

Consolidated Financial Statements

KYUDENKO CORPORATION

*Year ended March 31, 2022
with Independent Auditor's Report*



KYUDENKO CORPORATION and Consolidated Subsidiaries

Consolidated Financial Statements

Year ended March 31, 2022

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KYUDENKO CORPORATION and Consolidated Subsidiaries

Consolidated Balance Sheet

March 31, 2022

	March 31,		
	2021	2022	2022
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 1)</i>
Assets			
Current assets:			
Cash on hand and in banks <i>(Notes 15, 17 and 20)</i>	¥ 50,905	¥ 39,021	\$ 318,830
Notes receivable, accounts receivable on completed construction contracts and other accounts receivable <i>(Notes 17, 22 and 25)</i>	130,705	136,676	1,116,725
Short-term investments <i>(Notes 17 and 18)</i>	–	987	8,069
Costs of uncompleted construction contracts	5,910	5,592	45,692
Merchandise	1,040	1,107	9,048
Raw materials and supplies	14,579	22,790	186,213
Other current assets <i>(Notes 15 and 25)</i>	9,451	10,838	88,553
Allowance for doubtful accounts <i>(Note 17)</i>	(18)	(34)	(279)
Total current assets	212,574	216,979	1,772,854
Fixed assets:			
Property and equipment:			
Buildings and structures <i>(Notes 3 and 15)</i>	70,681	73,060	596,947
Machinery, vehicles, tools, furniture and fixtures <i>(Notes 3 and 15)</i>	40,771	41,059	335,480
Leased assets	7,190	7,628	62,329
Land <i>(Note 15)</i>	28,887	29,677	242,481
Construction in progress	1,061	1,112	9,090
Accumulated depreciation	(67,894)	(71,694)	(585,785)
Total property and equipment	80,698	80,844	660,544
Intangible assets:			
Goodwill <i>(Notes 21 and 24)</i>	–	755	6,174
Customer-related intangible assets <i>(Note 24)</i>	–	1,739	14,213
Other intangible assets	1,729	1,873	15,307
Total intangible assets	1,729	4,368	35,695
Investments and other assets:			
Investments in securities <i>(Notes 15, 17 and 18)</i>	50,597	46,006	375,897
Investments in unconsolidated subsidiaries and affiliates <i>(Notes 15 and 18)</i>	12,596	15,169	123,943
Long-term loans receivable <i>(Note 15)</i>	1,256	313	2,564
Retirement benefits asset <i>(Note 5)</i>	554	6,124	50,043
Deferred tax assets <i>(Note 12)</i>	3,507	4,288	35,040
Other <i>(Note 15)</i>	4,781	5,279	43,139
Allowance for doubtful accounts	(1,764)	(979)	(8,000)
Total investments and other assets	71,530	76,203	622,629
Total fixed assets	153,957	161,416	1,318,868
Total assets	¥ 366,532	¥ 378,396	\$ 3,091,723

KYUDENKO CORPORATION and Consolidated Subsidiaries

Consolidated Balance Sheet (continued)

March 31, 2022

	March 31,		
	2021	2022	2022
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 1)</i>
Liabilities			
Current liabilities:			
Notes payable, accounts payable on construction contracts and other accounts payable <i>(Note 17)</i>	¥ 63,559	¥ 66,669	\$ 544,731
Electronically recorded obligations <i>(Note 17)</i>	23,593	22,078	180,393
Short-term borrowings <i>(Notes 4 and 15)</i>	25	18	150
Current portion of long-term debt <i>(Notes 4, 15 and 17)</i>	1,749	6,847	55,948
Lease obligations <i>(Note 4)</i>	1,145	1,117	9,127
Income taxes payable <i>(Note 12)</i>	7,145	7,309	59,724
Advances received on uncompleted construction contracts <i>(Notes 22 and 25)</i>	15,381	11,463	93,660
Provision for loss on construction contracts	60	187	1,530
Other current liabilities	12,700	7,755	63,366
Total current liabilities	<u>125,361</u>	<u>123,446</u>	<u>1,008,632</u>
Long-term liabilities:			
Long-term debt <i>(Notes 4, 15 and 17)</i>	10,140	3,494	28,550
Lease obligations <i>(Note 4)</i>	2,711	2,782	22,731
Provision for retirement benefits for directors and audit and supervisory board members	300	328	2,686
Liability for retirement benefits <i>(Note 5)</i>	4,051	4,015	32,808
Other long-term liabilities <i>(Notes 6 and 12)</i>	2,225	3,134	25,609
Total long-term liabilities	<u>19,429</u>	<u>13,754</u>	<u>112,385</u>
Total liabilities	<u>144,790</u>	<u>137,201</u>	<u>1,121,018</u>
Commitments and contingencies <i>(Note 14)</i>			
Net assets <i>(Note 7)</i>			
Shareholders' equity:			
Common stock:			
Authorized – 250,000,000 shares			
Issued – 70,864,961 shares in 2021 and 2022	12,561	12,561	102,635
Capital surplus	12,987	12,987	106,112
Retained earnings	195,601	214,655	1,753,864
Treasury stock, at cost	(8)	(9)	(78)
Total shareholders' equity	<u>221,141</u>	<u>240,194</u>	<u>1,962,534</u>
Accumulated other comprehensive loss			
Unrealized holding gain on securities	3,998	1,848	15,107
Unrealized loss on hedging instruments	(381)	(218)	(1,785)
Translation adjustments	105	208	1,703
Retirement benefit liability adjustments <i>(Note 5)</i>	(5,057)	(2,898)	(23,685)
Total accumulated other comprehensive loss	<u>(1,334)</u>	<u>(1,059)</u>	<u>(8,660)</u>
Non-controlling interests	1,933	2,059	16,830
Total net assets	<u>221,741</u>	<u>241,194</u>	<u>1,970,705</u>
Total liabilities and net assets	<u>¥ 366,532</u>	<u>¥ 378,396</u>	<u>\$ 3,091,723</u>

See accompanying notes to consolidated financial statements.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Income

Year ended March 31, 2022

	Year ended March 31,		
	2021	2022	2022
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Net sales (Notes 21 and 25):			
Construction contracts (Note 8)	¥ 377,331	¥ 364,440	\$ 2,977,696
Other	14,570	12,123	99,054
Total net sales	391,901	376,563	3,076,750
Cost of sales (Notes 9 and 11):			
Construction contracts	324,266	310,615	2,537,913
Other	11,003	8,586	70,157
Total cost of sales	335,269	319,201	2,608,071
Gross profit:			
Construction contracts	53,064	53,824	439,782
Other	3,567	3,536	28,896
Total gross profit	56,631	57,361	468,678
Selling, general and administrative expenses (Notes 10 and 11)	23,633	24,224	197,926
Operating income (Note 21)	32,998	33,137	270,752
Non-operating income (expenses):			
Interest income	91	48	399
Dividend income	723	747	6,109
Interest expenses	(411)	(387)	(3,162)
Equity in earnings of affiliates	694	1,514	12,375
Gain on investments in partnership	1,054	910	7,437
Rent income	313	329	2,694
Extra retirement payments	(90)	(84)	(689)
Commission expenses	(6)	(75)	(620)
Provision of allowance for doubtful accounts of subsidiary	(236)	(35)	(285)
Other, net	774	722	5,902
Ordinary income	35,906	36,828	300,912
Extraordinary income (loss):			
Gain on sales of property and equipment	55	4	40
Loss on disposal and sales of fixed assets	(184)	(286)	(2,338)
Gain on sales of investments in securities (Note 18)	1,282	811	6,632
Gain on sales of subsidiary shares (Note 18)	12	–	–
Impairment loss on investments in securities (Note 18)	(17)	(489)	(4,000)
Impairment loss on investment in unconsolidated subsidiary (Note 18)	(115)	–	–
Loss on sales of investments in securities (Note 18)	(66)	(36)	(295)
Penalty	(89)	–	–
Profit before income taxes	36,784	36,833	300,951
Income taxes (Note 12):			
Current	11,337	11,365	92,860
Deferred	258	(871)	(7,121)
Profit	25,188	26,339	215,213
Profit attributable to:			
Non-controlling interests	145	123	1,007
Owners of parent	¥ 25,042	¥ 26,216	\$ 214,206

See accompanying notes to consolidated financial statements.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income

Year ended March 31, 2022

	Year ended March 31		
	2021	2022	2022
	(Millions of yen)		(Thousands of U.S. dollars)
			(Note 1)
Profit	¥ 25,188	¥ 26,339	\$ 215,213
Other comprehensive (loss) income (Note 13):			
Unrealized holding gain (loss) on securities	3,243	(2,146)	(17,541)
Translation adjustments	(120)	131	1,073
Retirement benefit liability adjustments (Note 5)	2,928	2,158	17,633
Share of other comprehensive income of affiliates accounted for by the equity method	171	159	1,302
Total other comprehensive income	6,223	302	2,467
Comprehensive income	¥ 31,411	¥ 26,641	\$ 217,680
Comprehensive income attributable to:			
Owners of parent	¥ 31,276	¥ 26,490	\$ 216,445
Non-controlling interests	134	151	1,235

See accompanying notes to consolidated financial statements.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Changes in Net Assets

Year ended March 31, 2022

	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, 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)
Change in scope of consolidation	-	-	2	-	2	-	-	-	-	-	-	2
Purchase of treasury stock of consolidated subsidiary	-	3	-	-	3	-	-	-	-	-	-	3
Purchase of shares of consolidated subsidiaries	-	1	-	-	1	-	-	-	-	-	-	1
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 April 1, 2021	12,561	12,987	195,601	(8)	221,141	3,998	(381)	105	(5,057)	(1,334)	1,933	221,741
Cash dividends paid	-	-	(7,086)	-	(7,086)	-	-	-	-	-	-	(7,086)
Profit attributable to owners of parent for the period	-	-	26,216	-	26,216	-	-	-	-	-	-	26,216
Purchase of treasury stock	-	-	-	(1)	(1)	-	-	-	-	-	-	(1)
Change in scope of consolidation	-	-	(76)	-	(76)	-	-	-	-	-	-	(76)
Net changes in items other than those in shareholders' equity	-	-	-	-	-	(2,149)	162	102	2,158	274	125	400
Net changes during the year	-	-	19,054	(1)	19,052	(2,149)	162	102	2,158	274	125	19,453
Balance at March 31, 2022	¥ 12,561	¥ 12,987	¥ 214,655	¥ (9)	¥ 240,194	¥ 1,848	¥ (218)	¥ 208	¥ (2,898)	¥ (1,059)	¥ 2,059	¥ 241,194

KYUDENKO CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Changes in Net Assets (continued)

Year ended March 31, 2022

	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, 2021	\$ 102,635	\$ 106,112	\$ 1,598,181	\$ (69)	\$ 1,806,860	\$ 32,670	\$ (3,113)	\$ 862	\$ (41,318)	\$ (10,899)	\$ 15,801	\$ 1,811,762
Cash dividends paid	-	-	(57,900)	-	(57,900)	-	-	-	-	-	-	(57,900)
Profit attributable to owners of parent for the period	-	-	214,206	-	214,206	-	-	-	-	-	-	214,206
Purchase of treasury stock	-	-	-	(8)	(8)	-	-	-	-	-	-	(8)
Change in scope of consolidation	-	-	(622)	-	(622)	-	-	-	-	-	-	(622)
Net changes in items other than those in shareholders' equity	-	-	-	-	-	(17,562)	1,328	840	17,633	2,239	1,029	3,269
Net changes during the year	-	-	155,683	(8)	155,674	(17,562)	1,328	840	17,633	2,239	1,029	158,943
Balance at March 31, 2022	\$ 102,635	\$ 106,112	\$ 1,753,864	\$ (78)	\$ 1,962,534	\$ 15,107	\$ (1,785)	\$ 1,703	\$ (23,685)	\$ (8,660)	\$ 16,830	\$ 1,970,705

See accompanying notes to consolidated financial statements.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Cash Flows

Year ended March 31, 2022

	2021	2022	2022
	<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	¥ 36,784	¥ 36,833	\$ 300,951
Depreciation and amortization	5,739	5,791	47,316
Increase (decrease) in allowance for doubtful accounts	233	(152)	(1,243)
Increase in retirement benefits asset	—	(2,860)	(23,369)
Decrease in liability for retirement benefits and provision for retirement benefits for directors and audit and supervisory board members	(3,343)	(907)	(7,411)
Increase in provision for loss on construction contracts	48	123	1,008
Gain on investments in partnership	(1,054)	(910)	(7,437)
Interest and dividend income	(814)	(796)	(6,508)
Interest expenses	411	387	3,162
Foreign exchange gain	(60)	(126)	(1,034)
Equity in earnings of affiliates	(431)	(1,201)	(9,820)
Gain on sales of property and equipment, net	(29)	(4)	(39)
Loss on disposal of fixed assets	157	282	2,310
Impairment loss on investments in securities	133	489	4,000
Gain on sales of investments in securities, net	(1,228)	(775)	(6,337)
Decrease (increase) in notes and accounts receivable on completed construction contracts	8,915	(4,786)	(39,108)
Decrease in costs of uncompleted construction contracts	1,374	585	4,786
Increase in inventories	(12,964)	(8,266)	(67,541)
(Decrease) increase in notes and accounts payable on construction contracts	(14,206)	153	1,252
Decrease in advances received on uncompleted construction contracts	(8,043)	(3,923)	(32,061)
Decrease in long-term accounts payable	(11)	(2)	(24)
Increase (decrease) in consumption taxes payable, net	4,020	(6,036)	(49,323)
Other, net	3,706	2,298	18,781
Subtotal	<u>19,335</u>	<u>16,193</u>	<u>132,309</u>
Interest and dividend income received	793	796	6,510
Interest expenses paid	(411)	(387)	(3,162)
Income taxes paid	(10,533)	(11,350)	(92,739)
Net cash provided by operating activities	<u>¥ 9,184</u>	<u>¥ 5,252</u>	<u>\$ 42,917</u>

KYUDENKO CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Cash Flows (continued)

Year ended March 31, 2022

	<u>2021</u>	<u>2022</u>	<u>2022</u>
	<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	¥ (1,137)	¥ (1,352)	\$ (11,050)
Proceeds from withdrawal of time deposits	921	1,732	14,156
Purchase of property and equipment	(2,945)	(3,931)	(32,124)
Proceeds from sales of property and equipment	103	169	1,386
Payments of disposal of property, plant and equipment	(4)	(210)	(1,718)
Purchase of investments in securities	(6,458)	(4,817)	(39,364)
Proceeds from sales of investments in securities	6,534	3,992	32,621
Payments for purchase of investments in subsidiaries resulting in changes in scope of consolidation	–	(2,871)	(23,462)
Payments for sales of investments in subsidiaries resulting in changes in scope of consolidation	(47)	–	–
Payments of long-term loans receivable	(167)	(127)	(1,039)
Collection of long-term loans receivable	93	153	1,252
Other, net	(1,124)	(273)	(2,236)
Net cash used in investing activities	<u>(4,232)</u>	<u>(7,536)</u>	<u>(61,581)</u>
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings	(5)	(34)	(285)
Proceeds from long-term debt	55	–	–
Repayments of long-term debt	(1,769)	(1,811)	(14,799)
Purchase of treasury stock	(0)	(1)	(8)
Cash dividends paid	(7,084)	(7,086)	(57,897)
Cash dividends paid to non-controlling shareholders	(4)	(2)	(21)
Repayments to non-controlling shareholders	(21)	(22)	(184)
Purchase of subsidiaries' shares not resulting in changes in scope of consolidation	(1)	–	–
Other, net	(1,232)	(1,233)	(10,077)
Net cash used in financing activities	<u>(10,064)</u>	<u>(10,191)</u>	<u>(83,274)</u>
Effect of exchange rate changes on cash and cash equivalents	(51)	301	2,459
Net decrease in cash and cash equivalents	<u>(5,164)</u>	<u>(12,175)</u>	<u>(99,478)</u>
Cash and cash equivalents at the beginning of the year	54,964	49,800	406,896
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	–	166	1,363
Cash and cash equivalents at the end of the year <i>(Note 20)</i>	<u>¥ 49,800</u>	<u>¥ 37,791</u>	<u>\$ 308,781</u>

See accompanying notes to consolidated financial statements.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements

March 31, 2022

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 $¥122.39 = \text{U.S.}\$1.00$, the rate of exchange prevailing on March 31, 2022. 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, 2022 and 2021 have been omitted. Consequently, the totals shown in the accompanying consolidated financial statements for the years ended March 31, 2022 and 2021 (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, 2022, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 58 and 10 (46 and 9 in 2021), respectively.

During the year ended March 31, 2022, the following events and/or transactions have occurred, which resulted in changes in the scope of consolidation. Kyudenko Vietnam Co., Ltd., Kyudenko Malaysia Sdn., Bhd. and Kyudenko (Thailand) Co., Ltd. were newly included in the scope of consolidation from the perspective of materiality from this fiscal year. The Company acquired shares of Chuorika kougyo Co., Ltd., which is located in Tokyo prefecture, on September 22, 2021, and this subsidiary and its eight subsidiaries were newly included in the scope of consolidation. Kyushudenko home Co., Ltd. changed its name to Kyudenko home Co., Ltd. on February 24, 2022. Central General Development Co., Ltd. was accounted for by the equity method through an acquisition by the Company on August 3, 2021.

Chuorika kougyo Co., Ltd. and its eight consolidated subsidiaries, Kyulien Environment Improving Co., Ltd., Asia Projects Engineering Pte. Ltd., Kyudenko Vietnam Co., Ltd., Kyudenko Malaysia SDN.BHD., Kyudenko (Thailand) Co., LTD. and Kyudenko South East Asia Pte. Ltd. are consolidated by using their financial statements as of their respective fiscal year end, which falls on December 31. Necessary adjustments are made to their financial statements to reflect any significant transactions between their fiscal year-ends and March 31.

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

Certain subsidiaries were excluded from the scope of consolidation because the effect of their sales, net profit or loss, total assets and retained earnings on the accompanying consolidated financial statements was immaterial. Such unconsolidated subsidiaries and affiliates are accounted for by the equity method, unless they are clearly immaterial.

Certain unconsolidated subsidiaries and affiliates were excluded from the scope of application of the equity method because their profit or loss and retained earnings attributable to the Company's interest were not material either individually or in aggregate to the consolidated financial statements.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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

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

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

(b) Foreign currency translation

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

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

(c) Cash and cash equivalents

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

(d) Inventories

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

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

(e) Short-term investments and investments in securities

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

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

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

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

(g) Intangible assets (excluding leased assets)

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

(h) Goodwill

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

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

(i) Leases

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

(k) Provision for loss on construction contracts

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

(l) Retirement benefits

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

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

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

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

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

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

(m) Income taxes

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

(n) Research and development costs

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

(o) Basis for recording significant revenues and expenses

Revenues from contracts with customers are recognized based on the following five-step model:

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

The Company and consolidated subsidiaries are mainly engaged in utilities engineering services. In the utilities engineering service business, the Group enters into construction contracts with customers. For such contracts, control of the goods or services is considered to have been transferred to the customer over a certain period of time if the performance obligation meets certain requirements. Therefore, the Group recognizes revenue over the construction period based on the degree of completion related to the fulfillment of performance obligations measured at the end of the current fiscal year. Since there is a direct relationship between cost elements such as material and labor costs invested by the Group over the construction period and the transfer of control of goods or services to the customer, the percentage-of-completion measurement is based on the ratio of the cost incurred to the estimated total cost (total construction cost) using the input method. However, if the degree of progress toward satisfying the performance obligation cannot be reasonably estimated, but the costs incurred are expected to be recovered, revenue shall be recognized on a cost recovery basis. For utilities engineering services for which the time between the transaction commencement date and the point in time when the contractual performance obligation is expected to be fully satisfied is very short, revenue is recognized when the performance obligation is fully satisfied.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

(o) Basis for recording significant revenues and expenses (continued)

In addition, the Group sells construction-related materials and equipment. For sales of construction-related materials and equipment for which the Group acts as an agent, the Group recognizes revenue based on the judgment that the customer has acquired control over the materials and equipment at the time of delivery and that the performance obligation (arrangements for delivery of materials and equipment) has been satisfied.

(p) 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)

(q) Significant accounting estimates

Estimating the total cost of construction in revenue recognized when performance obligations are satisfied over a specified period of time

- (1) Amounts recognized in the consolidated financial statements for the years ended March 31, 2021 and 2022, respectively

Revenue arising from construction contracts accounted for by the percentage-of-completion method was ¥221,286 and ¥196,386 million (\$1,604,595 thousand) for the years ended March 31, 2021 and 2022, respectively.

The figure the year ended March 31, 2021 is consistent with the figure recognized for completed construction contracts based on the percentage-of-completion method for the previous fiscal year.

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

1. Method used to calculate the amount

Revenue recognized by the method of satisfying performance obligations and recognizing revenue over a specified period of time is measured based on the degree of completion of the performance obligation, 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

The estimates of the total cost of construction for revenue recognized when performance obligations are satisfied over a period of time 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.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

(q) Significant accounting estimates (continued)

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

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, there may be an impact on the consolidated financial statements for the following fiscal period.

(r) Accounting changes

Application of “Accounting Standard for Revenue Recognition”

The Company and its consolidated subsidiaries adopted “Accounting Standard for Revenue Recognition” (Accounting Standards Board of Japan (“ASBJ”) Statement No.29 issued on March 31, 2020). As a result, revenue is recognized at the time when control of the promised goods or services is transferred to the customer based on the amount expected to be received in exchange for those goods or services from the beginning of the current fiscal year.

The Company and its consolidated subsidiaries previously used the percentage-of-completion accounting method for construction contracts where the outcome of the construction activity for the portion of work in progress could be reliably estimated. However, where control of a good or service is transferred to the customer over time, the Company has changed its method of accounting to recognizing revenue over time as the performance obligations to transfer the goods or services to the customer are satisfied. Progress toward satisfaction of a performance obligation is measured based on the percentage of construction costs incurred by the end of each reporting period against the total estimated construction costs. If the progress toward satisfaction of a performance obligation cannot be reasonably estimated, but the Company expects to recover all costs incurred, revenue is recognized on a cost recovery basis.

In addition, for certain revenues related to equipment sales, etc., the Company previously recognized revenues on a gross basis, but has changed its method of accounting so that it recognizes revenue on a net basis when it is acting as an agent in a transaction in providing goods and services to customers.

In accordance with the transitional treatment prescribed in Paragraph 84 of the Accounting Standard for Revenue Recognition, the cumulative effects of retrospectively applying new accounting policies have been reflected in the beginning balance of retained earnings for the current fiscal year.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

(r) Accounting changes (continued)

Application of “Accounting Standard for Revenue Recognition” (continued)

As a result, sales and costs of sales decreased by ¥2,372 million (\$19,384 thousand) in the current fiscal year, but there was no impact on operating income, ordinary income, and profit before income taxes.

There is no effect on the balance of retained earnings at the beginning of the current fiscal year.

Furthermore, in accordance with the transitional treatment stipulated in Paragraph 89-3 of the Accounting Standard for Revenue Recognition, related notes on revenue recognition for the previous fiscal year are not presented.

Application of “Accounting Standard for Fair Value Measurement.”

The Company and its consolidated subsidiaries adopted “Accounting Standard for Fair Value Measurement.” ((ASBJ Statement No.30, July 4, 2019), hereinafter “Fair Value Measurement Standard”) from the beginning of the current fiscal year, and new accounting policies prescribed by the Fair Value Measurement Standard have been adopted prospectively in accordance with the transitional treatment prescribed in Paragraph 19 of the Accounting Standard for Fair Value Measurement and Paragraph 44-2 of the Accounting Standard for Financial Instruments. There is no effect on the consolidated financial statements.

In addition, related notes are included on the breakdown of the fair value of financial instruments by level of fair value and other items. However, notes for the prior fiscal year have not been included in accordance with the transitional treatment prescribed in Paragraph 7-4 of the Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, July 4, 2019).

(s) Change in presentation

“Commission expenses” in “Non-operating income (expenses)” were included in “Other, net” for the fiscal year ended March 31, 2021, but due to the increase in materiality for the fiscal year ended March 31, 2022, they are presented separately. In order to reflect this change in presentation, the consolidated financial statements for the fiscal year ended March 31, 2021 have been reclassified. As a result, in the consolidated statement of income for the fiscal year ended March 31, 2021, ¥115 million that was presented in “Other, net” has been reclassified as ¥6 million and ¥109 million presented in “Commission expenses” and “Other, net”.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

(t) 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, 2023, 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, 2021 and 2022 are as follows:

	<u>2021</u>	<u>2022</u>	<u>2022</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Structures	¥ 283	¥ 283	\$ 2,314
Machinery	2,762	2,762	22,573
	<u>¥3,046</u>	<u>¥ 3,046</u>	<u>\$ 24,887</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 1.00% and 0.28% for the years ended March 31, 2021 and 2022, respectively.

Long-term debt and lease obligations at March 31, 2021 and 2022 consisted of the following:

	<u>2021</u>	<u>2022</u>	<u>2022</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%	¥ 11,890	¥ 10,341	\$ 84,499
Lease obligations due through 2036	3,857	3,899	31,858
	<u>15,747</u>	<u>14,240</u>	<u>116,357</u>
Less current portion	(2,895)	(7,964)	(65,075)
	<u>¥ 12,852</u>	<u>¥ 6,276</u>	<u>\$ 51,281</u>

The aggregate annual maturities of long-term debt and lease obligations as of March 31, 2022 are summarized as follows:

<u>Years ending March 31,</u>	<u>(Millions of yen)</u>	<u>(Thousands of U.S. dollars)</u>
2023	¥ 7,964	\$ 65,075
2024	1,954	15,969
2025	1,077	8,803
2026	843	6,889
2027	640	5,236
2028 and thereafter	1,760	14,382
	<u>¥ 14,240</u>	<u>\$ 116,357</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, 2021 and 2022 were as follows:

	<u>2021</u>	<u>2022</u>	<u>2022</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Balance at the beginning of the year	¥ 44,939	¥ 45,003	\$ 367,707
Service cost	2,087	2,084	17,027
Interest cost	270	270	2,206
Actuarial gain and loss	(395)	(1,488)	(12,163)
Retirement benefit paid	(2,046)	(2,452)	(20,038)
Prior service cost	148	-	-
Balance at the end of the year	<u>¥ 45,003</u>	<u>¥ 43,416</u>	<u>\$ 354,739</u>

2) The changes in the plan assets for the years ended March 31, 2021 and 2022 were as follows:

	<u>2021</u>	<u>2022</u>	<u>2022</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Balance at the beginning of the year	¥ 35,906	¥ 42,155	\$ 344,432
Expected return on plan assets	718	843	6,888
Actuarial gain and loss	2,737	574	4,694
Contributions by the Company	4,667	4,770	38,981
Retirement benefit paid	(1,931)	(2,325)	(19,003)
Other	56	57	472
Balance at the end of the year	<u>¥ 42,155</u>	<u>¥ 46,075</u>	<u>\$ 376,465</u>

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, 2021 and 2022 for the Company's and its consolidated subsidiaries' defined benefit plans:

	<u>2021</u>	<u>2022</u>	<u>2022</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Funded retirement benefit obligation	¥ 42,162	¥ 40,604	\$ 331,764
Plan assets at fair value	(42,155)	(46,075)	(376,465)
	7	(5,470)	(44,701)
Unfunded retirement benefit obligation	2,841	2,811	22,975
Net liability for retirement benefits in the consolidated balance sheet	2,848	(2,659)	(21,725)
Liability for retirement benefits	2,848	2,811	22,975
Asset for retirement benefits	—	(5,470)	(44,701)
Net liability for retirement benefits in the consolidated balance sheet	¥ 2,848	¥ (2,659)	\$ (21,725)

4) The components of retirement benefit expenses for the years ended March 31, 2021 and 2022 were as follows:

	<u>2021</u>	<u>2022</u>	<u>2022</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Service cost	¥ 2,031	¥ 2,026	\$ 16,554
Interest cost	270	270	2,206
Expected return on plan assets	(718)	(843)	(6,888)
Amortization of actuarial gain and loss	696	508	4,152
Amortization of prior service cost	529	531	4,346
Other	90	84	689
Retirement benefit expenses	¥ 2,900	¥ 2,577	\$ 21,061

Contributions from employees of ¥56 million and ¥57 million (\$472 thousand) for the years ended March 31, 2021 and 2022 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, 2021 and 2022 were as follows:

	<u>2021</u>	<u>2022</u>	<u>2022</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Prior service cost	¥ (380)	¥ (531)	\$ (4,346)
Actuarial gain and loss	(3,830)	(2,571)	(21,010)
Total	<u>¥ (4,211)</u>	<u>¥ (3,103)</u>	<u>\$ (25,357)</u>

6) The components of retirement benefit liability adjustments included in accumulated other comprehensive income (before tax effect) as of March 31, 2021 and 2022 were as follows:

	<u>2021</u>	<u>2022</u>	<u>2022</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Unrecognized prior service cost	¥ 7,397	¥ 6,865	\$ 56,092
Unrecognized actuarial gain and loss	(125)	(2,696)	(22,031)
Total	<u>¥ 7,272</u>	<u>¥ 4,168</u>	<u>\$ 34,060</u>

7) The fair value of plan assets, by major category, as a percentage of total plan assets at March 31, 2021 and 2022 was as follows:

	<u>2021</u>	<u>2022</u>
Bonds	46%	45%
Stocks	22%	25%
General accounts of life insurance	6%	4%
Alternative investments	17%	25%
Other	9%	1%
Total	<u>100%</u>	<u>100%</u>

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:

	<u>2021</u>	<u>2022</u>
Discount rates	0.6%	0.8%
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, 2021 and 2022 were as follows:

	<u>2021</u>	<u>2022</u>	<u>2022</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Balance at the beginning of the year	¥ 834	¥ 647	\$ 5,294
Retirement benefit expenses	337	451	3,689
Retirement benefit paid	(119)	(146)	(1,193)
Contributions	(431)	(456)	(3,728)
Other	27	52	427
Balance at the end of the year	<u>¥ 647</u>	<u>¥ 549</u>	<u>\$ 4,490</u>

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, 2021 and 2022 for the defined benefit plans:

	<u>2021</u>	<u>2022</u>	<u>2022</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Funded retirement benefit obligation	¥ 4,528	¥ 4,815	\$ 39,341
Plan assets at fair value	(4,107)	(4,477)	(36,584)
	421	337	2,756
Unfunded retirement benefit obligation	226	212	1,733
Net liability for retirement benefits in the consolidated balance sheet	<u>647</u>	<u>549</u>	<u>4,490</u>
Liability for retirement benefits	1,202	1,203	9,832
Asset for retirement benefits	(554)	(653)	(5,342)
Net liability for retirement benefits in the consolidated balance sheet	<u>¥ 647</u>	<u>¥ 549</u>	<u>\$ 4,490</u>

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 ¥337 million and ¥451 million (\$3,689 thousand) for the years ended March 31, 2021 and 2022, respectively

(c) Defined contribution plans

Contributions made to defined contribution plans by the Company for the years ended March 31, 2021 and 2022 were ¥476 million and ¥500 million (\$4,089 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 renewable energy generation facilities.

The asset retirement obligations are measured at the present value of the future liabilities applying discount rates of 0.286% to 1.994% corresponding with 5 years or 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, 2021 and 2022:

	<u>2021</u>	<u>2022</u>	<u>2022</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Balance at the beginning of the year	¥ 1,336	¥ 1,356	\$ 11,082
Increase due to acquisition of property and equipment	–	40	330
Adjustment due to passage of time	20	20	167
Balance at the end of the year	<u>¥ 1,356</u>	<u>¥ 1,417</u>	<u>\$ 11,580</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, 2021 and 2022 amounted to ¥12,543 million (\$102,491 thousand).

There was no legal reserve for the years ended March 31, 2021 and 2022.

(a) Shares issued and outstanding / Treasury shares

For the year ended March 31, 2021:

<i>Types of shares</i>	<i>Number of shares at April 1, 2020</i>	<i>Increase 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
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(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)

(a) Shares issued and outstanding / Treasury shares

For the year ended March 31, 2022:

<u>Types of shares</u>	<u>Number of shares at April 1, 2021</u>	<u>Increase</u>	<u>Decrease</u>	<u>Number of shares at March 31, 2022</u>
		<i>(Number of Shares)</i>		
Shares issued:				
Common stock	70,864,961	–	–	70,864,961
Treasury stock:				
Common stock	19,025	307	–	19,332

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

Increase due to purchase of shares of less than one standard unit	307
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(b) Share subscription rights

No share subscription rights were outstanding.

(c) Dividends

1) Dividends paid

For the year ended March 31, 2021:

	<u>Total dividends</u>	<u>Record date</u>	<u>Effective date</u>
	<i>(Millions of yen)</i>		
Resolution: Meeting of the Board of Directors on April 28, 2020			
Cash dividends (¥50.00 per share)	¥ 3,543	March 31, 2020	June 4, 2020
Resolution: Meeting of the Board of Directors on October 30, 2020			
Cash dividends (¥50.00 per share)	3,543	September 30, 2020	December 1, 2020

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Net Assets (continued)

(c) Dividends (continued)

Dividends paid (continued)

For the year ended March 31, 2022:

	<i>Total dividends</i>		<i>Record date</i>	<i>Effective date</i>
	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>		
Resolution: Meeting of the Board of Directors on April 28, 2021				
Cash dividends (¥50.00 (\$0.41) per share)	¥ 3,543	\$ 28,950	March 31, 2021	June 4, 2021
Resolution: Meeting of the Board of Directors on October 28, 2021				
Cash dividends (¥50.00 (\$0.41) per share)	3,543	28,950	September 30, 2021	December 1, 2021

8. Net Sales

Revenues arising from contracts with customers and revenues from other sources are not presented separately. Information on revenues arising from contracts with customers is shown in Note 25.

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, 2021 and 2022 represents a provision of ¥48 million and ¥126 million (\$1,032 thousand), respectively.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

10. Selling, General and Administrative Expenses

Major items included in selling, general and administrative expenses for the years ended March 31, 2021 and 2022 were as follows:

	<u>2021</u>	<u>2022</u>	<u>2022</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Salaries and wages	¥ 10,391	¥ 10,297	\$ 84,138
Retirement benefit expenses	661	543	4,443
Retirement benefits expenses for directors and audit and supervisory board members	52	49	402
Depreciation and amortization	1,093	1,397	11,419

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, 2021 and 2022 amounted to ¥254 million and ¥267 million (\$2,188 thousand), respectively.

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, 2021 and 2022, respectively. Income taxes of the foreign consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

The reconciliation between the effective tax rates reflected in the consolidated statement of income and the effective statutory tax rates for year ended March 31, 2022 is as follows. The reconciliation for the year ended March 31, 2021 has been omitted as the difference was less than 5% of the statutory tax rate.

	<u>2022</u>
Effective statutory tax rate	30.46%
Effect of:	
Permanently non-tax-deductible expenses	0.91
Permanently non-taxable income	(0.52)
Per capita inhabitant tax	0.53
Valuation allowance	(1.88)
Other	(1.01)
Effective tax rate	<u>28.49%</u>

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

12. Income Taxes (continued)

The significant components of deferred tax assets and liabilities as of March 31, 2021 and 2022 were as follows:

	<u>2021</u>	<u>2022</u>	<u>2022</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Deferred tax assets:			
Accrued bonuses	¥ 2,427	¥ 2,452	\$ 20,039
Liability for retirement benefits	2,924	2,034	16,624
Unrealized profits on fixed assets	1,249	1,178	9,627
Enterprise tax payable	457	448	3,662
Other	2,839	3,663	29,935
Gross deferred tax assets	<u>9,898</u>	<u>9,777</u>	<u>79,890</u>
Valuation allowance	(849)	(157)	(1,289)
Total deferred tax assets	<u>9,049</u>	<u>9,619</u>	<u>78,600</u>
Deferred tax liabilities:			
Prepaid pension costs	(1,603)	(2,398)	(19,596)
Reserve for deductions in acquisition costs of property and equipment	(1,199)	(1,182)	(9,663)
Unrealized holding gain on other securities	(1,823)	(877)	(7,165)
Other	(1,096)	(1,817)	(14,849)
Total deferred tax liabilities	<u>(5,722)</u>	<u>(6,275)</u>	<u>(51,275)</u>
Net deferred tax assets	<u>¥ 3,326</u>	<u>¥ 3,344</u>	<u>\$ 27,324</u>

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, 2021 and 2022 were as follows:

	<u>2021</u>	<u>2022</u>	<u>2022</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Unrealized holding gain (loss) on securities:			
Amount arising during the year	¥ 4,985	¥ (2,377)	\$ (19,424)
Reclassification adjustments for gain and loss included in profit attributable to owners of parent	(308)	(713)	(5,826)
Amount before tax effect	4,676	(3,090)	(25,250)
Tax effect	(1,433)	943	7,709
Unrealized holding gain (loss) on securities	3,243	(2,146)	(17,541)
Translation adjustments:			
Amount arising during the year	(120)	131	1,073
Retirement benefit liability adjustments:			
Amount arising during the year	2,984	2,063	16,857
Reclassification adjustments for gain and loss included in profit attributable to owners of parent	1,226	1,040	8,499
Amount before tax effect	4,211	3,103	25,357
Tax effect	(1,282)	(945)	(7,723)
Retirement benefits liability adjustments	2,928	2,158	17,633
Share of other comprehensive income of affiliates accounted for by the equity method:			
Amount arising during the year	171	160	1,309
Reclassification adjustments for gain and loss included in profit attributable to owners of parent	-	(0)	(6)
Share of other comprehensive income of affiliates accounted for by the equity method:	171	159	1,302
Total other comprehensive income	¥ 6,223	¥ 302	\$ 2,467

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

14. Commitments and Contingencies

At March 31, 2021 and 2022, 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

	<u>2021</u>	<u>2022</u>	<u>2022</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Debt guarantee:			
Mizuho Bank, Ltd. (Atsumi Greenpower Co.)	¥ 118	¥ 31	\$ 256
Development Bank of Japan Inc. (Nagashima Windhill Co.)	93	55	452
The Hokuriku Bank, Ltd. and others (Matusima Fuuryoku Co.)	1,982	1,837	15,009
Bond insurance:			
Sumitomo Mitsui Banking Corporation (KYUDENKO MALAYSIA SDN. BHD.)	8	–	–
MUFG Bank, Ltd. (KYUDENKO VIETNAM CO., LTD.)	101	–	–
Total	<u>¥ 2,304</u>	<u>¥ 1,923</u>	<u>\$ 15,718</u>

Kyudenko Vietnam Co., Ltd. and Kyudenko Malaysia Sdn., Bhd. were included in the scope of consolidation from the first quarter of this fiscal year.

Endorsement for transfer of notes receivable

	<u>2021</u>	<u>2022</u>	<u>2022</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Endorsement for transfer of notes receivable	¥ 3	¥ 12	\$ 101

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, 2021 and 2022, the Company had loan commitment agreements with 8 companies and 8 companies, respectively. The unused balances under the loan commitment contracts at March 31, 2021 and 2022 were as follows:

	<u>2021</u>	<u>2022</u>	<u>2022</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Total loan commitments	¥ 145	¥ 145	\$ 1,190
Aggregated borrowings	—	—	—
Unused balances	<u>¥ 145</u>	<u>¥ 145</u>	<u>\$ 1,190</u>

15. Pledged Assets

The assets pledged as collateral for short-term borrowings of ¥327 million and ¥426 million (\$3,487 thousand) and long-term debt of ¥3,051 million and ¥2,817 million (\$23,023 thousand) of the Company's investees involved in the renewable energy generation business and/or PFI business at March 31, 2021 and 2022, respectively, were as follows:

	<u>2021</u>	<u>2022</u>	<u>2022</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Cash on hand and in banks	¥ 556	¥ 711	\$ 5,816
Other current assets (short-term loans receivable)	4	2	23
Buildings and structures	30	159	1,300
Machinery, vehicles, tools, furniture and fixtures	2,020	1,801	14,715
Land	0	214	1,750
Investments in securities and investments in unconsolidated subsidiaries and affiliates	12,077	13,351	109,090
Long-term loans receivable	59	57	466
Investments and other assets-rental deposit	15	15	122
Total	<u>¥14,764</u>	<u>¥ 16,312</u>	<u>\$ 133,286</u>

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

16. Amounts Per Share

Per share information as of March 31, 2021 and 2022 and for the years then ended is as follows:

	<u>2021</u>	<u>2022</u>	<u>2022</u>
	<i>(Yen)</i>		<i>(U.S. dollars)</i>
Profit attributable to owners of parent:			
Basic	¥ 353.48	¥ 370.05	\$ 3.02
Net assets	3,102.61	3,375.43	27.58

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.

As described in Note 2, “Summary of Significant Accounting Policies, (r) Accounting changes,” the Accounting Standard for Revenue Recognition has been adopted, but there is no effect on per share information.

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>2021</u>	<u>2022</u>
	<i>(Thousands of shares)</i>	
Weighted average number of shares for basic profit attributable to owners of parent	70,846	70,845

The entire amounts of profit attributable to owners of parent of ¥25,042 million and ¥26,216 million (\$214,206 thousand) for the years ended March 31, 2021 and 2022 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:

	2021	2022	2022
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Total net assets	¥ 221,741	¥ 241,194	\$ 1,970,705
Amounts deducted from total net assets:			
Non-controlling interests	(1,933)	(2,059)	(16,830)
Net assets attributable to shares of common stock	¥ 219,807	¥ 239,134	\$ 1,953,874
	2021	2022	
	<i>(Thousands of shares)</i>		
Number of shares of common stock in issue	70,864	70,864	
Less: Number of shares of treasury stock	(19)	(19)	
Number of shares of common stock used for the calculation of net assets per share	70,845	70,845	

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

Since various assumptions and factors are reflected in estimating the fair value, different assumptions and other 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, 2021 and 2022, 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:

	2021		
	Carrying value	Estimated fair value	Difference
	<i>(Millions of yen)</i>		
Cash on hand and in banks	¥ 50,905	¥ 50,905	¥ –
Notes receivable, accounts receivable on completed construction contracts and other accounts receivable	130,705		
Less: Allowance for doubtful accounts ^{(*)1}	(18)		
	<u>130,686</u>	<u>130,686</u>	–
Investments in securities	24,278	24,278	–
Total assets	<u>¥ 205,870</u>	<u>¥ 205,870</u>	<u>¥ –</u>
Notes payable, accounts payable on construction contracts and other accounts payable	63,559	63,559	–
Electronically recorded obligations	23,593	23,593	–
Long-term debt ^{(*)2}	11,890	11,877	(13)
Total liabilities	<u>¥ 99,043</u>	<u>¥ 99,030</u>	<u>¥ (13)</u>
Derivatives	¥ –	¥ –	¥ –

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

17. Financial Instruments (continued)

Estimated fair value of financial instruments (continued)

	2022					
	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	¥ 39,021	¥ 39,021	¥ -	\$ 318,830	\$ 318,830	\$ -
Notes receivable, accounts receivable on completed construction contracts and other accounts receivable	136,676			1,116,725		
Less: Allowance for doubtful accounts ^(*1)	(34)			(279)		
	<u>136,641</u>	<u>136,641</u>	-	<u>1,116,446</u>	<u>1,116,446</u>	-
Investments in securities	18,995	18,995	-	155,200	155,200	-
Total assets	<u>¥ 194,658</u>	<u>¥ 194,658</u>	¥ -	<u>\$ 1,590,477</u>	<u>\$ 1,590,477</u>	\$ -
Notes payable, accounts payable on construction contracts and other accounts payable	66,669	66,669	-	544,731	544,731	-
Electronically recorded obligations	22,078	22,078	-	180,393	180,393	-
Long-term debt ^(*2)	10,341	10,325	(16)	84,499	84,362	(136)
Total liabilities	<u>¥ 99,089</u>	<u>¥ 99,073</u>	¥ (16)	<u>\$ 809,624</u>	<u>\$ 809,487</u>	\$ (136)
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.

Note 1: Unlisted equity securities of ¥38,916 million and ¥42,180 million (\$344,639 thousand) as of March 31, 2021 and 2022, 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 2: Redemption schedule for receivables and marketable securities with maturities at March 31, 2021 and 2022 were as follows:

	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 on hand and in banks	¥ 50,905	¥ –	¥ –	¥ –
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>¥ 182,267</u>	<u>¥ 1,011</u>	<u>¥ 876</u>	<u>¥ 22,002</u>
	2022			
	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 on hand and in banks	¥ 39,021	¥ –	¥ –	¥ –
Notes receivable, accounts receivable on completed construction contracts and other accounts receivable	136,676	–	–	–
Short-term investments and investments in securities:				
Other securities with maturities (debt securities)	1,000	1	–	253
Other securities with maturities (Other)	–	675	205	22,048
Total	<u>¥ 176,697</u>	<u>¥ 676</u>	<u>¥ 205</u>	<u>¥ 22,301</u>

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

17. Financial Instruments (continued)

Estimated fair value of financial instruments (continued)

	2022			
	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 on hand and in banks	\$ 318,830	\$ –	\$ –	\$ –
Notes receivable, accounts receivable on completed construction contracts and other accounts receivable	1,116,725	–	–	–
Short-term investments and investments in securities:				
Other securities with maturities (debt securities)	8,170	8	–	2,067
Other securities with maturities (Other)	–	5,521	1,679	180,147
Total	<u>\$ 1,443,727</u>	<u>\$ 5,529</u>	<u>\$ 1,679</u>	<u>\$ 182,214</u>

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

Breakdown of fair value of financial instruments by level

Fair value of financial instruments are categorized into three levels as described below on the basis of the observability and the materiality of the inputs used in the fair value measurement.

Fair value (level 1): Fair values measured using quoted market prices (unadjusted) in active markets for identical assets or liabilities.

Fair value (level 2): Fair values measured using directly or indirectly observable inputs other than Level 1 inputs.

Fair value (level 3): Fair values measured using significant unobservable valuation inputs.

When several inputs that have significant impact on fair value measurement are used and those inputs are categorized into different levels, the fair value is categorized into the lowest hierarchy level for fair value measurement among those in which each of the inputs belongs.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

17. Financial Instruments (continued)

Breakdown of fair value of financial instruments by level (continued)

(a) Financial instruments measured at fair value

	2022			Total
	Level 1	Level 2	Level 3	
	<i>(Millions of yen)</i>			
Investment securities	¥ 18,995	¥ –	¥ –	¥ 18,995

	2022			Total
	Level 1	Level 2	Level 3	
	<i>(Thousands of U.S. dollars)</i>			
Investment securities	\$ 155,200	\$ –	\$ –	\$ 155,200

(b) Financial instruments other than those measured at fair value

	2022			Total
	Level 1	Level 2	Level 3	
	<i>(Millions of yen)</i>			
Long-term debt	¥ –	¥ 10,325	¥ –	¥ 10,325

	2022			Total
	Level 1	Level 2	Level 3	
	<i>(Thousands of U.S. dollars)</i>			
Long-term debt	\$ –	\$ 84,362	\$ –	\$ 84,362

Description of valuation methods and inputs used in the calculation of fair value.

(a) Investments in securities

The fair values of listed shares are determined by using quoted prices. Fair values of listed shares are categorized as Level 1 since it is traded in active markets.

(b) Long-term debt

The fair value of long-term debt is calculated using the discounted present value method based on the total amount of principal and interest, and an interest rate that takes into account the remaining term of the debt and credit risk, and is categorized as Level 2 fair value. The fair value of long-term debt with floating interest rates subject to the special treatment of interest rate swaps (simplified method) is calculated using the sum of the principal and interest accounted for together with the interest rate swaps.

(c) Derivative transactions

The fair value of interest rate swaps that qualify for special treatment (simplified method) is included in the fair value of the relevant long-term debt because of derivative transactions are accounted for as an integral part of the long-term debt hedged.

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, 2021 and 2022 is as follows:

	2021			2022		
	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	\$ 102,975	\$ 63,744	\$ 39,231
Debt securities:						
Corporate bonds	1,001	1,000	1	—	—	—
Others	253	209	43	2,146	1,712	434
Others	188	84	103	100	68	31
Subtotal	17,527	9,771	7,755	105,223	65,525	39,697
Securities whose carrying value does not exceed their acquisition cost						
Equity securities	5,934	7,754	(1,820)	49,857	66,183	(16,325)
Debt securities:						
Corporate bonds	805	835	(29)	8,102	8,203	(100)
Others	—	—	—	—	—	—
Others	10	10	(0)	87	87	(0)
Subtotal	6,750	8,601	(1,850)	58,047	74,474	(16,426)
Total	¥ 24,278	¥ 18,372	¥ 5,905	\$ 163,270	\$ 139,999	\$ 23,271

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, 2021 and 2022 was as follows:

	2021			2022		
	Proceeds from sales	Gain on sales	Loss on sales	Proceeds from sales	Gain on sales	Loss on sales
	<i>(Millions of yen)</i>					
Equity securities	¥1,053	¥ 360	¥66			
Debt securities:						
Corporate bonds	1,000	–	–			
Others	2,005	926	–			
Others	18	7	–			
	<u>¥4,077</u>	<u>¥1,294</u>	<u>¥66</u>			
	<i>(Thousands of U.S. dollars)</i>					
Equity securities	¥ 1,041	¥ 698	¥ 4	\$ 8,509	\$ 5,709	\$ 37
Debt securities:						
Corporate bonds	800	–	31	6,536	–	257
Others	–	–	–	–	–	–
Others	189	113	–	1,544	923	–
	<u>¥ 2,030</u>	<u>¥ 811</u>	<u>¥ 36</u>	<u>\$ 16,590</u>	<u>\$ 6,632</u>	<u>\$ 295</u>

- (c) Impairment losses on securities classified as other securities of ¥17 million and ¥489 million (\$4,000 thousand) were recognized for the years ended March 31, 2021 and 2022, respectively. Also, impairment losses on securities classified as investments in unconsolidated subsidiaries and affiliates of ¥115 million was recognized for the year ended March 31, 2021.

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, 2021 and 2022, for which hedge accounting has been applied.

Interest-related transactions

<i>Method of hedge accounting</i>	<i>Hedging instruments</i>		<i>Hedged items</i>	2021		
				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	–
				2022		
<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	¥ 10,315	¥ 9,679	¥ (243)
Simplified method	Interest rate and currency swap	Pay: fixed Receive: floating Pay: JPY Receive: USD	Long-term debt	502	251	–
				2022		
<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	\$ 84,286	\$ 79,085	\$ (1,992)
Simplified method	Interest rate and currency swap	Pay: fixed Receive: floating Pay: JPY Receive: USD	Long-term debt	4,101	2,050	–

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

19. Derivative Transactions (continued)

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.

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, 2021 and 2022 are reconciled to cash on hand and in banks in the consolidated balance sheet as follows:

	2021	2022	2022
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Cash on hand and in banks	¥ 50,905	¥ 39,021	\$ 318,830
Time deposits with maturities of more than three months	(1,105)	(1,229)	(10,049)
Cash and cash equivalents	¥ 49,800	¥ 37,791	\$ 308,781

(b) A breakdown of assets and liabilities of the newly consolidated companies Chuorika kougyo Co., Ltd. and its eight consolidated subsidiaries as a result of share acquisition as follows:

	2022	2022
	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Current assets	¥ 2,953	\$ 24,132
Fixed assets	3,554	29,040
Goodwill	863	7,056
Current liabilities	(1,675)	(13,685)
Fixed liabilities	(1,265)	(10,337)
Acquisition cost	4,431	36,205
Cash and cash equivalents	(1,559)	(12,743)
Balance: Payments for acquisition	¥ 2,871	\$ 23,462

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

20. Supplemental Information on Consolidated Statement of Cash Flows (continued)

- (c) Information regarding details of significant non-monetary transactions for the year ended March 31, 2021 and 2022 is as follows:

Leased assets and lease obligations related to new finance lease transactions recorded for the years ended March 31, 2021 and 2022 amounted to ¥844 million and ¥1,143 million (\$9,344 thousand), respectively.

Significant asset retirement obligations recorded for the years ended March 31, 2022 amounted to ¥40 million (\$330 thousand).

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.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

21. Segment Information (continued)

(a) Business segment information (continued)

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

As described in Note 2, “Summary of Significant Accounting Policies, (r) Accounting changes,” the Accounting Standard for Revenue Recognition has been adopted from the beginning of this fiscal year and the accounting method for revenue recognition has been changed, therefore, the calculation method of profit or loss for each segment has been also changed.

As a result of this change, net in the others segment for the current fiscal year decreased by ¥2,372 million (\$19,384 thousand) compared with the previous method.

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.

(3) Information as to net sales, income or loss and other items for each reportable segment for the years ended March 31, 2021 and 2022 are summarized as follows:

	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	<u>¥ 378,136</u>	<u>¥ 19,548</u>	<u>¥ 397,684</u>	<u>¥ (5,782)</u>	<u>¥ 391,901</u>
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
Amortization of customer related intangible assets	–	–	–	–	–

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, 2021 and 2022 are summarized as follows:
(continued)

	2022				
	Utilities engineering service	Others	Total	Adjustments and eliminations	Consolidated
	<i>(Millions of yen)</i>				
Net sales:					
Sales to third parties	¥ 364,440	¥ 12,123	¥ 376,563	¥ –	¥ 376,563
Intersegment sales and transfers	819	5,073	5,893	(5,893)	–
Total	¥ 365,260	¥ 17,196	¥ 382,456	¥ (5,893)	¥ 376,563
Segment income	¥ 30,528	¥ 2,501	¥ 33,029	¥ 107	¥ 33,137
Other items:					
Depreciation and amortization	¥ 3,794	¥ 2,104	¥ 5,899	¥ (108)	¥ 5,791
Amortization of goodwill	107	–	107	–	107
Amortization of customer related intangible assets	190	–	190	–	190
	2022				
	Utilities engineering service	Others	Total	Adjustments and eliminations	Consolidated
	<i>(Thousands of U.S. dollars)</i>				
Net sales:					
Sales to third parties	\$ 2,977,696	\$ 99,054	\$ 3,076,750	\$ –	\$ 3,076,750
Intersegment sales and transfers	6,699	41,453	48,152	(48,152)	–
Total	\$ 2,984,395	\$ 140,507	\$ 3,124,903	\$ (48,152)	\$ 3,076,750
Segment income	\$ 249,432	\$ 20,439	\$ 269,872	\$ 879	\$ 270,752
Other items:					
Depreciation and amortization	\$ 31,003	\$ 17,199	\$ 48,202	\$ (884)	\$ 47,317
Amortization of goodwill	882	–	882	–	882
Amortization of customer related intangible assets	1,555	–	1,555	–	1,555

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 by reportable segment for the years ended March 31, 2021 and 2022 are summarized as follows:
(continued)

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 ¥142 million and ¥107 million (\$879 thousand) for the years ended March 31, 2021 and 2022, respectively, reflect the elimination of transactions between segments.
- (iii) Segment income or loss is reconciled to operating income on the consolidated statement of income.

(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, 2021 and 2022.

(2) Information by major customers

The following table presents major customer information for the years ended March 31, 2021 and 2022:

	<u>2021</u>	<u>2022</u>	<u>2022</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Name of customers:			
Kyushu Electric Power Transmission and Distribution Co., Inc.			
Reportable segment:			
Utilities engineering service and Others			
Net sales	¥ 45,688	¥ 47,109	\$ 384,916

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

21. Segment Information (continued)

(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, 2022 by reportable segment: Information on amortization of goodwill is omitted because the same information is disclosed in Note 21 (a) (3).

	2022			Consolidated
	Utilities engineering service	Others	Adjustments and eliminations	
	<i>(Millions of yen)</i>			
Balance as of March 31	¥ 755	¥ –	¥ –	¥ 755
	<i>(Thousands of U.S. dollars)</i>			
Balance as of March 31	\$ 6,174	\$ –	\$ –	\$ 6,174

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

(d) Gain on bargain purchase by reportable segment

No gain on bargain purchase was recorded for the years ended March 31, 2021 and 2022.

22. Related Party Transactions

Transactions and balances with related parties as of and for the years ended March 31, 2021 and 2022 were as follows:

	2021	2022	2022
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Kyushu Electric Power Co., Inc.			
Construction order	¥ 3,504	¥ 2,764	\$ 22,585
Accounts receivable on completed construction contracts	490	533	4,355
Advances received on uncompleted construction contracts	–	–	–
Kyushu Electric Power Transmission and Distribution Co., Inc.			
Construction order	43,944	45,487	371,660
Accounts receivable on completed construction contracts	9,012	7,153	58,451
Advances received on uncompleted construction contracts	–	–	–

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

22. Related Party Transactions (continued)

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 (\$1,938,923 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, 2021 and 2022, and two people as directors of the Company double as directors of Kyushu Electric Power Co., Inc..

Kyushu Electric Power Transmission and Distribution Co., Inc. (located in Fukuoka City, with a capital amount of ¥20,000 million (\$163,412 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 and 2022.

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

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, 2022, was approved at the meeting of the Board of Directors held on April 28, 2022:

	Total dividends paid		Record date	Effective date
	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>		
Cash dividends (¥50.00 = \$0.41 per share)	¥ 3,543	\$ 28,950	March 31, 2022	June 7, 2022

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

24. Business Combination

Overview of the business combination

(a) Name of acquired company and business description

Name: Chuorika kougyo Co., Ltd.
Business description: Disaster and fire protection facility construction

(b) Main reasons for the business combination

The Company has set the establishment of a management foundation for sustainable growth as its main theme (realization of the three reforms), and is making every effort to develop new business areas and further expand its business through the realization of reform of productivity, reform of construction capability, reform of governance, in its mid-term management plan, which concludes in the fiscal year ending March 31, 2025. Chuorika kougyo Co., Ltd. and its eight subsidiaries operate nationwide, mainly in the Kanto area, and have built a solid business foundation and a large number of talented employees built up over 100 years of long business history, establishing a firm position and credibility in the disaster and fire protection facility construction field.

In recent years, people's awareness of firefighting and disaster prevention has steadily increased amidst a situation where various disasters have occurred frequently, and Chuorika kougyo Co., Ltd.'s business of providing security and safety to customers is becoming more important.

The Company's decision to acquire the shares was based on the judgment that the addition of the Chuorika kougyo Co., Ltd. group will enable further development of the Company's group through collaboration by leveraging the strengths of each group.

The Company believes that further business expansion will be possible by combining the Company's group sales network and technical know-how with Chuorika kougyo Co., Ltd.'s good relationships with existing clients and excellent sales and technical capabilities.

(c) Date of the business combination

September 22, 2021

(d) Legal form of the business combination

Acquisition of shares for cash

(e) Name after business combination

No change

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

24. Business Combination (continued)

Overview of the business combination (continued)

(f) Percentage of voting rights acquired

100.0%

(g) Main basis for determining the acquiring company

The Company acquired the shares for cash consideration.

Period of the acquired company's results included in the consolidated financial statements

From July 1, 2021 to December 31, 2021

Acquisition cost of the acquired company and breakdown by type of consideration

Consideration for acquisition:	Cash	¥4,431 million (\$36,205 thousand)
Cost of acquisition:		¥4,431 million (\$36,205 thousand)

Description and amount of major acquisition-related expenses

Due diligence fees:	¥8 million (\$66 thousand)
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Amount of goodwill incurred, reason, amortization method and amortization period

Amount of goodwill incurred:	¥863 million (\$7,056 thousand)
Reason:	Future excess earning power expected from future business development
Amortization method and amortization period:	Goodwill is being amortized by the straight-line method over 4 years

Amounts allocated to intangible assets other than goodwill and breakdown by type and amortization period

Type:	Customer related intangible assets
Amounts:	¥1,930 million (\$15,769 thousand)
Amortization period:	0.5 to 9 years

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

24. Business Combination (continued)

Amounts and breakdown of assets acquired and liabilities assumed on the date of business combination

	<u>2022</u> <i>(Millions of yen)</i>	<u>2022</u> <i>(Thousands of U.S. dollars)</i>
Current assets	¥ 2,953	\$ 24,132
Fixed assets	3,554	29,040
Total assets	<u>¥ 6,507</u>	<u>\$ 53,172</u>
Current liabilities	¥ 1,675	\$ 13,685
Fixed liabilities	1,265	10,337
Total liabilities	<u>¥ 2,940</u>	<u>\$ 24,023</u>

Pro forma amounts and calculation method of the effect of the business combination on the consolidated statement of income as if the business combination had been completed on beginning of the fiscal year

	<u>2022</u> <i>(Millions of yen)</i>	<u>2022</u> <i>(Thousands of U.S. dollars)</i>
Sales	¥ 3,139	\$ 25,651
Operating income	189	1,550
Ordinary income	191	1,567
Profit before tax	191	1,567
Profit attributable to owners of parent	64	526
	<i>(Yen)</i>	<i>(U.S. dollars)</i>
Earnings per share attributable to owners of parent	¥ 0.91	\$ 0.01

Note: The difference between the sales and profit and loss information calculated as if the business combination had been completed as of the beginning of the fiscal year and the sales and profit and loss information in the consolidated statement of income of the acquiring company is the estimated amount of the impact. In addition, the estimated impact is calculated as if goodwill and other intangible assets recognized at the time of the business combination had occurred at the beginning of the current fiscal year. In addition, the note has not been audited.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

25. Revenue Recognition

Information on disaggregated revenue arising from contracts with customers

Information by type of goods or services for the years ended March 31, 2022 were as follows:

	2022		
	Utilities engineering service	Others	Total
	<i>(Millions of yen)</i>		
Power distribution line work	¥ 45,774	¥ –	¥ 45,774
Electrical work	198,354	–	198,354
HVAC and sanitary facility work	120,311	–	120,311
Others	–	12,123	12,123
Revenue arising from contracts with customers	<u>¥ 364,440</u>	<u>¥ 12,123</u>	<u>¥ 376,563</u>
Revenue to external customers	¥ 364,440	¥ 12,123	¥ 376,563

	2022		
	Utilities engineering service	Others	Total
	<i>(Thousands of U.S. dollars)</i>		
Power distribution line work	\$ 374,002	\$ –	\$ 374,002
Electrical work	1,620,674	–	1,620,674
HVAC and sanitary facility work	983,018	–	983,018
Others	–	99,054	99,054
Revenue arising from contracts with customers	<u>\$ 2,977,696</u>	<u>\$ 99,054</u>	<u>\$ 3,076,750</u>
Revenue to external customers	\$ 2,977,696	\$ 99,054	\$ 3,076,750

Note: Other segment is a business segment not included in the reportable segments.

Information providing a basis for understanding revenue arising from contracts with customers

Information providing a basis for understanding revenue arising from contracts with customers is disclosed in Note 2 (q) Significant accounting estimates.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

25. Revenue Recognition (continued)

Information about the relationship between the satisfaction of performance obligations under contracts with customers and cash flows from these contracts, and the amount and timing of revenue from contracts with existing customers at the end of the current fiscal year that are expected to be recognized in the following fiscal year or thereafter

(a) Contract assets and contract liabilities outstanding

Contract assets and contract liabilities outstanding for the years beginning and ended March 31, 2022 were as follows:

	Beginning of fiscal year ended March 31, 2022	Ending of fiscal year ended March 31, 2022
	<i>(Millions of yen)</i>	
Receivables arising from contracts with customers:		
Notes receivables	¥ 6,282	¥ 4,715
Electronically recorded receivables	16,731	15,410
Accounts receivables	61,265	59,123
Other account receivables	4,866	5,332
	<u>¥ 89,146</u>	<u>¥ 84,580</u>
Contract assets	¥ 41,558	¥ 52,095
Contract liabilities	15,427	11,546
	Beginning of fiscal year ended March 31, 2022	Ending of fiscal year ended March 31, 2022
	<i>(Thousands of U.S. dollars)</i>	
Receivables arising from contracts with customers:		
Notes receivables	\$ 51,335	\$ 38,526
Electronically recorded receivables	136,706	125,908
Accounts receivables	500,579	483,071
Other account receivables	39,759	43,569
	<u>\$ 728,379</u>	<u>\$ 691,077</u>
Contract assets	\$ 339,559	\$ 425,648
Contract liabilities	126,053	94,341

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

25. Revenue Recognition (continued)

Information about the relationship between the satisfaction of performance obligations under contracts with customers and cash flows from these contracts, and the amount and timing of revenue from contracts with existing customers at the end of the current fiscal year that are expected to be recognized in the following fiscal year or thereafter (continued)

(a) Contract assets and contract liabilities outstanding (continued)

Contract assets are rights to consideration in exchange for the satisfaction of performance obligations, measured based on the percentage of completion as of the end of the fiscal year for construction contracts in utilities engineering service, excluding receivables arising from contracts with customers.

Contract assets are transferred to receivables arising from contracts with customers when the rights of the Company and its consolidated subsidiaries to the consideration become unconditional.

Contract liabilities consist primarily of advances received from customers on construction contracts. Contract liabilities are included in advances received on uncompleted construction contracts and other liabilities in the consolidated balance sheet and shall be reversed upon revenue recognition.

The amount of revenue recognized in the current fiscal year ended March 31, 2022 that was included in the contract liability balance at the beginning of the period was ¥14,376 million (\$117,462 thousand).

The amount of revenue recognized in the current period from performance obligations satisfied (or partially satisfied) in prior periods was not material.

(b) Transaction price allocated to remaining performance obligations

The transaction price allocated to the unfulfilled performance obligation recorded for the years ended March 31, 2021 and 2022 amounted to ¥396,614 million and ¥407,649 million (\$3,330,738 thousand), respectively. The remaining performance obligation relates to a construction contract in the utilities engineering service business and is expected to be recognized as revenue primarily within five years as the construction progresses.