

Consolidated Financial Statements

KYUDENKO CORPORATION

*Year ended March 31, 2021
with Independent Auditor's Report*



KYUDENKO CORPORATION and Consolidated Subsidiaries

Consolidated Financial Statements

Year ended March 31, 2021

Contents

Consolidated Financial Statements

Independent Auditor's Report	1
Consolidated Balance Sheet	6
Consolidated Statement of Income.....	8
Consolidated Statement of Comprehensive Income	9
Consolidated Statement of Changes in Net Assets	10
Consolidated Statement of Cash Flows.....	12
Notes to Consolidated Financial Statements	14

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, 2021, 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, 2021, 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters.

Evaluation of estimates of total construction costs	
Description of Key Audit Matter	Auditor's Response
The Group mainly designs and constructs electrical works such as power transmission lines, indoor wiring and electric communications and heating ventilation and air conditioning mechanical installation works, including the installation of air conditioning, heating and cooling, water treatment and sanitation equipment as an utilities engineering services provider. As	<p>We mainly performed the following audit procedures to evaluate the adequacy of estimates of total construction costs used in applying the percentage-of-completion method.</p> <p>(1) Evaluation of internal controls</p> <p>We evaluated the design and operating effectiveness of the following internal controls</p>

described in “Summary of Significant Accounting Policies, (o) Recognizing revenues and costs of construction contracts” in recording revenue and cost of construction contracts, the Group applies the percentage-of-completion method for the portion of work completed up to the end of the fiscal year ended March 31, 2021 for construction contracts for which completion is deemed to be certain (the cost-to-cost method is used in estimating the percentage of completion), and applies the completed contract method for all other construction contracts. Revenue arising from construction contracts accounted for by the percentage-of-completion method made up 221,286 million yen of total net sales of 391,901 million yen, or 56.5%, for the fiscal year ended March 31, 2021.

Revenue for which the percentage-of-completion method is applied is measured based on construction progress, and the construction progress is determined based on the ratio of actual incurred costs for a project up to the end of the fiscal year to the estimated total costs of the construction project. The estimates of total construction costs are based on operating budgets (budgets prepared and approved for managing construction costs) prepared for each individual construction project.

Considering that construction contracts are highly customized and carried out in accordance with basic specifications and work details as instructed by customers, it is difficult to apply a uniform standard for making determinations in estimating total construction costs. Accordingly, estimates of total construction costs are subject to specific assumptions and determinations made by construction personnel with specialized knowledge and construction experience, thus involve uncertainty.

Further, given that construction is generally long-term in nature, there may be fluctuations in unit costs of materials and labor, etc., due to modifications of the construction contracts while construction is still in progress, as a result of, for example, suspensions or

at KYUDENKO CORPORATION relating to estimates of total construction costs.

- Controls to ensure reliability by requiring that operating budgets upon which estimates of total construction costs are based are prepared by construction personnel with specialized knowledge, and that necessary approvals have been obtained for such operating budgets
- Controls to confirm that each element of total construction costs is compiled and calculated in detail based on objective prices such as internally-approved projected unit prices and third-party quotations
- Controls for revising estimates of total construction costs in a timely manner in accordance with factors such as the status of construction and the amounts of actual costs incurred, or changes in construction specifications as instructed by customers
- Controls through which the construction cost management department responsible for the reliability of total construction costs can monitor, in a timely and appropriate manner, both the management of profit and loss on construction and progress toward completion
- Controls to estimate total construction costs by comparing previous estimates of total construction costs with the actual results or re-estimated amounts

(2) Evaluation of the reasonableness of estimates of total construction costs

We identified construction contracts subject to a relatively high degree of uncertainty over the estimates of total construction costs in light of factors such as the construction contract amounts, profit or loss on construction, construction details, and the status of construction, and mainly performed the following procedures.

- We traced estimates of total construction costs to operating budgets on which calculations of such estimates are based, and considered whether total construction

significant delays in construction because of natural disasters or pandemics, etc., thus making timely and appropriate revisions of total construction costs is highly complex.

Considering the above, we have determined that estimates of total construction costs made in calculating revenue of construction contracts and construction progress are of particular significance in the current period and, accordingly, this is a key audit matter.

costs are consistent with estimates of total construction costs with reference to the specific construction project specifications set forth in the corresponding construction contracts, and whether operating budgets are free from reconciliation items involving abnormal amounts included in response to future uncertainty.

- We understood the changes in each cost item in operating budgets from the point in time at which the order was received and, for changes in operating budgets above a certain threshold, we considered whether the details of such changes are consistent with the current status of the construction by making inquiries of the construction cost management department and by tracing such changes to work schedules and quotations.
- We made inquiries of the construction cost management department about construction progress and determinations of whether changes of total construction costs are necessary, and considered the reasonableness of their responses with reference to work schedules and amounts of expenses incurred.
- For specific construction projects selected based on our own judgement as independent auditors, we conducted onsite inspections of construction projects and considered whether the status of construction is consistent with the estimate of total construction costs and progress toward completion of construction.

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.

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.

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.

From the matters communicated with the Audit and Supervisory Board Members and the Audit and Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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, 2021 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, 2021

石田博信



Hironobu Ishida
Designated Engagement Partner
Certified Public Accountant

吉村祐二



Yuji Yoshimura
Designated Engagement Partner
Certified Public Accountant

KYUDENKO CORPORATION and Consolidated Subsidiaries

Consolidated Balance Sheet

March 31, 2021

	March 31,		
	2020	2021	2021
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Assets			
Current assets:			
Cash on hand and in banks (Notes 15, 17 and 20)	¥ 55,851	¥ 50,905	\$ 459,805
Notes receivable, accounts receivable on completed construction contracts and other accounts receivable (Notes 17 and 22)	139,746	130,705	1,180,608
Short-term investments (Notes 17 and 18)	1,007	—	—
Costs of uncompleted construction contracts	7,285	5,910	53,386
Merchandise	1,527	1,040	9,401
Raw materials and supplies	1,145	14,579	131,691
Other current assets (Note 15)	9,723	9,451	85,371
Allowance for doubtful accounts (Note 17)	(18)	(18)	(165)
Total current assets	216,269	212,574	1,920,100
Fixed assets:			
Property and equipment:			
Buildings and structures (Notes 3 and 15)	69,346	70,681	638,438
Machinery, vehicles, tools, furniture and fixtures (Notes 3 and 15)	40,709	40,771	368,274
Leased assets	7,043	7,190	64,953
Land (Note 15)	28,911	28,887	260,929
Construction in progress	772	1,061	9,586
Accumulated depreciation	(64,158)	(67,894)	(613,268)
Total property and equipment	82,625	80,698	728,913
Intangible assets:			
Goodwill (Note 21)	182	—	—
Other intangible assets	1,465	1,729	15,622
Total intangible assets	1,648	1,729	15,622
Investments and other assets:			
Investments in securities (Notes 15, 17 and 18)	44,486	50,597	457,029
Investments in unconsolidated subsidiaries and affiliates (Note 15)	11,543	12,596	113,781
Long-term loans receivable (Note 15)	1,209	1,256	11,352
Asset for retirement benefits (Note 5)	847	554	5,007
Deferred tax assets (Note 12)	6,539	3,507	31,679
Other (Note 15)	4,844	4,781	43,189
Allowance for doubtful accounts	(1,534)	(1,764)	(15,935)
Total investments and other assets	67,938	71,530	646,105
Total fixed assets	152,212	153,957	1,390,641
Total assets	¥ 368,482	¥ 366,532	\$ 3,310,742

	March 31,		
	2020 (Millions of yen)	2021 (Millions of yen)	2021 (Thousands of U.S. dollars) (Note 1)
Liabilities			
Current liabilities:			
Notes payable, accounts payable on construction contracts and other accounts payable (Note 17)	¥ 73,584	¥ 63,559	\$ 574,108
Electronically recorded obligations (Note 17)	27,894	23,593	213,112
Short-term borrowings (Notes 4 and 15)	30	25	225
Current portion of long-term debt (Notes 4, 15 and 17)	1,769	1,749	15,806
Lease obligations (Note 4)	1,147	1,145	10,346
Income taxes payable (Note 12)	6,257	7,145	64,538
Advances received on uncompleted construction contracts (Note 22)	23,440	15,381	138,938
Provision for loss on construction contracts	12	60	549
Other current liabilities	8,586	12,700	114,714
Total current liabilities	142,723	125,361	1,132,341
Long-term liabilities:			
Long-term debt (Notes 4, 15 and 17)	11,890	10,140	91,593
Lease obligations (Note 4)	3,016	2,711	24,495
Provision for retirement benefits for directors and audit and supervisory board members	337	300	2,712
Liability for retirement benefits (Note 5)	10,714	4,051	36,591
Other long-term liabilities (Notes 6 and 12)	2,357	2,225	20,102
Total long-term liabilities	28,316	19,429	175,496
Total liabilities	171,039	144,790	1,307,837
Commitments and contingencies (Note 14)			
Net assets (Note 7)			
Shareholders' equity:			
Common stock:			
Authorized – 250,000,000 shares			
Issued – 70,864,961 shares in 2020 and 2021	12,561	12,561	113,463
Capital surplus	12,982	12,987	117,308
Retained earnings	177,642	195,601	1,766,790
Treasury stock, at cost	(8)	(8)	(76)
Total shareholders' equity	203,179	221,141	1,997,485
Accumulated other comprehensive loss			
Unrealized holding gain on securities	745	3,998	36,116
Unrealized loss on hedging instruments	(540)	(381)	(3,441)
Translation adjustments	212	105	953
Retirement benefit liability adjustments (Note 5)	(7,985)	(5,057)	(45,678)
Total accumulated other comprehensive loss	(7,567)	(1,334)	(12,049)
Non-controlling interests	1,831	1,933	17,468
Total net assets	197,442	221,741	2,002,904
Total liabilities and net assets	¥ 368,482	¥ 366,532	\$ 3,310,742

See accompanying notes to consolidated financial statements.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Income

Year ended March 31, 2021

	Year ended March 31,		
	2020	2021	2021
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Net sales (Note 21):			
Construction contracts (Note 8)	¥ 407,506	¥ 377,331	\$ 3,408,285
Other	21,432	14,570	131,609
Total net sales	428,939	391,901	3,539,895
Cost of sales (Notes 9 and 11):			
Construction contracts	351,520	324,266	2,928,973
Other	17,325	11,003	99,387
Total cost of sales	368,845	335,269	3,028,361
Gross profit:			
Construction contracts	55,986	53,064	479,312
Other	4,106	3,567	32,221
Total gross profit	60,093	56,631	511,534
Selling, general and administrative expenses (Notes 10 and 11)	24,071	23,633	213,467
Operating income (Note 21)	36,022	32,998	298,066
Non-operating income (expenses):			
Interest income	66	91	822
Dividend income	662	723	6,533
Interest expenses	(385)	(411)	(3,717)
Equity in earnings of affiliates	685	694	6,269
Gain on investments in partnership	1,117	1,054	9,528
Rent income	323	313	2,829
Extra retirement payments	(60)	(90)	(815)
Compensation expenses	(129)	—	—
Provision of allowance for doubtful accounts of subsidiary	(92)	(236)	(2,132)
Other, net	433	768	6,940
Ordinary income	38,643	35,906	324,326
Extraordinary income (loss):			
Gain on sales of property and equipment	6	55	505
Loss on disposal and sales of fixed assets	(172)	(184)	(1,662)
Gain on sales of investments in securities (Note 18)	241	1,282	11,583
Gain on sales of subsidiary shares (Note 18)	—	12	108
Impairment loss on investments in securities (Note 18)	(294)	(17)	(160)
Impairment loss on investment in unconsolidated subsidiary (Note 18)	—	(115)	(1,041)
Loss on sales of investments in securities (Note 18)	(0)	(66)	(597)
Penalty	—	(89)	(804)
Profit before income taxes	38,423	36,784	332,257
Income taxes (Note 12):			
Current	11,805	11,337	102,410
Deferred	295	258	2,331
Profit	26,322	25,188	227,515
Profit attributable to:			
Non-controlling interests	76	145	1,312
Owners of parent	¥ 26,245	¥ 25,042	\$ 226,202

KYUDENKO CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income

Year ended March 31, 2021

	Year ended March 31		
	2020	2021	2021
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Profit	¥ 26,322	¥ 25,188	\$ 227,515
Other comprehensive (loss) income (Note 13):			
Unrealized holding (loss) gain on securities	(2,832)	3,243	29,296
Unrealized loss on hedging instruments	(25)	—	—
Translation adjustments	33	(120)	(1,084)
Retirement benefit liability adjustments (Note 5)	3	2,928	26,452
Share of other comprehensive (loss) income of affiliates accounted for by the equity method	(98)	171	1,546
Total other comprehensive (loss) income	(2,919)	6,223	56,212
Comprehensive income	¥ 23,402	¥ 31,411	\$ 283,727
Comprehensive income attributable to:			
Owners of parent	¥ 23,325	¥ 31,276	\$ 282,512
Non-controlling interests	¥ 77	¥ 134	\$ 1,215

KYUDENKO CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Changes in Net Assets

Year ended March 31, 2021

	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, 2019	¥ 12,561	¥ 13,012	¥ 159,401	¥ (10)	¥ 184,965	¥ 3,585	¥ (423)	¥ 179	¥ (7,988)	¥ (4,647)	¥ 1,858	¥ 182,176
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	—	—	—	—	—	—	—	—
Change in scope of consolidation	—	—	—	—	—	—	—	—	—	—	—	—
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 April 1, 2020	12,561	12,982	177,642	(8)	203,179	745	(540)	212	(7,985)	(7,567)	1,831	197,442
Cash dividends paid	—	—	(7,086)	—	(7,086)	—	—	—	—	—	—	(7,086)
Profit attributable to owners of parent for the period	—	—	25,042	—	25,042	—	—	—	—	—	—	25,042
Purchase of treasury stock	—	—	—	(0)	(0)	—	—	—	—	—	—	(0)
Disposal of treasury stock	—	—	—	—	—	—	—	—	—	—	—	—
Change in scope of consolidation	—	—	2	—	2	—	—	—	—	—	—	2
Transfer to capital surplus from retained earnings	—	—	—	—	—	—	—	—	—	—	—	—
Purchase of treasury stock of consolidated subsidiary	—	3	—	—	3	—	—	—	—	—	—	3
Purchase of shares of consolidated subsidiaries	—	1	—	—	1	—	—	—	—	—	—	1
Increase in retained earnings due to change in accounting period of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	—
Net changes in items other than those in shareholders' equity	—	—	—	—	—	3,252	159	(106)	2,928	6,233	102	6,336
Net changes during the year	—	4	17,958	(0)	17,962	3,252	159	(106)	2,928	6,233	102	24,298
Balance at March 31, 2021	¥ 12,561	¥ 12,987	¥ 195,601	¥ (8)	¥ 221,141	¥ 3,998	¥ (381)	¥ 105	¥ (5,057)	¥ (1,334)	¥ 1,933	¥ 221,741

KYUDENKO CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Changes in Net Assets (continued)

Year ended March 31, 2021

	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, 2020	\$ 113,463	\$ 117,267	\$ 1,604,578	\$ (72)	\$ 1,835,237	\$ 6,735	\$ (4,880)	\$ 1,917	\$ (72,130)	\$ (68,358)	\$ 16,543	\$ 1,783,422
Issuance of new shares	—	—	—	—	—	—	—	—	—	—	—	—
Cash dividends paid	—	—	(64,009)	—	(64,009)	—	—	—	—	—	—	(64,009)
Profit attributable to owners of parent for the period	—	—	226,202	—	226,202	—	—	—	—	—	—	226,202
Purchase of treasury stock	—	—	—	(4)	(4)	—	—	—	—	—	—	(4)
Disposal of treasury stock	—	—	—	—	—	—	—	—	—	—	—	—
Change in scope of consolidation	—	—	19	—	19	—	—	—	—	—	—	19
Transfer to capital surplus from retained earnings	—	—	—	—	—	—	—	—	—	—	—	—
Purchase of treasury stock of consolidated subsidiary	—	27	—	—	27	—	—	—	—	—	—	27
Purchase of shares of consolidated subsidiaries	—	12	—	—	12	—	—	—	—	—	—	12
Increase in retained earnings due to change in accounting period of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	—
Net changes in items other than those in shareholders' equity	—	—	—	—	—	29,381	1,438	(963)	26,452	56,309	924	57,233
Net changes during the year	—	40	162,212	(4)	162,248	29,381	1,438	(963)	26,452	56,309	924	219,482
Balance at March 31, 2021	\$ 113,463	\$ 117,308	\$ 1,766,790	\$ (76)	\$ 1,997,485	\$ 36,116	\$ (3,441)	\$ 953	\$ (45,678)	\$ (12,049)	\$ 17,468	\$ 2,002,904

See accompanying notes to consolidated financial statements.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Cash Flows

Year ended March 31, 2021

	2020	2021	2021
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 1)</i>
Cash flows from operating activities			
Profit before income taxes	¥ 38,423	¥ 36,784	\$ 332,257
Depreciation and amortization	5,961	5,739	51,839
(Decrease) increase in allowance for doubtful accounts	(13)	233	2,108
Decrease in liability for retirement benefits and provision for retirement benefits for directors and audit and supervisory board members	(3,319)	(3,343)	(30,201)
Increase in provision for loss on construction contracts	12	48	436
Gain on investments in partnership	(1,117)	(1,054)	(9,528)
Interest and dividend income	(729)	(814)	(7,356)
Interest expenses	385	411	3,717
Foreign exchange loss (gain)	46	(60)	(543)
Equity in earnings of affiliates	(306)	(431)	(3,896)
Loss (gain) on sales of property and equipment, net	25	(29)	(268)
Loss on disposal of fixed assets	140	157	1,425
Impairment loss on investments in securities	294	133	1,201
Gain on sales of investments in securities	(240)	(1,228)	(11,094)
Decrease in notes and accounts receivable on completed construction contracts	11,011	8,915	80,531
(Increase) decrease in costs of uncompleted construction contracts	(2,302)	1,374	12,417
Decrease (increase) in inventories	71	(12,964)	(117,103)
Decrease in notes and accounts payable on construction contracts	(7,981)	(14,206)	(128,322)
Increase (decrease) in advances received on uncompleted construction contracts	10,678	(8,043)	(72,657)
Increase (decrease) in long-term accounts payable	26	(11)	(107)
Increase in consumption taxes payable, net	1,566	4,020	36,318
Other, net	(976)	3,706	33,476
Subtotal	51,657	19,335	174,650
Interest and dividend income received	762	793	7,168
Interest expenses paid	(385)	(411)	(3,716)
Income taxes paid	(13,812)	(10,533)	(95,146)
Net cash provided by operating activities	¥ 38,222	¥ 9,184	\$ 82,955

KYUDENKO CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Cash Flows (continued)

Year ended March 31, 2021

	2020	2021	2021
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
			<i>(Note 1)</i>
Cash flows from investing activities			
Payments into time deposits	¥ (1,014)	¥ (1,137)	\$ (10,270)
Proceeds from withdrawal of time deposits	954	921	8,322
Purchase of property and equipment	(3,998)	(2,945)	(26,601)
Proceeds from sales of property and equipment	279	103	932
Payments of disposal of property, plant and equipment	(78)	(4)	(36)
Purchase of investments in securities	(8,649)	(6,458)	(58,337)
Proceeds from sales of investments in securities	1,076	6,534	59,020
Payments for sales of investments in subsidiaries resulting in changes in scope of consolidation	—	(47)	(432)
Payments of long-term loans receivable	(381)	(167)	(1,514)
Collection of long-term loans receivable	222	93	846
Other, net	(546)	(1,124)	(10,159)
Net cash used in investing activities	(12,136)	(4,232)	(38,230)
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings	3	(5)	(45)
Proceeds from long-term debt	—	55	496
Repayments of long-term debt	(1,963)	(1,769)	(15,987)
Purchase of treasury stock	(998)	(0)	(4)
Cash dividends paid	(7,099)	(7,084)	(63,989)
Cash dividends paid to non-controlling shareholders	(4)	(4)	(44)
Proceeds from stock issuance to non-controlling shareholders	8	—	—
Repayments to non-controlling shareholders	(22)	(21)	(192)
Purchase of subsidiaries' shares not resulting in changes in scope of consolidation	(46)	(1)	(11)
Other, net	(1,125)	(1,232)	(11,133)
Net cash used in financing activities	(11,250)	(10,064)	(90,912)
Effect of exchange rate changes on cash and cash equivalents	(2)	(51)	(461)
Net increase (decrease) in cash and cash equivalents	14,833	(5,164)	(46,648)
Cash and cash equivalents at the beginning of the year	40,192	54,964	496,473
Decrease in cash and cash equivalents resulting from changes in accounting period of consolidated subsidiary	(61)	—	—
Cash and cash equivalents at the end of the year	¥ 54,964	¥ 49,800	\$ 449,824
<i>(Note 20)</i>			

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements

March 31, 2021

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.

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 $¥110.71 = \text{U.S.}\$1.00$, the rate of exchange prevailing on March 31, 2021. 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, 2021 and 2020 have been omitted. Consequently, the totals shown in the accompanying consolidated financial statements for the years ended March 31, 2021 and 2020 (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, 2021, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 46 and 9 (48 and 9 in 2020), respectively.

Quatec Co., Ltd., which was a consolidated subsidiary, has been absorbed into the Company on April 1, 2020. In addition, Systec Co., Ltd., which was a consolidated subsidiary, has been excluded from the scope of the consolidation on March 31, 2021 due to the sale of its shares.

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.

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.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

(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.

(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 or loss.

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 (continued)

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.

(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. Leased assets mainly consist of construction vehicles (machinery, vehicles, tools, furniture and fixtures) in the utilities engineering service segment.

(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.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

(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.

(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 or loss as incurred.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

(o) Recognizing revenues and costs of construction contracts

Revenues and costs of construction contracts for which completion is deemed to be certain 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 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 and interest and currency rate swaps. Hedged items are interest payments on loans, foreign currency loans and associated interest payments.

Derivative financial instruments are carried at fair value with changes in unrealized gain or loss charged or credited to profit or 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," under which either the net amounts to be paid or received under the interest rate swap contract are added to or deducted from the interest on the liability or the foreign currency liabilities are translated at the corresponding currency swap contract rates, are applied for interest and currency rate swaps 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 accounted for using simplified methods.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

(r) Significant accounting estimates

Estimates of total construction costs accounted for by the percentage-of-completion method

- (1) Amounts recognized in the consolidated financial statements for the year ended March 31, 2021

Revenue arising from construction contracts accounted for by the percentage-of-completion method was ¥221,286 million (\$1,998,795 thousand).

- (2) Other information that enhances the understanding of users of the consolidated financial statements

1. Method used to calculate the amounts recognized

Revenue for which the percentage-of-completion method is applied is measured based on construction progress, and the construction progress is determined based on the ratio of actual costs incurred for a project up to the end of the fiscal year to the estimated total costs of the construction project. The estimates of total cost of construction are based on operating budgets prepared by incorporating the latest status of construction under internal controls established by the Company. The operating budgets are prepared by construction personnel who identify the details and quantity of materials required, the quantity of work required based on the work schedule, etc., considering basic specifications and work details as instructed by customers, and are determined after obtaining the approval of management with appropriate authority other than the construction personnel.

2. Key assumptions

Estimates of total construction costs accounted for under the percentage-of-completion method are subject to specific assumptions and determinations made by construction personnel with specialized knowledge and construction experience. Further, given that construction is generally long-term in nature, there may be fluctuations in unit costs of materials and labor, etc., due to modifications of the construction contracts or modification of the construction period while construction is still in progress, as a result of, for example, suspensions or significant delays in construction because of natural disasters or pandemics, etc.

3. Impacts on the consolidated financial statements for the following fiscal period

The estimates of unit costs for materials and labor, etc., described in “2. Key assumptions,” may be revised as construction progress, as a result, may have impacts on the consolidated financial statements for the following fiscal period.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

(s) Accounting standards issued but not yet effective

Accounting Standard and Implementation Guidance on Revenue Recognition

On March 26, 2021, 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

(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.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

(t) Change in presentation

Adoption of “Accounting Standard for Disclosure of Accounting Estimates”

The Company adopted the “Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No.31, March 31, 2020) effective from the year ended March 31, 2021 and significant accounting estimates are disclosed in Note 2 to the consolidated financial statements.

However, comparative information for the previous fiscal year has not been disclosed in accordance with the transitional treatment set forth in the proviso of Section 11 of the standard.

(u) Additional information

As for the impact of the new coronavirus infection, the Company is continuing its business activities by implementing strict measures, and at this time, the Company is maintaining the same level of utilization as usual. In terms of the future outlook, the Company estimates that economic activities will continue to be restrained in the fiscal year ending March 31, 2022, as various measures are implemented to prevent the spread of the infection, including the pre-emergency measures taken by the government. Although certain impacts are expected on order activity, price competition, and construction delays, and so on, the Company believes that they will not be significant.

3. 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, 2020 and 2021 are as follows:

	2020	2021	2021
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Structures	¥ 283	¥ 283	\$ 2,558
Machinery	2,809	2,762	24,955
	<u>¥3,092</u>	<u>¥3,046</u>	<u>\$ 27,513</u>

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. 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 0.03% and 1.00% for the years ended March 31, 2020 and 2021, respectively.

Long-term debt and lease obligations at March 31, 2020 and 2021 consisted of the following:

	<u>2020</u>	<u>2021</u>	<u>2021</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 1.500%	¥ 13,660	¥ 11,890	\$ 107,400
Lease obligations due through 2030	4,163	3,857	34,842
	<u>17,824</u>	<u>15,747</u>	<u>142,243</u>
Less current portion	(2,917)	(2,895)	(26,153)
	<u>¥ 14,906</u>	<u>¥ 12,852</u>	<u>\$ 116,089</u>

The aggregate annual maturities of long-term debt and lease obligations as of March 31, 2021 are summarized as follows:

<u>Years ending March 31,</u>	<u>(Millions of yen)</u>	<u>(Thousands of U.S. dollars)</u>
2022	¥ 2,895	\$ 26,153
2023	7,694	69,504
2024	1,702	15,373
2025	850	7,679
2026	638	5,766
2027 and thereafter	1,966	17,765
	<u>¥ 15,747</u>	<u>\$ 142,243</u>

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

5. 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, 2020 and 2021 were as follows:

	2020	2021	2021
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Balance at the beginning of the year	¥ 45,389	¥ 44,939	\$ 405,919
Service cost	2,129	2,087	18,856
Interest cost	272	270	2,441
Actuarial gain and loss	(653)	(395)	(3,576)
Retirement benefit paid	(2,198)	(2,046)	(18,484)
Prior service cost	—	148	1,345
Balance at the end of the year	¥ 44,939	¥ 45,003	\$ 406,501

2) The changes in the plan assets for the years ended March 31, 2020 and 2021 were as follows:

	2020	2021	2021
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Balance at the beginning of the year	¥ 33,932	¥ 35,906	\$ 324,329
Expected return on plan assets	678	718	6,486
Actuarial gain and loss	(1,283)	2,737	24,730
Contributions by the Company	4,397	4,667	42,156
Retirement benefit paid	(1,873)	(1,931)	(17,442)
Other	55	56	509
Balance at the end of the year	¥ 35,906	¥ 42,155	\$ 380,770

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

5. 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, 2020 and 2021 for the Company's and its consolidated subsidiaries' defined benefit plans:

	2020	2021	2021
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Funded retirement benefit obligation	¥ 35,540	¥ 42,162	\$ 380,835
Plan assets at fair value	(35,906)	(42,155)	(380,770)
	(365)	7	65
Unfunded retirement benefit obligation	9,398	2,841	25,665
Net liability for retirement benefits in the consolidated balance sheet	9,032	2,848	25,731
Liability for retirement benefits	9,398	2,848	25,731
Asset for retirement benefits	(365)	—	—
Net liability for retirement benefits in the consolidated balance sheet	¥ 9,032	¥ 2,848	\$ 25,731

4) The components of retirement benefit expenses for the years ended March 31, 2020 and 2021 were as follows:

	2020	2021	2021
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Service cost	¥ 2,073	¥ 2,031	\$ 18,347
Interest cost	272	270	2,441
Expected return on plan assets	(678)	(718)	(6,486)
Amortization of actuarial gain and loss	459	696	6,291
Amortization of prior service cost	175	529	4,786
Other	60	90	815
Retirement benefit expenses	¥ 2,362	¥ 2,900	\$ 26,194

Contributions from employees of ¥55 million and ¥56 million (\$509 thousand) for the years ended March 31, 2020 and 2021 are not included in above service cost.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

5. 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, 2020 and 2021 were as follows:

	2020	2021	2021
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Prior service cost	¥ 175	¥ (380)	\$ (3,440)
Actuarial gain and loss	(170)	(3,830)	(34,598)
Total	¥ 4	¥ (4,211)	\$ (38,039)

6) The components of retirement benefit liability adjustments included in accumulated other comprehensive income (before tax effect) as of March 31, 2020 and 2021 were as follows:

	2020	2021	2021
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Unrecognized prior service cost	¥ 7,778	¥ 7,397	\$ 66,815
Unrecognized actuarial gain and loss	3,705	(125)	(1,129)
Total	¥ 11,483	¥ 7,272	\$ 65,686

7) The fair value of plan assets, by major category, as a percentage of total plan assets at March 31, 2020 and 2021 was as follows:

	2020	2021
Bonds	50%	46%
Stocks	23%	22%
General accounts of life insurance	7%	6%
Alternative investments	18%	17%
Other	2%	9%
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)

5. 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:

	2020	2021
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, 2020 and 2021 were as follows:

	2020	2021	2021
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Balance at the beginning of the year	¥ 833	¥ 834	\$ 7,539
Retirement benefit expenses	566	337	3,046
Retirement benefit paid	(120)	(119)	(1,079)
Contributions	(444)	(431)	(3,899)
Other	0	27	246
Balance at the end of the year	¥ 834	¥ 647	\$ 5,853

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, 2020 and 2021 for the defined benefit plans:

	2020	2021	2021
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Funded retirement benefit obligation	¥ 4,455	¥ 4,528	\$ 40,907
Plan assets at fair value	(3,866)	(4,107)	(37,101)
	588	421	3,806
Unfunded retirement benefit obligation	245	226	2,046
Net liability for retirement benefits in the consolidated balance sheet	834	647	5,853
Liability for retirement benefits	1,316	1,202	10,860
Asset for retirement benefits	(481)	(554)	(5,007)
Net liability for retirement benefits in the consolidated balance sheet	¥ 834	¥ 647	\$ 5,853

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

5. 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 ¥566 million and ¥337 million (\$3,046 thousand) for the years ended March 31, 2020 and 2021, respectively

(c) Defined contribution plans

Contributions made to defined contribution plans by the Company for the years ended March 31, 2020 and 2021 were ¥453 million and ¥476 million (\$4,301 thousand), respectively.

6. Asset Retirement Obligations

Asset retirement obligations which are included in the other long-term 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, 2020 and 2021:

	2020	2021	2021
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Balance at the beginning of the year	¥ 1,316	¥ 1,336	\$ 12,070
Adjustment due to passage of time	19	20	181
Balance at the end of the year	<u>¥ 1,336</u>	<u>¥ 1,356</u>	<u>\$ 12,251</u>

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. 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, 2020 and 2021 amounted to ¥12,543 million (\$113,303 thousand).

There was no legal reserve for the years ended March 31, 2020 and 2021.

(a) Shares issued and outstanding / Treasury shares

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	71,165,783	—	300,822	70,864,961
Treasury stock:				
Common stock	19,331	300,361	300,822	18,870

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	300,822
--------------------------------------------------------------------------------------------------------------	---------

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

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

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Net Assets (continued)

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

For the year ended March 31, 2021:

<i>Types of shares</i>	<i>Number of shares at April 1, 2020</i>	<i>Increase</i>	<i>Decrease</i>	<i>Number of shares at March 31, 2021</i>
		<i>(Number of Shares)</i>		
Shares issued:				
Common stock	70,864,961	—	—	70,864,961
Treasury stock:				
Common stock	18,870	155	—	19,025

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

Increase due to purchase of shares of less than one standard unit	155
-------------------------------------------------------------------	-----

(b) Share subscription rights

No share subscription rights were outstanding.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Net Assets (continued)

(c) Dividends

1) Dividends paid

For the year ended March 31, 2020:

	<i>Total dividends</i> <i>(Millions of yen)</i>	<i>Record date</i>	<i>Effective date</i>
Resolution: Meeting of the Board of Directors on April 26, 2019			
Cash dividends (¥50.00 per share)	¥ 3,558	March 31, 2019	June 5, 2019
Resolution: Meeting of the Board of Directors on October 31, 2019			
Cash dividends (¥50.00 per share)	¥ 3,543	September 30, 2019	December 2, 2019

For the year ended March 31, 2021:

	<i>Total dividends</i> <i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>	<i>Record date</i>	<i>Effective date</i>
Resolution: Meeting of the Board of Directors on April 28, 2020				
Cash dividends (¥50.00 (\$0.45) per share)	¥ 3,543	\$ 32,004	March 31, 2020	June 4, 2020
Resolution: Meeting of the Board of Directors on October 30, 2020				
Cash dividends (¥50.00 (\$0.45) per share)	¥ 3,543	\$ 32,004	September 30, 2020	December 1, 2020

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. 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, 2020 and 2021 amounted to ¥248,034 million and ¥221,286 million (\$1,998,795 thousand), respectively.

9. Provision (Reversal of Provision) for Loss on Construction Contracts

Provision for loss on construction contracts included in cost of sales for the years ended March 31, 2020 and 2021 represents a provision of ¥12 million and ¥48 million (\$436 thousand), respectively.

10. Selling, General and Administrative Expenses

Major items included in selling, general and administrative expenses for the years ended March 31, 2020 and 2021 were as follows:

	2020	2021	2021
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Salaries and wages	¥ 10,420	¥ 10,391	\$ 93,858
Retirement benefit expenses	520	661	5,978
Retirement benefits expenses for directors and audit and supervisory board members	54	52	474
Depreciation and amortization	1,054	1,093	9,879

11. 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, 2020 and 2021 amounted to ¥290 million and ¥254 million (\$2,300 thousand), respectively.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

12. 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, 2020 and 2021, respectively. Income taxes of the foreign consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

The reconciliation for the years ended March 31, 2020 and 2021 has been omitted as the differences were less than 5% of the statutory tax rate.

The significant components of deferred tax assets and liabilities as of March 31, 2020 and 2021 were as follows:

	2020	2021	2021
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Deferred tax assets:			
Liability for retirement benefits	¥ 4,568	¥ 2,924	\$ 26,413
Accrued bonuses	2,350	2,427	21,924
Unrealized profits on fixed assets	782	1,249	11,289
Enterprise tax payable	431	457	4,128
Other	3,360	2,839	25,650
Gross deferred tax assets	11,494	9,898	89,405
Valuation allowance	(913)	(849)	(7,669)
Total deferred tax assets	10,581	9,049	81,736
Deferred tax liabilities:			
Unrealized holding gain on other securities	(390)	(1,823)	(16,469)
Prepaid pension costs	(1,363)	(1,603)	(14,481)
Reserve for deductions in acquisition costs of property and equipment	(1,216)	(1,199)	(10,833)
Other	(1,310)	(1,096)	(9,907)
Total deferred tax liabilities	(4,281)	(5,722)	(51,691)
Net deferred tax assets	¥ 6,300	¥ 3,326	\$ 30,044

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

13. Other Comprehensive Income (Loss)

Reclassification adjustments and tax effects allocated to each component of other comprehensive income (loss) for the years ended March 31, 2020 and 2021 were as follows:

	2020	2021	2021
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Unrealized holding (loss) gain on securities:			
Amount arising during the year	¥ (4,060)	¥ 4,985	\$ 45,031
Reclassification adjustments for gain and loss included in profit attributable to owners of parent	51	(308)	(2,787)
Amount before tax effect	(4,009)	4,676	42,244
Tax effect	1,176	(1,433)	(12,947)
Unrealized holding (loss) gain on securities	(2,832)	3,243	29,296
Unrealized loss on hedging instruments:			
Amount arising during the year	(36)	—	—
Reclassification adjustments for gain and loss included in profit attributable to owners of parent	—	—	—
Amount before tax effect	(36)	—	—
Tax effect	11	—	—
Unrealized loss on hedging instruments:	(25)	—	—
Translation adjustments:			
Amount arising during the year	33	(120)	(1,084)
Retirement benefit liability adjustments:			
Amount arising during the year	(630)	2,984	26,962
Reclassification adjustments for gain and loss included in profit attributable to owners of parent	634	1,226	11,077
Amount before tax effect	4	4,211	38,039
Tax effect	(1)	(1,282)	(11,586)
Retirement benefits liability adjustments	3	2,928	26,452
Share of other comprehensive (loss) income of affiliates accounted for by the equity method:			
Amount arising during the year	(98)	171	1,546
Total other comprehensive (loss) income	¥ (2,919)	¥ 6,223	\$ 56,212

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

14. Commitments and Contingencies

At March 31, 2020 and 2021, 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

	2020	2021	2021
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Debt guarantee:			
Mizuho Bank, Ltd. (Atsumi Greenpower Co.)	¥ 205	¥ 118	\$ 1,067
Development Bank of Japan Inc. (Nagashima Windhill Co.)	131	93	844
The Hokuriku Bank, Ltd. and others (Matusima Fuuryoku Co.)	2,127	1,982	17,904
Bond insurance:			
Sumitomo Mitsui Banking Corporation (KYUDENKO MALAYSIA SDN. BHD.)	40	8	80
Sumitomo Mitsui Banking Corporation (KYUDENKO (THAILAND) CO., LTD.)	0	—	—
MUFG Bank, Ltd. (KYUDENKO VIETNAM CO., LTD.)	93	101	918
Total	<u>¥ 2,598</u>	<u>¥ 2,304</u>	<u>\$ 20,815</u>

Endorsement for transfer of notes receivable

	2020	2021	2021
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
	¥ 18	¥ 3	\$ 31

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

14. 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, 2020 and 2021, the Company had loan commitment agreements with 9 companies and 8 companies, respectively. The unused balances under the loan commitment contracts at March 31, 2020 and 2021 were as follows:

	2020	2021	2021
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Total loan commitments	¥ 153	¥ 145	\$ 1,316
Aggregated borrowings	—	—	—
Unused balances	¥ 153	¥ 145	\$ 1,316

15. Pledged Assets

The assets pledged as collateral for short-term borrowings of ¥327 million and ¥327 million (\$2,958 thousand) and long-term debt of ¥3,378 million and ¥3,051 million (\$27,560 thousand) of the Company's investees involved in the renewable energy generation business and/or PFI business at March 31, 2020 and 2021, respectively, were as follows:

	2020	2021	2021
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Cash on hand and in banks	¥ 583	¥ 556	\$ 5,026
Other current assets included in short-term loans receivable	6	4	41
Buildings and structures	26	30	271
Machinery, vehicles, tools, furniture and fixtures	2,290	2,020	18,251
Land	0	0	3
Investments in securities and investments in unconsolidated subsidiaries and affiliates	6,728	12,077	109,090
Long-term loans receivable	64	59	541
Investments and other assets-rental deposit included in other assets	15	15	135
Total	¥ 9,716	¥ 14,764	\$ 133,362

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

16. Amounts Per Share

Per share information as of March 31, 2020 and 2021 and for the years then ended is as follows:

	<u>2020</u>	<u>2021</u>	<u>2021</u>
	<i>(Yen)</i>		<i>(U.S. dollars)</i>
Profit attributable to owners of parent:			
Basic	¥ 370.00	¥ 353.48	\$ 3.19
Net assets	¥ 2,761.07	¥ 3,102.61	\$ 28.02

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.

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>2020</u>	<u>2021</u>
	<i>(Thousands of shares)</i>	
Weighted average number of shares for basic profit attributable to owners of parent	70,933	70,846

The entire amounts of profit attributable to owners of parent of ¥26,245 million and ¥25,042 million (\$226,202 thousand) for the years ended March 31, 2020 and 2021 were attributable to common shareholders.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

16. Amounts Per Share (continued)

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

	<u>2020</u>	<u>2021</u>	<u>2021</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Total net assets	¥ 197,442	¥ 221,741	\$ 2,002,904
Amounts deducted from total net assets:			
Non-controlling interests	(1,831)	(1,933)	(17,468)
Net assets attributable to shares of common stock	<u>¥ 195,611</u>	<u>¥ 219,807</u>	<u>\$ 1,985,436</u>
	<u>2020</u>	<u>2021</u>	
	<i>(Thousands of shares)</i>		
Number of shares of common stock in issue	70,864	70,864	
Less: Number of shares of treasury stock	(18)	(19)	
Number of shares of common stock used for the calculation of net assets per share	<u>70,846</u>	<u>70,845</u>	

17. 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)

17. 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 price fluctuation 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. 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)

17. Financial Instruments (continued)

Estimated fair value of financial instruments

The carrying value of financial instruments on the consolidated balance sheet as of March 31, 2020 and 2021, 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:

	2020		
	Carrying value	Estimated fair value	Difference
	<i>(Millions of yen)</i>		
Cash on hand and in banks	¥ 55,851	¥ 55,851	¥ –
Notes receivable, accounts receivable on completed construction contracts and other accounts receivable	139,746		
Less: Allowance for doubtful accounts ^(*)1)	(18)		
	139,728	139,728	–
Investments in securities	19,001	19,001	–
Total assets	¥ 214,581	¥ 214,581	¥ –
Notes payable, accounts payable on construction contracts and other accounts payable	73,584	73,584	–
Electronically recorded obligations	27,894	27,894	–
Long-term debt ^(*)2)	13,660	13,688	28
Total liabilities	¥ 115,138	¥ 115,167	¥ 28
Derivatives	¥ –	¥ –	¥ –

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

17. Financial Instruments (continued)

Estimated fair value of financial instruments (continued)

	2021					
	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	¥ 50,905	¥ 50,905	¥ –	\$ 459,805	\$ 459,805	\$ –
Notes receivable, accounts receivable on completed construction contracts and other accounts receivable	130,705			1,180,608		
Less: Allowance for doubtful accounts ^(*)	(18)			(165)		
	130,686	130,686	–	1,180,442	1,180,442	–
Investments in securities	24,278	24,278	–	219,296	219,296	–
Total assets	¥ 205,870	¥ 205,870	¥ –	\$ 1,859,544	\$ 1,859,544	\$ –
Notes payable, accounts payable on construction contracts and other accounts payable	63,559	63,559	–	574,108	574,108	–
Electronically recorded obligations	23,593	23,593	–	213,112	213,112	–
Long-term debt ^(*)	11,890	11,877	(13)	107,400	107,281	(119)
Total liabilities	¥ 99,043	¥ 99,030	¥ (13)	\$ 894,621	\$ 894,502	\$ (119)
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)

17. 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 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 rate 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 ¥37,028 million and ¥38,916 million (\$351,515 thousand) as of March 31, 2020 and 2021, 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)

17. Financial Instruments (continued)

Estimated fair value of financial instruments (continued)

Note 3: Redemption schedule for receivables and marketable securities with maturities at March 31, 2020 and 2021 were as follows:

	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>
	2021			
	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	¥ 50,841	¥ –	¥ –	¥ –
Notes receivable, accounts receivable on completed construction contracts and other accounts receivable	130,705	–	–	–
Short-term investments and investments in securities:				
Other securities with maturities (debt securities)	–	1,001	831	253
Other securities with maturities (Other)	657	10	44	21,749
Total	<u>¥ 182,204</u>	<u>¥ 1,011</u>	<u>¥ 876</u>	<u>¥ 22,002</u>

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

17. Financial Instruments (continued)

Estimated fair value of financial instruments (continued)

	2021			
	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	\$ 459,235	\$ –	\$ –	\$ –
Notes receivable, accounts receivable on completed construction contracts and other accounts receivable	1,180,608	–	–	–
Short-term investments and investments in securities:				
Other securities with maturities (debt securities)	–	9,041	7,511	2,285
Other securities with maturities (Other)	5,938	93	401	196,453
Total	<u>\$ 1,645,781</u>	<u>\$ 9,134</u>	<u>\$ 7,912</u>	<u>\$ 198,738</u>

The redemption schedule for long-term debt is disclosed in Note 4.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

18. Securities

- (a) Information regarding marketable securities classified as other securities as of March 31, 2020 and 2021 is as follows:

	2020		
	Carrying value	Acquisition cost	Difference
	<i>(Millions of yen)</i>		
Securities whose carrying value exceeds their acquisition cost			
Equity securities	¥ 7,630	¥ 4,686	¥ 2,943
Debt securities:			
Corporate bonds	—	—	—
Others	241	209	32
Others	147	95	51
Subtotal	8,019	4,991	3,027
Securities whose carrying value does not exceed their acquisition cost			
Equity securities	9,210	10,887	(1,677)
Debt securities:			
Corporate bonds	2,768	2,885	(116)
Others	—	—	—
Others	10	10	(0)
Subtotal	11,989	13,784	(1,794)
Total	¥ 20,009	¥ 18,775	¥ 1,233

	2021					
	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	¥ 16,084	¥ 8,477	¥ 7,606	\$ 145,281	\$ 76,573	\$ 68,707
Debt securities:						
Corporate bonds	1,001	1,000	1	9,047	9,032	14
Others	253	209	43	2,290	1,893	396
Others	188	84	103	1,699	762	937
Subtotal	17,527	9,771	7,755	158,318	88,262	70,056
Securities whose carrying value does not exceed their acquisition cost						
Equity securities	5,934	7,754	(1,820)	53,602	70,045	(16,442)
Debt securities:						
Corporate bonds	805	835	(29)	7,278	7,547	(268)
Others	—	—	—	—	—	—
Others	10	10	(0)	96	96	(0)
Subtotal	6,750	8,601	(1,850)	60,978	77,689	(16,711)
Total	¥ 24,278	¥ 18,372	¥ 5,905	\$ 219,296	\$ 165,951	\$ 53,344

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

18. Securities (continued)

- (b) Information regarding sales of securities classified as other securities for the years ended March 31, 2020 and 2021 was as follows:

	2020			2021		
	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	¥ 11	¥ 11	¥ –			
Debt securities:						
Corporate bonds	–	–	–			
Others	947	230	–			
Others	9	–	0			
	<u>¥ 967</u>	<u>¥ 241</u>	<u>¥ 0</u>			
Equity securities	¥ 1,053	¥ 360	¥ 66	\$ 9,518	\$ 3,252	\$ 597
Debt securities:						
Corporate bonds	1,000	–	–	9,032	–	–
Others	2,005	926	–	18,110	8,368	–
Others	18	7	–	168	70	–
	<u>¥ 4,077</u>	<u>¥ 1,294</u>	<u>¥ 66</u>	<u>\$ 36,831</u>	<u>\$ 11,691</u>	<u>\$ 597</u>

- (c) Impairment losses on securities classified as other securities of ¥61 million and ¥17 million (\$160 thousand) were recognized for the years ended March 31, 2020 and 2021, respectively. Also, impairment losses on securities classified as investments in unconsolidated subsidiaries and affiliates of ¥232 million and ¥115 million (\$1,041 thousand) was recognized for the years ended March 31, 2020, and 2021, respectively.

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)

19. Derivative Transactions

Summarized below are the notional amounts and the estimated fair value of the derivative instruments outstanding at March 31, 2020 and 2021, for which hedge accounting has been applied.

Interest-related transactions

<i>Method of hedge accounting</i>	<i>Hedging instruments</i>		<i>Hedged items</i>	2020		
				Notional amounts	Due after one year	Fair value
				<i>(Millions of yen)</i>		
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	—
				2021		
<i>Method of hedge accounting</i>	<i>Hedging instruments</i>		<i>Hedged items</i>	Notional amounts	Due after one year	Fair value
				<i>(Millions of yen)</i>		
Principle method	Interest rate swap	Pay: fixed Receive: floating	Long-term debt	¥10,929	¥10,315	¥ (416)
Simplified method	Interest rate and currency swap	Pay: fixed Receive: floating Pay: JPY Receive: USD	Long-term debt	753	502	—
				2021		
<i>Method of hedge accounting</i>	<i>Hedging instruments</i>		<i>Hedged items</i>	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	\$ 98,722	\$ 93,178	\$ (3,760)
Simplified method	Interest rate and currency swap	Pay: fixed Receive: floating Pay: JPY Receive: USD	Long-term debt	6,801	4,534	—

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

19. Derivative Transactions (continued)

b. Interest-related transactions (continued)

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.

20. 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, 2020 and 2021 are reconciled to cash on hand and in banks in the consolidated balance sheet as follows:

	<u>2020</u>	<u>2021</u>	<u>2021</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Cash on hand and in banks	¥ 55,851	¥ 50,905	\$ 459,805
Time deposits with maturities of more than three months	(887)	(1,105)	(9,981)
Cash and cash equivalents	<u>¥ 54,964</u>	<u>¥ 49,800</u>	<u>\$ 449,824</u>

- (b) Information regarding details of significant non-monetary transactions for the years ended March 31, 2020 and 2021 is as follows:

Leased assets and lease obligations related to new finance lease transactions recorded for the years ended March 31, 2020 and 2021 amounted to ¥1,328 million and ¥844 million (\$7,626 thousand), respectively.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

21. 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, including the installation of air conditioning, heating and cooling, water treatment and sanitation equipment.

(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)

21. 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, 2020 and 2021 are summarized as follows:

	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
	2021				
	Utilities engineering service	Others	Total	Adjustments and eliminations	Consolidated
	<i>(Millions of yen)</i>				
Net sales:					
Sales to third parties	¥ 377,331	¥ 14,570	¥ 391,901	¥ –	¥ 391,901
Intersegment sales and transfers	804	4,977	5,782	(5,782)	–
Total	¥ 378,136	¥ 19,548	¥ 397,684	¥ (5,782)	¥ 391,901
Segment income	¥ 30,485	¥ 2,371	¥ 32,856	¥ 142	¥ 32,998
Other items:					
Depreciation and amortization	¥ 3,559	¥ 2,294	¥ 5,853	¥ (114)	¥ 5,739
Amortization of goodwill	¥ 64	¥ 41	¥ 106	¥ –	¥ 106

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

21. 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, 2020 and 2021 are summarized as follows: (continued)

	2021				
	Utilities engineering service	Others	Total	Adjustments and eliminations	Consolidated
	<i>(Thousands of U.S. dollars)</i>				
Net sales:					
Sales to third parties	\$ 3,408,285	\$ 131,609	\$ 3,539,895	\$ –	\$ 3,539,895
Intersegment sales and transfers	7,269	44,961	52,230	(52,230)	–
Total	<u>\$ 3,415,555</u>	<u>\$ 176,570</u>	<u>\$ 3,592,125</u>	<u>\$ (52,230)</u>	<u>\$ 3,539,895</u>
Segment income	\$ 275,363	\$ 21,418	\$ 296,782	\$ 1,284	\$ 298,066
Other items:					
Depreciation and amortization	\$ 32,151	\$ 20,723	\$ 52,875	\$ (1,036)	\$ 51,839
Amortization of goodwill	\$ 583	\$ 374	\$ 958	\$ –	\$ 958

Note 1: “Others” 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 ¥174 million and ¥142 million (\$1,284 thousand) for the years ended March 31, 2020 and 2021, respectively, reflect the elimination of transactions between segments.
- (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)

21. 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, 2020 and 2021.

(2) Information by major customers

The following table presents major customer information for the years ended March 31, 2020 and 2021:

	<u>2020</u>	<u>2021</u>	<u>2021</u>
	<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	¥ 51,749	¥ —	\$ —
Name of customers:			
Kyushu Electric Power Transmission and Distribution Co., Inc.			
Reportable segment:			
Utilities engineering service and Others			
Net sales	¥ —	¥ 45,688	\$ 412,686

(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 year ended March 31, 2020 by reportable segment: Information on amortization of goodwill is omitted because the same information is disclosed in Note 21 (a) (3).

	<u>2020</u>			
	<u>Utilities engineering service</u>	<u>Others</u>	<u>Adjustments and eliminations</u>	<u>Consolidated</u>
	<i>(Millions of yen)</i>			
Balance as of March 31	¥ 64	¥ 118	¥ —	¥ 182

There was no balance of goodwill as of March 31, 2021.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

21. Segment Information (continued)

(d) Gain on bargain purchase by reportable segment

No gain on bargain purchase was recorded for the years ended March 31, 2020 and 2021.

22. Related Party Transactions

Transactions and balances with related parties as of and for the years ended March 31, 2020 and 2021 were as follows:

	2020	2021	2021
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Kyushu Electric Power Co., Inc.			
Construction order	¥ 49,446	¥ 3,504	\$ 31,655
Accounts receivable on completed construction contracts	¥ 10,674	¥ 490	\$ 4,430
Advances received on uncompleted construction contracts	¥ 21	¥ –	\$ –
Kyushu Electric Power Transmission and Distribution Co., Inc.			
Construction order	¥ –	¥ 43,944	\$ 396,930
Accounts receivable on completed construction contracts	¥ –	¥ 9,012	\$ 81,408
Advances received on uncompleted construction contracts	¥ –	¥ –	\$ –

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 (\$2,143,481 thousand) engaged in the business of supplying electric power) is a related company which owned 22.75% of the shares of the Company as of March 31, 2020 and 2021, and two people have been co-appointed as directors of Kyushu Electric Power Co., Inc. and the Company.

Kyushu Electric Power Transmission and Distribution Co., Inc. (located in Fukuoka City, with a capital amount of ¥20,000 million (\$180,652 thousand) engaged in the business of electric power transmission and distribution) is a subsidiary of a related company which owned no shares of the Company as of March 31, 2021.

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)

23. 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, 2021, was approved at the meeting of the Board of Directors held on April 28, 2021:

	Total dividends paid		Record date	Effective date
	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>		
Cash dividends (¥50.00 = \$0.45 per share)	¥ 3,543	\$ 32,004	March 31, 2021	June 4, 2021