declined by 30% or more, but less than 50%, if the decline is deemed to be irrecoverable. Loss on impairment is recorded on securities whose fair value is difficult to determine if the decline is deemed to be irrecoverable considering the financial position of the securities' issuers.

# KYUDENKO CORPORATION and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 20. Derivative Transactions

Summarized below are the notional amounts and the estimated fair value of the derivative instruments outstanding at March 31, 2019 and 2020, for which hedge accounting has been applied.

#### a. Currency-related transactions

Method of hedge accounting	Hedging instruments		Hedged items	2019		
				Notional amounts	Due after one year	Fair value
				(Millions of yen)		
Allocation method	Forward foreign exchange contracts	Buy: USD	Forecasted transactions denominated in foreign currencies	¥ 3,393	¥ –	¥ 36

There were no applicable transactions for the year ended March 31, 2020.

The fair value was calculated based on prices provided by the counterparty financial institutions.

#### b. Interest-related transactions

Method of hedge accounting	Hedging instruments		Hedged items	2019		
				Notional amounts	Due after one year	Fair value
				(Millions of yen)		
Principle method	Interest rate swap	Pay: fixed Receive: floating	Long-term debt	¥ 8,495	¥ 8,339	¥ (449)
Simplified method	Interest rate and currency swap	Pay: fixed Receive: floating Pay: JPY Receive: USD	Long-term debt	1,255	1,004	–
Method of hedge accounting	Hedging instruments		Hedged items	2020		
				Notional amounts	Due after one year	Fair value
				(Millions of yen)		
Principle method	Interest rate swap	Pay: fixed Receive: floating	Long-term debt	¥10,418	¥10,247	¥ (585)
Simplified method	Interest rate and currency swap	Pay: fixed Receive: floating Pay: JPY Receive: USD	Long-term debt	1,004	753	–

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

**20. Derivative Transactions (continued)**

b. Interest-related transactions (continued)

<i>Method of hedge accounting</i>	<i>Hedging instruments</i>		<i>Hedged items</i>	<b>2020</b>		
				Notional amounts	Due after one year	Fair value
				<i>(Thousands of U.S. dollars)</i>		
Principle method	Interest rate swap	Pay: fixed Receive: floating	Long-term debt	<b>\$ 95,729</b>	<b>\$ 94,157</b>	<b>\$ (5,376)</b>
Simplified method	Interest rate and currency swap	Pay: fixed Receive: floating Pay: JPY Receive: USD	Long-term debt	<b>9,225</b>	<b>6,919</b>	—

The interest rate and currency swaps were included in that of the hedged long-term debt as they are accounted for together with underlying hedged items under the simplified method.

The principle method was applied to the interest rate swaps used to hedge long-term debt of an affiliate accounted for by the equity method, and the notional amount and the fair value were based on the Company's proportionate share.

The fair value was calculated based on prices provided by the counterparty financial institutions.

# KYUDENKO CORPORATION and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 21. Supplemental Information on Consolidated Statement of Cash Flows

- (a) Cash and cash equivalents in the consolidated statement of cash flows for the years ended March 31, 2019 and 2020 are reconciled to cash on hand and in banks in the consolidated balance sheet as follows:

	<u>2019</u>	<u>2020</u>	<u>2020</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Cash on hand and in banks	¥ 41,017	¥ 55,851	\$ 513,201
Time deposits with maturities of more than three months	(824)	(887)	(8,151)
Cash and cash equivalents	<u>¥ 40,192</u>	<u>¥ 54,964</u>	<u>\$ 505,049</u>

- (b) Information regarding details of significant non-monetary transactions for the years ended March 31, 2019 and 2020 is as follows:

Leased assets and lease obligations related to new finance lease transactions recorded for the years ended March 31, 2019 and 2020 amounted to ¥936 million and ¥1,328 million (\$12,207 thousand), respectively. Asset retirement obligations recorded for the years ended March 31, 2019 amounted to ¥140 million. No asset retirement obligations recorded for the years ended March 31, 2020.

Exercise of share subscription rights on convertible bond-type bonds with share subscription rights is as follows:

	<u>2019</u>	<u>2020</u>	<u>2020</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Increase in common stock due to exercise of share subscription rights	¥ 6	¥ –	\$ –
Increase in capital surplus due to exercise of share subscription rights	6	–	–
Decrease in convertible bond-type bonds with share subscription rights due to exercise of share subscription rights	<u>¥ 13</u>	<u>¥ –</u>	<u>\$ –</u>

# KYUDENKO CORPORATION and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 22. Segment Information

#### (a) Business segment information

##### (1) Outline of reportable segments

The reportable segments of the Company and its consolidated subsidiaries (the “Group”) are components for which discrete financial information is available and whose operating results are regularly reviewed by the Board of Directors to make decisions on resource allocation and to assess performance.

The Group is primarily engaged in the integrated utilities engineering service business, based on mid- to long-term business plans developed in the head office of the Company. The Company’s regional offices mainly offer services in cooperation with each company of the Group.

Also, some consolidated subsidiaries operate as independent management units and are involved in other industries such as sales business of construction-related materials and equipment, real estate sales business and renewable energy generation business.

Thus, the Group consists of the segments based on business activities, with several businesses that have essentially identical financial characteristics and contents of services combined into “Utilities engineering service” as a reportable segment for the purpose of disclosing appropriate information.

The “Utilities engineering service” segment primarily offers services for the design and construction of electrical works, such as power distribution lines, indoor wiring, and electronic communication, and of heating ventilation and air conditioning mechanical installation works, such as ventilation, heating and cooling, plumbing, water treatment and sanitation equipment installation.

##### (2) Method used to calculate net sales, profit or loss, assets, liabilities and other items by reportable segment

The accounting policies of the reportable segments are substantially the same as those described in “Note 2. Summary of Significant Accounting Policies.” Segment performance is evaluated based on operating profit or loss. Intersegment sales and transfers are determined by reference to actual market price.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

22. Segment Information (continued)

(a) Business segment information (continued)

(3) Information as to net sales, income or loss and other items for each reportable segment for the years ended March 31, 2019 and 2020 are summarized as follows:

	2019				
	Utilities engineering service	Others	Total	Adjustments and eliminations	Consolidated
	<i>(Millions of yen)</i>				
Net sales					
Sales to third parties	¥ 388,327	¥ 19,816	¥ 408,143	¥ –	¥ 408,143
Intersegment sales and transfers	589	3,666	4,256	(4,256)	–
Total	¥ 388,917	¥ 23,482	¥ 412,399	¥ (4,256)	¥ 408,143
Segment income	¥ 34,949	¥ 1,738	¥ 36,687	¥ 59	¥ 36,747
Other items					
Depreciation and amortization	¥ 3,407	¥ 2,861	¥ 6,269	¥ (195)	¥ 6,074
Amortization of goodwill	¥ 115	¥ 41	¥ 156	¥ –	¥ 156
	2020				
	Utilities engineering service	Others	Total	Adjustments and eliminations	Consolidated
	<i>(Millions of yen)</i>				
Net sales					
Sales to third parties	¥ 407,506	¥ 21,432	¥ 428,939	¥ –	¥ 428,939
Intersegment sales and transfers	731	3,803	4,534	(4,534)	–
Total	¥ 408,238	¥ 25,235	¥ 433,473	¥ (4,534)	¥ 428,939
Segment income	¥ 33,770	¥ 2,077	¥ 35,847	¥ 174	¥ 36,022
Other items					
Depreciation and amortization	¥ 3,532	¥ 2,556	¥ 6,088	¥ (127)	¥ 5,961
Amortization of goodwill	¥ 115	¥ 41	¥ 156	¥ –	¥ 156

# KYUDENKO CORPORATION and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 22. Segment Information (continued)

#### (a) Business segment information (continued)

(3) Net sales, profit or loss and other items by reportable segment for the years ended March 31, 2019 and 2020 are summarized as follows: (continued)

	2020				
	Utilities engineering service	Others	Total	Adjustments and eliminations	Consolidated
	<i>(Thousands of U.S. dollars)</i>				
Net sales					
Sales to third parties	\$ 3,744,436	\$ 196,932	\$ 3,941,369	\$ –	\$ 3,941,369
Intersegment sales and transfers	6,719	34,946	41,665	(41,665)	–
Total	<u>\$ 3,751,155</u>	<u>\$ 231,879</u>	<u>\$ 3,983,034</u>	<u>\$ (41,665)</u>	<u>\$ 3,941,369</u>
Segment income	\$ 310,304	\$ 19,089	\$ 329,394	\$ 1,599	\$ 330,993
Other items					
Depreciation and amortization	\$ 32,454	\$ 23,491	\$ 55,946	\$ (1,168)	\$ 54,778
Amortization of goodwill	\$ 1,059	\$ 381	\$ 1,441	\$ –	\$ 1,441

Note 1: “Other” consisted of business segments that were not included in reportable segments, such as sales business of construction-related materials and equipment for third parties, real estate sales business, renewable energy generation business, temporary staffing service, software development business, environmental analysis / measurement business, medical-related business, golf course management, business hotel management, planning and operation of commercial facilities and other.

Note 2: Details of adjustments and eliminations were as follows:

- (i) Segment assets and segment liabilities are not described since these are not allocated to each segment
- (ii) Adjustments and eliminations of segment income of ¥59 million and ¥174 million (\$1,599 thousand) for the years ended March 31, 2019 and 2020 reflect the elimination of transactions between segments, respectively.
- (iii) Segment income or loss is reconciled to operating income on the consolidated statement of income.



# KYUDENKO CORPORATION and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 22. Segment Information (continued)

#### (b) Related information

##### (1) Geographical information

The disclosure of geographical segment information has been omitted as net sales to third parties and property and equipment in Japan constituted more than 90% of the consolidated sales for the years ended March 31, 2019 and 2020.

##### (2) Information by major customers

The following table presents major customer information for the years ended March 31, 2019 and 2020:

	<b>2019</b>	<b>2020</b>	<b>2020</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Name of customers:			
Kyushu Electric Power Co., Inc.			
Reportable segment:			
Utilities engineering service and Others			
Net sales	¥ 52,805	¥ <b>51,749</b>	\$ <b>475,506</b>

#### (c) Amortization of goodwill and remaining balance of goodwill by reportable segment

The following table presents the amortization and balance of goodwill as of and for the years ended March 31, 2019 and 2020 by reportable segment: Information on amortization of goodwill is omitted because the same information is disclosed in Note 22 (a) (3).

	<b>2019</b>		
	Utilities engineering service	Others	Adjustments and eliminations
			<i>(Millions of yen)</i>
Balance as of March 31	¥ 183	¥ 159	¥ –
			¥ 343
	<b>2020</b>		
	Utilities engineering service	Others	Adjustments and eliminations
			<i>(Millions of yen)</i>
Balance as of March 31	¥ 64	¥ 118	¥ –
			¥ 182

# KYUDENKO CORPORATION and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 22. Segment Information (continued)

- (c) Amortization of goodwill and remaining balance of goodwill by reportable segment (continued)

	2020			Consolidated
	Utilities engineering service	Others (Thousands of U.S. dollars)	Adjustments and eliminations	
Balance as of March 31	\$ 593	\$ 1,085	\$ –	\$ 1,679

- (d) Gain on bargain purchase by reportable segment

No gain on bargain purchase was recorded for the years ended March 31, 2019 and 2020.

### 23. Related Party Transactions

Transactions and balances with related parties as of and for the years ended March 31, 2019 and 2020 were as follows:

	2019	2020	2020
	(Millions of yen)		(Thousands of U.S. dollars)
Kyushu Electric Power Co., Inc.			
Construction order	¥ 48,794	¥ 49,446	\$ 454,349
Accounts receivable on completed construction contracts	¥ 8,628	¥ 10,674	\$ 98,085
Advances received on uncompleted construction contracts	¥ 191	¥ 21	\$ 196

The transaction amounts do not include consumption taxes. The balances include consumption taxes. Kyushu Electric Power Co., Inc. (located in Fukuoka City, with a capital amount of ¥237,304 million (\$2,180,509 thousand) engaged in the business of supplying electric power) is a related company which owned 22.65% and 22.75% of the shares of the Company as of March 31, 2019 and 2020, respectively.

The terms of the transactions referred to above were negotiated and determined on an arm's-length basis similar to third party transactions.

# KYUDENKO CORPORATION and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 24. Subsequent Events

#### Appropriation of retained earnings

The following appropriation of retained earnings of the Company, which has not been reflected in the consolidated financial statements for the year ended March 31, 2020, was approved at the meeting of the Board of Directors held on April 28, 2020:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
Cash dividends (¥50.00 = \$0.45 per share)	<b>¥ 3,543</b>	<b>\$ 32,557</b>