

Consolidated Financial Statements

KYUDENKO CORPORATION

*Year ended March 31, 2023
with Independent Auditor's Report*



KYUDENKO CORPORATION and Consolidated Subsidiaries

Consolidated Financial Statements

Year ended March 31, 2023

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KYUDENKO CORPORATION and Consolidated Subsidiaries

Consolidated Balance Sheet

March 31, 2023

	March 31,		
	2022	2023	2023
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars) (Note 1)</i>
Assets			
Current assets:			
Cash on hand and in banks <i>(Notes 16, 18 and 21)</i>	¥ 39,021	¥ 67,534	\$ 505,763
Notes receivable, accounts receivable on completed construction contracts and other accounts receivable <i>(Notes 18 and 23)</i>	136,676	148,902	1,115,122
Short-term investments <i>(Notes 18 and 19)</i>	987	–	–
Costs of uncompleted construction contracts	5,592	7,428	55,632
Merchandise	1,107	1,203	9,013
Raw materials and supplies	22,790	31,364	234,885
Other current assets <i>(Note 16)</i>	10,838	21,790	163,188
Allowance for doubtful accounts <i>(Note 18)</i>	(34)	(3)	(25)
Total current assets	216,979	278,220	2,083,581
Fixed assets:			
Property and equipment:			
Buildings and structures <i>(Notes 3 and 16)</i>	73,060	76,168	570,425
Machinery, vehicles, tools, furniture and fixtures <i>(Notes 3 and 16)</i>	41,059	45,607	341,553
Land <i>(Note 16)</i>	29,677	29,914	224,027
Leased assets	7,628	8,087	60,567
Construction in progress	1,112	382	2,865
Accumulated depreciation	(71,694)	(78,415)	(587,253)
Total property and equipment	80,844	81,745	612,186
Intangible assets:			
Goodwill <i>(Note 4 and 22)</i>	755	821	6,149
Customer-related intangible assets	1,739	1,518	11,374
Other intangible assets	1,873	1,938	14,516
Total intangible assets	4,368	4,278	32,041
Investments and other assets:			
Investments in securities <i>(Notes 16, 18 and 19)</i>	42,148	44,817	335,635
Investments in unconsolidated subsidiaries and affiliates <i>(Note 16 and 19)</i>	19,026	19,677	147,363
Long-term loans receivable <i>(Note 16)</i>	313	89	672
Asset for retirement benefits <i>(Note 6)</i>	6,124	10,445	78,229
Deferred tax assets <i>(Note 13)</i>	4,288	2,468	18,484
Other <i>(Note 16)</i>	5,279	5,652	42,331
Allowance for doubtful accounts	(979)	(985)	(7,377)
Total investments and other assets	76,203	82,166	615,339
Total fixed assets	161,416	168,189	1,259,566
Total assets	¥ 378,396	¥ 446,410	\$ 3,343,148

KYUDENKO CORPORATION and Consolidated Subsidiaries

Consolidated Balance Sheet (continued)

March 31, 2023

	March 31,		
	2022	2023	2023
	<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 18)</i>	¥ 66,669	¥ 69,832	\$ 522,975
Electronically recorded obligations <i>(Note 18)</i>	22,078	28,762	215,402
Short-term borrowings <i>(Notes 5 and 16)</i>	18	1,200	8,986
Current portion of long-term debt <i>(Notes 5, 16 and 18)</i>	6,847	1,261	9,445
Lease obligations <i>(Note 5)</i>	1,117	1,153	8,641
Income taxes payable and other <i>(Note 13)</i>	7,309	5,984	44,819
Advances received on uncompleted construction contracts <i>(Note 23 and 25)</i>	11,463	26,550	198,835
Provision for loss on construction contracts	187	21	160
Other current liabilities	7,755	6,923	51,852
Total current liabilities	123,446	141,691	1,061,120
Long-term liabilities:			
Long-term debt <i>(Notes 5, 16 and 18)</i>	3,494	30,604	229,196
Lease obligations <i>(Note 5)</i>	2,782	3,341	25,021
Provision for retirement benefits for directors and audit and supervisory board members	328	327	2,453
Liability for retirement benefits <i>(Note 6)</i>	4,015	3,980	29,806
Other long-term liabilities <i>(Notes 7)</i>	3,134	3,448	25,827
Total long-term liabilities	13,754	41,702	312,305
Total liabilities	137,201	183,393	1,373,425
Commitments and contingencies <i>(Note 15)</i>			
Net assets <i>(Note 8)</i>			
Shareholders' equity:			
Common stock:			
Authorized – 250,000,000 shares			
Issued – 70,864,961 shares in 2022 and 2023	12,561	12,561	94,072
Capital surplus	12,987	13,046	97,705
Retained earnings	214,655	233,918	1,751,806
Treasury stock, at cost	(9)	(10)	(81)
Total shareholders' equity	240,194	259,516	1,943,503
Accumulated other comprehensive loss			
Unrealized holding gain on securities	1,848	2,428	18,184
Unrealized loss on hedging instruments	(218)	(16)	(125)
Translation adjustments	208	688	5,158
Retirement benefit liability adjustments <i>(Note 6)</i>	(2,898)	(1,774)	(13,291)
Total accumulated other comprehensive loss	(1,059)	1,325	9,926
Non-controlling interests	2,059	2,175	16,292
Total net assets	241,194	263,017	1,969,722
Total liabilities and net assets	¥ 378,396	¥ 446,410	\$ 3,343,148

See accompanying notes to consolidated financial statements.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Income

Year ended March 31, 2023

	Year ended March 31,		
	2022	2023	2023
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Net sales (Note 9, 22 and 25):			
Construction contracts	¥ 364,440	¥ 380,355	\$ 2,848,462
Other	12,123	15,428	115,542
Total net sales	376,563	395,783	2,964,004
Cost of sales (Notes 10 and 12):			
Construction contracts	310,615	326,874	2,447,948
Other	8,586	11,019	82,527
Total cost of sales	319,201	337,894	2,530,475
Gross profit:			
Construction contracts	53,824	53,480	400,514
Other	3,536	4,408	33,014
Total gross profit	57,361	57,889	433,528
Selling, general and administrative expenses (Notes 11 and 12)	24,224	25,806	193,260
Operating income (Note 22)	33,137	32,083	240,268
Non-operating income (expenses):			
Interest income	48	63	476
Dividend income	747	716	5,366
Interest expenses	(387)	(424)	(3,177)
Equity in earnings of affiliates	1,514	732	5,486
Gain on investments in partnership	910	1,427	10,694
Rent income	329	322	2,416
Extra retirement payments	(84)	(58)	(439)
Commission expenses	(75)	(99)	(745)
Provision of allowance for doubtful accounts of subsidiary	(35)	(17)	(131)
Settlement package	–	(87)	(655)
Other, net	722	803	6,019
Ordinary income	36,828	35,462	265,579
Extraordinary income (loss):			
Gain on sales of property and equipment	4	310	2,324
Loss on disposal and sales of fixed assets	(286)	(223)	(1,670)
Gain on sales of investments in securities (Note 19)	811	4,247	31,812
Impairment loss on investments in securities (Note 19)	(489)	(602)	(4,513)
Impairment loss (Note 4 and 22)	–	(326)	(2,448)
Loss on sales of investments in securities (Note 19)	(36)	–	–
Loss on liquidation of subsidiary	–	(74)	(560)
Profit before income taxes	36,833	38,793	290,524
Income taxes (Note 13):			
Current	11,365	11,157	83,558
Deferred	(871)	1,198	8,974
Profit	26,339	26,437	197,991
Profit attributable to:			
Non-controlling interests	123	88	659
Owners of parent	¥ 26,216	¥ 26,349	\$ 197,331

KYUDENKO CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income

Year ended March 31, 2023

	Year ended March 31		
	2022	2023	2023
	(Millions of yen)		(Thousands of U.S. dollars)
			(Note 1)
Profit	¥ 26,339	¥ 26,437	\$ 197,991
Other comprehensive income (Note 14):			
Unrealized holding (loss) gain on securities	(2,146)	577	4,327
Translation adjustments	131	535	4,008
Retirement benefit liability adjustments (Note 6)	2,158	1,124	8,418
Share of other comprehensive income of affiliates accounted for by the equity method	159	204	1,532
Total other comprehensive income	302	2,441	18,286
Comprehensive income	¥ 26,641	¥ 28,879	\$ 216,278
Comprehensive income attributable to:			
Owners of parent	¥ 26,490	¥ 28,735	\$ 215,195
Non-controlling interests	151	144	1,082

KYUDENKO CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Changes in Net Assets

Year ended March 31, 2023

	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 (income) loss	Non- controlling interests	Total net assets
	<i>(Millions of yen)</i>											
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)
Purchase of treasury stock of consolidated subsidiary	-	-	-	-	-	-	-	-	-	-	-	-
Sales of shares of consolidated subsidiary	-	-	-	-	-	-	-	-	-	-	-	-
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 April 1, 2022	12,561	12,987	214,655	(9)	240,194	1,848	(218)	208	(2,898)	(1,059)	2,059	241,194
Cash dividends paid	-	-	(7,086)	-	(7,086)	-	-	-	-	-	-	(7,086)
Profit attributable to owners of parent for the period	-	-	26,349	-	26,349	-	-	-	-	-	-	26,349
Purchase of treasury stock	-	-	-	(1)	(1)	-	-	-	-	-	-	(1)
Change in scope of consolidation	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of treasury stock of consolidated subsidiary	-	0	-	-	0	-	-	-	-	-	-	0
Sales of shares of consolidated subsidiary	-	59	-	-	59	-	-	-	-	-	-	59
Net changes in items other than those in shareholders' equity	-	-	-	-	-	579	201	480	1,124	2,385	115	2,500
Net changes during the year	-	59	19,263	(1)	19,321	579	201	480	1,124	2,385	115	21,822
Balance at March 31, 2023	¥ 12,561	¥ 13,046	¥ 233,918	¥ (10)	¥ 259,516	¥ 2,428	¥ (16)	¥ 688	¥ (1,774)	¥ 1,325	¥ 2,175	¥ 263,017

KYUDENKO CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Changes in Net Assets (continued)

Year ended March 31, 2023

	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 (income) loss	Non- controlling interests	Total net assets
<i>(Thousands of U.S. dollars) (Note 1)</i>												
Balance at April 1, 2022	\$ 94,072	\$ 97,260	\$ 1,607,544	\$(71)	\$ 1,798,806	\$ 13,846	\$ (1,636)	\$ 1,561	\$ (21,709)	\$ (7,937)	\$ 15,426	\$ 1,806,295
Cash dividends paid	-	-	(53,069)	-	(53,069)	-	-	-	-	-	-	(53,069)
Profit attributable to owners of parent for the period	-	-	197,331	-	197,331	-	-	-	-	-	-	197,331
Purchase of treasury stock	-	-	-	(9)	(9)	-	-	-	-	-	-	(9)
Change in scope of consolidation	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of treasury stock of consolidated subsidiary	-	3	-	-	3	-	-	-	-	-	-	3
Sales of shares of consolidated subsidiary	-	442	-	-	442	-	-	-	-	-	-	442
Net changes in items other than those in shareholders' equity	-	-	-	-	-	4,337	1,510	3,597	8,418	17,864	865	18,729
Net changes during the year	-	445	144,261	(9)	144,697	4,377	1,510	3,597	8,418	17,864	865	163,427
Balance at March 31, 2023	\$ 94,072	\$ 97,705	\$ 1,751,806	\$(81)	\$ 1,943,503	\$ 18,184	\$ (125)	\$ 5,158	\$ (13,291)	\$ 9,926	\$ 16,292	\$ 1,969,722

See accompanying notes to consolidated financial statements.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Cash Flows

Year ended March 31, 2023

	2022	2023	2023
	<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	¥ 36,833	¥ 38,793	\$ 290,524
Depreciation and amortization	5,791	6,018	45,071
Impairment loss	–	326	2,448
Decrease in allowance for doubtful accounts	(152)	(24)	(186)
Increase in retirement benefit asset	(2,860)	(3,064)	(22,946)
(Decrease) increase in liability for retirement benefits and provision for retirement benefits for directors and audit and supervisory board members	(907)	1,544	11,564
Increase (decrease) in provision for loss on construction contracts	123	(170)	(1,276)
Gain on investments in partnership	(910)	(1,427)	(10,694)
Interest and dividend income	(796)	(780)	(5,843)
Interest expenses	387	424	3,177
Foreign exchange gain	(126)	(168)	(1,264)
Equity in earnings of affiliates	(1,201)	(414)	(3,104)
Gain on sales of property and equipment, net	(4)	(310)	(2,323)
Loss on disposal of fixed assets	282	208	1,563
Impairment loss on investments in securities	489	602	4,513
Gain on sales of investments in securities, net	(775)	(4,247)	(31,812)
Increase in notes and accounts receivable on completed construction contracts and contract assets	(4,786)	(11,791)	(88,304)
Decrease (increase) in costs of uncompleted construction contracts	585	(1,689)	(12,651)
Increase in inventories	(8,266)	(8,545)	(63,996)
Increase in notes and accounts payable on construction contracts	153	9,552	71,534
(Decrease) increase in advances received on uncompleted construction contracts	(3,923)	15,076	112,910
(Decrease) increase in long-term accounts payable	(2)	87	652
Decrease in consumption taxes payable, net	(6,036)	(4,090)	(30,631)
Other, net	2,298	(6,386)	(47,831)
Subtotal	<u>16,193</u>	<u>29,522</u>	<u>221,093</u>
Interest and dividend income received	796	763	5,714
Interest expenses paid	(387)	(424)	(3,177)
Income taxes paid	(11,350)	(12,474)	(93,422)
Net cash provided by operating activities	<u>¥ 5,252</u>	<u>¥ 17,386</u>	<u>\$ 130,208</u>

KYUDENKO CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Cash Flows (continued)

Year ended March 31, 2023

	2022	2023	2023
	<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	¥ (1,352)	¥ (3,738)	\$ (28,001)
Proceeds from withdrawal of time deposits	1,732	1,503	11,258
Purchase of property and equipment	(3,931)	(2,940)	(22,021)
Proceeds from sales of property and equipment	169	445	3,339
Payments of disposal of property and equipment	(210)	(126)	(946)
Purchase of investments in securities	(4,817)	(3,415)	(25,577)
Proceeds from sales of investments in securities	3,992	5,754	43,096
Payments for purchase of investments in subsidiaries			
resulting in changes in scope of consolidation	(2,871)	(97)	(727)
Payments of long-term loans receivable	(127)	(34)	(256)
Collection of long-term loans receivable	153	366	2,744
Other, net	(273)	(831)	(6,223)
Net cash used in investing activities	(7,536)	(3,113)	(23,316)
Cash flows from financing activities			
Net decrease in short-term borrowings	(34)	(18)	(137)
Proceeds from long-term debt	–	27,000	202,201
Repayments of long-term debt	(1,811)	(7,057)	(52,853)
Purchase of treasury stock	(1)	(2)	(20)
Cash dividends paid	(7,086)	(7,087)	(53,077)
Cash dividends paid to non-controlling shareholders	(2)	(2)	(17)
Repayments to non-controlling shareholders	(22)	(22)	(171)
Proceeds from sales of shares of subsidiaries not			
resulting in change in scope of consolidation	–	60	449
Other, net	(1,233)	(1,253)	(9,386)
Net cash (used) provided in financing activities	(10,191)	11,615	86,986
Effect of exchange rate changes on cash and cash			
equivalents	301	171	1,284
Net (decrease) increase in cash and cash equivalents	(12,175)	26,060	195,162
Cash and cash equivalents at the beginning of the year	49,800	37,791	283,020
Increase in cash and cash equivalents resulting from			
inclusion of subsidiaries in consolidation	166	–	–
Cash and cash equivalents at the end of the year	¥ 37,791	¥ 63,851	\$ 478,183
<i>(Note 21)</i>			

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements

March 31, 2023

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 (the “Group”) 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 $\text{¥}133.53 = \text{U.S.}\1.00 , the rate of exchange prevailing on March 31, 2023. 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, 2023 and 2022 have been omitted. Consequently, the totals shown in the accompanying consolidated financial statements for the years ended March 31, 2023 and 2022 (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, 2023, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 60 and 9 (58 and 10 in 2022), respectively.

During the year ended March 31, 2023, the following events and/or transactions have occurred, which resulted in changes in the scope of consolidation.

The Company acquired a portion of shares of Kirishima mokushitsu hatsuden Co., Ltd. which is located in Kagoshima prefecture on April 1, 2022, and this subsidiary and its subsidiary Kirishima mokushitsu nenryou Co., Ltd. were newly included in the scope of consolidation. Atsumi green power Co., Ltd., an affiliate which had been accounted for by the equity method affiliate, became a consolidated subsidiary because the Company's ownership increased as a result of the purchase of the affiliates treasury shares on June 29, 2022. Kyudenko south east asia Pte. Ltd. which had been overseas consolidated subsidiary, was excluded from the scope of consolidation due to completion of liquidation on November 9, 2022.

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 interests were not material either individually or in aggregate to the consolidated financial statements.

Unrealized intercompany gains among the Group has been eliminated and the portion attributable to non-controlling interests has been charged to non-controlling interests.

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

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

(b) Foreign currency translation

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

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

(c) Cash and cash equivalents

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

(d) Inventories

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

(e) Short-term investments and investments in securities

Securities other than equity securities 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. When securities are sold, these book value of such securities is determined by the moving-average method. In cases where an embedded derivative in a compound financial instrument cannot be separately measured, the entire compound financial instrument is measured at fair value with changes in value charged or credited to profit or loss.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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

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

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

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

(g) Intangible assets (excluding leased assets)

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

(h) Goodwill

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

(i) Leases

Leased assets under finance lease contracts which do not transfer ownership to the lessee are depreciated to a residual value of zero by the straight-line method over the respective lease terms. Leased assets mainly consist of construction vehicles (machinery, vehicles, tools, furniture and fixtures) in the utilities engineering service segment.

(j) Allowance for doubtful accounts

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

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

(k) Provision for loss on construction contracts

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

(l) Retirement benefits

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

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

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

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

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

(m) Income taxes

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

(n) Research and development costs

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

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

(o) Basis for recording significant revenues and expenses

Revenues from contracts with customers.

The following five-step model applied to revenues from customers:

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

The Group is mainly engaged in the 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 the 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 utility 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.

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.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

(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 Group does 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, 2022 and 2023, respectively

Revenue arising from construction contracts accounted for by the percentage-of-completion method was ¥196,386 and ¥211,377 million (\$1,582,992 thousand) for the years ended March 31, 2022 and 2023, respectively.

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

1. Method used to calculate the amounts recognized

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

2. Key assumptions

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, may have impacts on the consolidated financial statements for the following fiscal period.

(r) Accounting changes

Application of “Accounting Standard for Fair Value Measurement”

The Group adopted “Implementation Guidance on Accounting Standard for Fair Value Measurement” ((ASBJ Guidance No. 31, June 17, 2021), hereinafter the “Guidance”) from the beginning of the current fiscal year, and adopted new accounting policies prospectively in accordance with the transitional treatment prescribed in Paragraph 27-2 of the Guidance. There is no impact on the consolidated financial statements.

(s) Additional information

The Group expects that COVID-19 is on a trend toward containment and that further normalization of economic activities will occur. Although there are many uncertainties regarding the impact of COVID-19, the Group is operating as usual, and the impact on order activity, price competition, and construction delays is limited and is not expected to be significant in the future.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

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, 2022 and 2023 are as follows:

	<u>2022</u>	<u>2023</u>	<u>2023</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Structures	¥ 283	¥ 283	\$ 2,121
Machinery	2,762	2,762	20,690
	<u>¥3,046</u>	<u>¥3,046</u>	<u>\$ 22,811</u>

4. Impairment Loss

The Group determines whether to recognize an impairment loss by grouping business assets mainly based on the management accounting unit of each branch office and consolidated subsidiaries, and by grouping property for rent and idle assets individually. The Group recognized the impairment loss of the following group for the year ended March 31, 2023.

<u>Location</u>	<u>Classification</u>	<u>2023</u>	
		<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Kirishima city	Goodwill	¥ 326	\$ 2,448
Kagoshima prefecture			

For the year ended March 31, 2023, as profitability of Kirishima Mokushitsu Hatsuden Co., Ltd. decreased, the carrying value of goodwill resulting from the acquisition of this company was partly written down due to declining profitability and impairment loss on goodwill of ¥326 million (\$2,448) was recognized in the consolidated statement of income.

The recoverable amount of goodwill was measured at value in use based on estimated future cash flows discounted at rate of 2.8%.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

The annual weighted-average interest rates applicable to short-term borrowings (excluding the current portion of long-term debt) were 0.28% and 1.00% for the years ended March 31, 2022 and 2023, respectively.

Long-term debt and lease obligations at March 31, 2022 and 2023 consisted of the following:

	<u>2022</u>	<u>2023</u>	<u>2023</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Loans from banks due through 2033 with interest rates ranging from 0.000% to 1.475%	¥ 10,341	¥ 31,865	\$ 238,642
Lease obligations due through 2036	3,899	4,495	33,663
	<u>14,240</u>	<u>36,360</u>	<u>272,305</u>
Less current portion	(7,964)	(2,415)	(18,087)
	<u>¥ 6,276</u>	<u>¥ 33,945</u>	<u>\$ 254,218</u>

The aggregate annual maturities of long-term debt and lease obligations as of March 31, 2023 are summarized as follows:

<u>Years ending March 31,</u>	<u>(Millions of yen)</u>	<u>(Thousands of U.S. dollars)</u>
2024	¥ 2,415	\$ 18,087
2025	28,576	214,008
2026	1,331	9,971
2027	1,126	8,437
2028	983	7,368
2029 and thereafter	1,927	14,431
	<u>¥ 36,360</u>	<u>\$ 272,305</u>

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Retirement Benefit Plans

The Company has defined benefit plans (corporate pension plans), defined contribution plans (corporate pension plans) and lump-sum payment plans, and the consolidated subsidiaries also have defined benefit plans (multiple-employer pension plans), defined contribution plans (corporate pension plans) and lump-sum payment plans. The Group 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, 2022 and 2023 were as follows:

	<u>2022</u>	<u>2023</u>	<u>2023</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Balance at the beginning of the year	¥ 45,003	¥ 43,416	\$ 325,144
Service cost	2,084	2,020	15,127
Interest cost	270	348	2,606
Actuarial gain and loss	(1,488)	(2,081)	(15,586)
Retirement benefit paid	(2,452)	(2,248)	(16,837)
Prior service cost	-	-	-
Balance at the end of the year	<u>¥ 43,416</u>	<u>¥ 41,455</u>	<u>\$ 310,454</u>

2) The changes in the plan assets for the years ended March 31, 2022 and 2023 were as follows:

	<u>2022</u>	<u>2023</u>	<u>2023</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Balance at the beginning of the year	¥ 42,155	¥ 46,075	\$ 345,058
Expected return on plan assets	843	922	6,904
Actuarial gain and loss	574	(1,163)	(8,711)
Contributions by the Company	4,770	4,810	36,023
Retirement benefit paid	(2,325)	(2,135)	(15,988)
Other	57	58	435
Balance at the end of the year	<u>¥ 46,075</u>	<u>¥ 48,567</u>	<u>\$ 363,722</u>

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Retirement Benefit Plans (continued)

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

3) The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets at March 31, 2022 and 2023 for the Group's defined benefit plans:

	<u>2022</u>	<u>2023</u>	<u>2023</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Funded retirement benefit obligation	¥ 40,604	¥ 38,733	\$ 290,072
Plan assets at fair value	(46,075)	(48,567)	(363,722)
	(5,470)	(9,834)	(73,649)
Unfunded retirement benefit obligation	2,811	2,721	20,381
Net liability for retirement benefits in the consolidated balance sheet	(2,659)	(7,112)	(53,267)
Liability for retirement benefits	2,811	2,721	20,381
Asset for retirement benefits	(5,470)	(9,834)	(73,649)
Net liability for retirement benefits in the consolidated balance sheet	<u>¥ (2,659)</u>	<u>¥ (7,112)</u>	<u>\$ (53,267)</u>

4) The components of retirement benefit expenses for the years ended March 31, 2022 and 2023 were as follows:

	<u>2022</u>	<u>2023</u>	<u>2023</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Service cost	¥ 2,026	¥ 1,961	\$ 14,691
Interest cost	270	348	2,606
Expected return on plan assets	(843)	(922)	(6,904)
Amortization of actuarial gain and loss	508	166	1,246
Amortization of prior service cost	531	531	3,984
Other	84	58	439
Retirement benefit expenses	<u>¥ 2,577</u>	<u>¥ 2,144</u>	<u>\$ 16,063</u>

Contributions from employees of ¥57 million and ¥58 million (\$435 thousand) for the years ended March 31, 2022 and 2023 are excluded from the above service cost.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Retirement Benefit Plans (continued)

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

5) The components of retirement benefit liability adjustments included in other comprehensive income (before tax effect) for the years ended March 31, 2022 and 2023 were as follows:

	<u>2022</u>	<u>2023</u>	<u>2023</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Prior service cost	¥ (531)	¥ (531)	\$ (3,984)
Actuarial gain and loss	(2,571)	(1,084)	(8,121)
Total	<u>¥ (3,103)</u>	<u>¥ (1,616)</u>	<u>\$ (12,105)</u>

6) The components of retirement benefit liability adjustments included in accumulated other comprehensive income (before tax effect) as of March 31, 2022 and 2023 were as follows:

	<u>2022</u>	<u>2023</u>	<u>2023</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Unrecognized prior service cost	¥ 6,865	¥ 6,333	\$ 47,428
Unrecognized actuarial gain and loss	(2,696)	(3,780)	(28,314)
Total	<u>¥ 4,168</u>	<u>¥ 2,552</u>	<u>\$ 19,113</u>

7) The fair value of plan assets, by major category, as a percentage of total plan assets at March 31, 2022 and 2023 was as follows:

	<u>2022</u>	<u>2023</u>
Bonds	45%	45%
Stocks	25%	22%
General accounts of life insurance	4%	4%
Alternative investments	25%	25%
Other	1%	4%
Total	<u>100%</u>	<u>100%</u>

The expected rates of return on plan assets have been estimated based on the present and anticipated allocation to each pension asset and the expected long-term returns on pension assets consist of each category asset at present and in the future.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Retirement Benefit Plans (continued)

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

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

	<u>2022</u>	<u>2023</u>
Discount rates	0.8%	1.3%
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, 2022 and 2023 were as follows:

	<u>2022</u>	<u>2023</u>	<u>2023</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Balance at the beginning of the year	¥ 647	¥ 549	\$ 4,115
Retirement benefit expenses	451	626	4,692
Retirement benefit paid	(146)	(91)	(688)
Contributions	(456)	(458)	(3,430)
Other	52	20	155
Balance at the end of the year	<u>¥ 549</u>	<u>¥ 646</u>	<u>\$ 4,845</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, 2022 and 2023 for the defined benefit plans:

	<u>2022</u>	<u>2023</u>	<u>2023</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Funded retirement benefit obligation	¥ 4,815	¥ 5,028	\$ 37,659
Plan assets at fair value	(4,477)	(4,642)	(34,765)
	337	386	2,894
Unfunded retirement benefit obligation	212	260	1,950
Net liability for retirement benefits in the consolidated balance sheet	<u>549</u>	<u>646</u>	<u>4,845</u>
Liability for retirement benefits	1,203	1,258	9,424
Asset for retirement benefits	(653)	(611)	(4,579)
Net liability for retirement benefits in the consolidated balance sheet	<u>¥ 549</u>	<u>¥ 646</u>	<u>\$ 4,845</u>

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Retirement Benefit Plans (continued)

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

- 3) Retirement benefit expenses calculated using the simplified method amounted to ¥451 million and ¥626 million (\$4,692 thousand) for the years ended March 31, 2022 and 2023, respectively

(c) Defined contribution plans

Contributions made to defined contribution plans by the Company for the years ended March 31, 2022 and 2023 were ¥500 million and ¥509 million (\$3,816 thousand), respectively.

7. Asset Retirement Obligations

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

The asset retirement obligations are measured at the present value of the future liabilities applying discount rates of 0.286% 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, 2022 and 2023:

	<u>2022</u>	<u>2023</u>	<u>2023</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Balance at the beginning of the year	¥ 1,356	¥ 1,417	\$ 10,613
Increase due to acquisition of fixed assets	40	–	–
Increase due to acquisition of subsidiary	–	227	1,702
Adjustment due to passage of time	20	24	186
Balance at the end of the year	<u>¥ 1,417</u>	<u>¥ 1,669</u>	<u>\$ 12,502</u>

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Net Assets

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

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

The Company’s capital reserve included in capital surplus at March 31, 2022 and 2023 amounted to ¥12,543 million (\$93,940 thousand).

There was no legal reserve for the years ended March 31, 2022 and 2023.

(a) Shares issued and outstanding / Treasury shares

For the year ended March 31, 2022:

<i>Types of shares</i>	<i>Number of shares at April 1, 2021</i>	<i>Increase Decrease</i>		<i>Number of shares at March 31, 2022</i>
		<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 shares
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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)

8. Net Assets (continued)

(a) Shares issued and outstanding / Treasury shares

For the year ended March 31, 2023:

<u>Types of shares</u>	<u>Number of shares at April 1, 2022</u>	<u>Increase</u>	<u>Decrease</u>	<u>Number of shares at March 31, 2023</u>
		<i>(Number of Shares)</i>		
Shares issued:				
Common stock	70,864,961	–	–	70,864,961
Treasury stock:				
Common stock	19,332	411	–	19,743

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

Increase due to purchase of shares of less than one standard unit	411 shares
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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, 2022:

	<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, 2021			
Cash dividends (¥50.00 per share)	¥ 3,543	March 31, 2021	June 4, 2021
Resolution: Meeting of the Board of Directors on October 28, 2021			
Cash dividends (¥50.00 per share)	3,543	September 30, 2021	December 1, 2021

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Net Assets (continued)

(c) Dividends (continued)

1) Dividends paid (continued)

For the year ended March 31, 2023:

	<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, 2022 Cash dividends (¥50.00 (\$0.37) per share)	¥ 3,543	\$ 26,534	March 31, 2022	June 7, 2022
Resolution: Meeting of the Board of Directors on October 26, 2022 Cash dividends (¥50.00 (\$0.37) per share)	3,543	26,534	September 30, 2022	December 1, 2022

9. Net Sales

Revenues are not presented separately for revenues arising from contracts with customers and other revenues. Revenue from contracts with customers is shown on Note 25.

10. 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, 2022 and 2023 represents a provision of ¥126 million and ¥(165) million (\$(1,241) thousand), respectively.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

11. Selling, General and Administrative Expenses

Major items included in selling, general and administrative expenses for the years ended March 31, 2022 and 2023 were as follows:

	<u>2022</u>	<u>2023</u>	<u>2023</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Salaries and wages	¥ 10,297	¥ 10,575	\$ 79,196
Retirement benefit expenses	543	478	2,984
Retirement benefits expenses for directors and audit and supervisory board members	49	62	464
Depreciation and amortization	1,397	1,550	11,612

12. Research and Development Costs

Research and development costs included in cost of sales and selling, general and administrative expenses for the years ended March 31, 2022 and 2023 amounted to ¥267 million and ¥290 million (\$2,177 thousand), respectively.

13. Income Taxes

Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries consist of corporation tax, inhabitants' taxes and enterprise tax, which, in the aggregate, resulted in a statutory rate of approximately 30.46% for the years ended March 31, 2022 and 2023, respectively. Income taxes of the foreign consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

The reconciliation for the year ended March 31, 2023 has been omitted as the difference was less than 5% of the statutory tax rate. The reconciliation between the effective tax rate reflected in the consolidated statement of income and the effective statutory tax rate for the year ended March 31, 2022 is as follows.

Effective statutory tax rate	<u>2022</u> 30.46%
Effect of:	
Permanently non-deductible expenses	0.91
Permanently non-taxable dividend income and others	(0.52)
Capita levy on inhabitant tax	0.53
Valuation allowance	(1.88)
Other, net	(1.01)
Effective tax rate	<u>28.49%</u>

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

13. Income Taxes (continued)

The significant components of deferred tax assets and liabilities as of March 31, 2022 and 2023 were as follows:

	<u>2022</u>	<u>2023</u>	<u>2023</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Deferred tax assets:			
Accrued bonuses	¥ 2,452	¥ 2,710	\$ 20,299
Liability for retirement benefits	2,034	1,605	12,026
Unrealized profits on fixed assets	1,178	1,247	9,341
Provision for loss on construction contract	384	517	3,879
Other	3,727	4,106	30,755
Gross deferred tax assets	<u>9,777</u>	<u>10,188</u>	<u>76,301</u>
Valuation allowance	(157)	(1,168)	(8,752)
Total deferred tax assets	<u>9,619</u>	<u>9,019</u>	<u>67,549</u>
Deferred tax liabilities:			
Prepaid pension costs	(2,398)	(3,328)	(24,928)
Reserve for deductions in acquisition costs of property and equipment	(1,182)	(1,166)	(8,734)
Unrealized holding gain on other securities	(877)	(1,136)	(8,508)
Other	(1,817)	(1,915)	(14,344)
Total deferred tax liabilities	<u>(6,275)</u>	<u>(7,546)</u>	<u>(56,516)</u>
Net deferred tax assets	<u>¥ 3,344</u>	<u>¥ 1,473</u>	<u>\$ 11,032</u>

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

14. Other Comprehensive Income

Reclassification adjustments and tax effects allocated to each component of other comprehensive income for the years ended March 31, 2022 and 2023 were as follows:

	<u>2022</u>	<u>2023</u>	<u>2023</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Unrealized holding (loss) gain on securities:			
Amount arising during the year	¥ (2,377)	¥ 821	\$ 6,153
Reclassification adjustments for gain and loss included in profit attributable to owners of parent	(713)	(0)	(4)
Amount before tax effect	(3,090)	821	6,149
Tax effect	943	(243)	(1,821)
Unrealized holding (loss) gain on securities	(2,146)	577	4,327
Translation adjustments:			
Amount arising during the year	131	535	4,008
Retirement benefit liability adjustments:			
Amount arising during the year	2,063	918	6,875
Reclassification adjustments for gain and loss included in profit attributable to owners of parent	1,040	698	5,230
Amount before tax effect	3,103	1,616	12,105
Tax effect	(945)	(492)	(3,687)
Retirement benefits liability adjustments	2,158	1,124	8,418
Share of other comprehensive income of affiliates accounted for by the equity method:			
Amount arising during the year	160	204	1,532
Reclassification adjustments for gain and loss included in profit attributable to owners of parent	(0)	-	-
Share of other comprehensive income of affiliates accounted for by the equity method:	159	204	1,532
Total other comprehensive income	¥ 302	¥ 2,441	\$ 18,286

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

15. Commitments and Contingencies

At March 31, 2022 and 2023, the Group was contingently liable for guarantees as follows:

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

	<u>2022</u>	<u>2023</u>	<u>2023</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Debt guarantee:			
Mizuho Bank, Ltd. (Atsumi Greenpower Co.)	¥ 31	¥ –	\$ –
Development Bank of Japan Inc. (Nagashima Windhill Co.)	55	17	130
The Hokuriku Bank, Ltd. and others (Matusima Fuuryoku Co.)	1,837	1,691	12,669
Total	<u>¥ 1,923</u>	<u>¥ 1,709</u>	<u>\$ 12,779</u>

Atsumi Greenpower Co., Ltd. was included in the scope of consolidation from 1st quarter of this consolidated fiscal year.

Endorsement for transfer of notes receivable

	<u>2022</u>	<u>2023</u>	<u>2023</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
	¥ 12	¥ 10	\$ 81

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, 2022 and 2023, the Company had loan commitment agreements with 8 companies and 8 companies, respectively. The unused balances under the loan commitment contracts at March 31, 2022 and 2023 were as follows:

	<u>2022</u>	<u>2023</u>	<u>2023</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Total loan commitments	¥ 145	¥ 145	\$ 1,091
Aggregated borrowings	–	–	–
Unused balances	<u>¥ 145</u>	<u>¥ 145</u>	<u>\$ 1,091</u>

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

16. Pledged Assets

The assets pledged as collateral for short-term borrowings of ¥426 million and ¥384 million (\$2,879 thousand) and long-term debt of ¥2,817 million and ¥2,433 million (\$18,222 thousand) of the Company's investees involved in the renewable energy generation business and/or PFI business at March 31, 2022 and 2023, respectively, were as follows:

	<u>2022</u>	<u>2023</u>	<u>2023</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Cash on hand and in banks	¥ 711	¥ 694	\$ 5,200
Short-term loans receivable included in Other current assets	2	2	22
Buildings and structures	159	147	1,102
Machinery, vehicles, tools, furniture and fixtures	1,801	1,595	11,947
Land	214	523	3,922
Investments in securities	13,351	13,404	100,388
Long-term loans receivable	57	54	405
Assets-rental deposit included in investment and other assets	15	15	112
Total	<u>¥ 16,312</u>	<u>¥ 16,437</u>	<u>\$ 123,100</u>

17. Amounts Per Share

Per share information as of March 31, 2022 and 2023 and for the years then ended is as follows:

	<u>2022</u>	<u>2023</u>	<u>2023</u>
	<i>(Yen)</i>		<i>(U.S. dollars)</i>
Profit attributable to owners of parent:			
Basic	¥ 370.05	¥ 371.93	\$ 2.79
Net assets	3,375.43	3,681.85	27.57

Basic profit attributable to owners of parent per share is computed based on the profit attributable to owners of parent available for distribution to shareholders of common stock and the weighted average number of shares of common stock outstanding during the year. Net assets per share are computed based on the net assets excluding non-controlling interests and the number of shares of common stock outstanding at the year end.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

17. Amounts Per Share (continued)

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

	<u>2022</u>	<u>2023</u>
	<i>(Thousands of shares)</i>	
Weighted average number of shares for basic profit attributable to owners of parent	70,845	70,845

The entire amounts of profit attributable to owners of parent of ¥26,216 million and ¥26,349 million (\$197,331 thousand) for the years ended March 31, 2022 and 2023 were attributable to common shareholders.

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

	<u>2022</u>	<u>2023</u>	<u>2023</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Total net assets	¥ 241,194	¥ 263,017	\$ 1,969,722
Amounts deducted from total net assets:			
Non-controlling interests	(2,059)	(2,175)	(16,292)
Net assets attributable to shares of common stock	<u>¥ 239,134</u>	<u>¥ 260,841</u>	<u>\$ 1,953,430</u>
	<u>2022</u>	<u>2023</u>	
	<i>(Thousands of shares)</i>		
Number of shares of common stock in issue	70,864	70,864	
Less: Number of shares of treasury stock	(19)	(19)	
Number of shares of common stock used for the calculation of net assets per share	<u>70,845</u>	<u>70,845</u>	

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

18. Financial Instruments

Overview

(a) Policy for financial instruments

The Group utilizes highly secure financial assets for short-term fund management. In addition, it obtains 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 Group does not enter into derivative transactions for speculative purposes.

Furthermore, the Group examines their utilization based on internal rules and regulations each time.

(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 Group monitors the due dates and outstanding balances per customer and makes 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 Group reviews the fair values of equity securities and the financial condition of the issuing entities regularly.

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 Group manages 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 from financial institutions. Furthermore, the Group examines the utilization of each hedge transaction based on internal rules and regulations.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

18. Financial Instruments (continued)

Overview (continued)

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

Since variable factors are incorporated in the estimation of the fair value of financial instruments, such values may change due to the adoption of different assumptions and other factors.

Estimated fair value of financial instruments

The carrying value of financial instruments on the consolidated balance sheet as of March 31, 2022 and 2023, 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:

	2022		
	Carrying value	Estimated fair value	Difference
	<i>(Millions of yen)</i>		
Cash on hand and in banks	¥ 39,021	¥ 39,021	¥ –
Notes receivable, accounts receivable on completed construction contracts and other accounts receivable	136,676		
Less: Allowance for doubtful accounts ^{(*)1}	(34)		
	136,641	136,641	–
Investments in securities	18,995	18,995	–
Total assets	<u>¥ 194,658</u>	<u>¥ 194,658</u>	<u>¥ –</u>
Notes payable, accounts payable on construction contracts and other accounts payable	66,669	66,669	–
Electronically recorded obligations	22,078	22,078	–
Long-term debt ^{(*)2}	10,341	10,325	(16)
Total liabilities	<u>¥ 99,089</u>	<u>¥ 99,073</u>	<u>¥ (16)</u>
Derivatives	¥ –	¥ –	¥ –

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

18. Financial Instruments (continued)

Estimated fair value of financial instruments (continued)

	2023					
	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	¥ 67,534	¥ 67,534	¥ -	\$ 505,763	\$ 505,763	\$ -
Notes receivable, accounts receivable on completed construction contracts and other accounts receivable	148,902			1,115,122		
Less: Allowance for doubtful accounts ^(*1)	(3)			(25)		
	<u>148,898</u>	<u>148,898</u>	-	<u>1,115,097</u>	<u>1,115,097</u>	-
Investments in securities	19,929	19,929	-	149,253	149,253	-
Total assets	<u>¥ 236,363</u>	<u>¥ 236,363</u>	¥ -	<u>\$ 1,770,114</u>	<u>\$ 1,770,114</u>	\$ -
Notes payable, accounts payable on construction contracts and other accounts payable	69,832	69,832	-	522,975	522,975	-
Electronically recorded obligations	28,762	28,762	-	215,402	215,402	-
Long-term debt ^(*2)	31,865	31,829	(36)	238,642	238,368	(273)
Total liabilities	<u>¥ 130,461</u>	<u>¥ 130,424</u>	¥ (36)	<u>\$ 977,019</u>	<u>\$ 976,746</u>	\$ (273)
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 ¥26,851 million and ¥25,640 million (\$192,022 thousand) and investment in investment partnership and others of ¥15,329 million and ¥18,924 million (\$141,722 thousand) as of March 31, 2022 and 2023, respectively, were not included in investments in securities in the above table.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

18. Financial Instruments (continued)

Estimated fair value of financial instruments (continued)

Note 2: Redemption schedule for receivables and marketable securities with maturities at March 31, 2022 and 2023 were as follows:

	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>
	2023			
	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	¥ 67,534	¥ –	¥ –	¥ –
Notes receivable, accounts receivable on completed construction contracts and other accounts receivable	148,902	–	–	–
Short-term investments and investments in securities:				
Other securities with maturities (debt securities)	–	1	–	253
Other securities with maturities (Other)	–	553	1,017	22,804
Total	<u>¥ 216,436</u>	<u>¥ 554</u>	<u>¥ 1,017</u>	<u>¥ 23,057</u>

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

18. Financial Instruments (continued)

Estimated fair value of financial instruments (continued)

	2023			
	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	\$ 505,763	\$ –	\$ –	\$ –
Notes receivable, accounts receivable on completed construction contracts and other accounts receivable	1,115,122	–	–	–
Short-term investments and investments in securities:				
Other securities with maturities (debt securities)	–	7	–	1,894
Other securities with maturities (Other)	–	4,143	7,619	170,779
Total	\$ 1,620,885	\$ 4,151	\$ 7,619	\$ 172,673

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

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

18. Financial Instruments (continued)

Breakdown of fair value of financial instruments by level

The fair value of financial instruments is classified into the following three levels, depending on the observability and materiality of the inputs used to determine fair value

Fair value (Level 1): Fair value calculated based on quoted market prices (unadjusted) in active markets for identical assets or liabilities.

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

Fair value (Level 3): Fair value calculated using significant unobservable inputs.

When multiple inputs that have a significant impact on the calculation of fair value are used, fair value is classified to the level with the lowest priority in the calculation of fair value among the levels to which each of those inputs belongs.

(a) Financial instruments carried on the consolidated balance sheet at fair value

	2022			
	Level 1	Level 2	Level 3	Total
	<i>(Millions of yen)</i>			
Investment securities				
Other securities:				
Stocks	¥ 18,728	¥ –	¥ –	¥ 18,728
Government and corporate bonds	–	266	–	266
	2023			
	Level 1	Level 2	Level 3	Total
	<i>(Millions of yen)</i>			
Investment securities				
Other securities:				
Stocks	¥ 19,646	¥ –	¥ –	¥ 19,646
Government and corporate bonds	–	283	–	283
	2023			
	Level 1	Level 2	Level 3	Total
	<i>(Thousands of U.S. dollars)</i>			
Investment securities				
Other securities:				
Stocks	\$ 147,130	\$ –	\$ –	\$ 147,130
Government and corporate bonds	–	2,123	–	2,123

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

18. Financial Instruments (continued)

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

(b) Financial instruments other than financial instruments carried on the consolidated balance sheet at fair value

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

	2023			
	Level 1	Level 2	Level 3	Total
	<i>(Millions of yen)</i>			
Long-term debt	¥ –	¥ 31,829	¥ –	¥ 31,829

	2023			
	Level 1	Level 2	Level 3	Total
	<i>(Thousands of U.S. dollars)</i>			
Long-term debt	\$ –	\$ 238,368	\$ –	\$ 238,368

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

(a) Investment securities

Listed stocks are valued using quoted market prices. Since listed stocks are traded in active markets, their fair value is classified as Level 1 fair value. The fair values of government and corporate bonds are measured based on prices obtained from third parties and are classified into Level 2 if inputs used for the obtained prices are observable or the impact of unobservable inputs is immaterial.

(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 classified 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 based on 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)

19. Securities

(a) Information regarding marketable securities classified as other securities as of March 31, 2022 and 2023 is as follows:

	2022		
	Carrying value	Acquisition cost	Difference
	<i>(Millions of yen)</i>		
Securities whose carrying value exceeds their acquisition cost			
Equity securities	¥ 12,603	¥ 7,801	¥ 4,801
Debt securities:			
Corporate bonds	—	—	—
Others	262	209	53
Others	12	8	3
Subtotal	12,878	8,019	4,858
Securities whose carrying value does not exceed their acquisition cost			
Equity securities	6,102	8,100	(1,998)
Debt securities:			
Corporate bonds	4	4	—
Others	—	—	—
Others	10	10	(0)
Subtotal	6,116	8,114	(1,998)
Total	¥ 18,995	¥ 16,134	¥ 2,860

	2023					
	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	¥ 13,957	¥ 9,395	¥ 4,562	\$ 104,524	\$ 70,359	\$ 34,164
Debt securities:						
Corporate bonds	—	—	—	—	—	—
Others	279	209	69	2,093	1,569	523
Others	12	8	3	90	62	27
Subtotal	14,248	9,613	4,635	106,707	71,992	34,715
Securities whose carrying value does not exceed their acquisition cost						
Equity securities	5,666	6,643	(977)	42,436	49,756	(7,319)
Debt securities:						
Corporate bonds	4	4	—	29	29	—
Others	—	—	—	—	—	—
Others	10	10	(0)	79	80	(0)
Subtotal	5,681	6,658	(977)	42,546	49,866	(7,320)
Total	¥ 19,929	¥ 16,271	¥ 3,658	\$ 149,253	\$ 121,858	\$ 27,395

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

19. Securities (continued)

- (b) Information regarding sales of securities classified as other securities for the years ended March 31, 2022 and 2023 was as follows:

	2022			2023		
	Proceeds from sales	Gain on sales	Loss on sales	Proceeds from sales	Gain on sales	Loss on sales
	<i>(Millions of yen)</i>			<i>(Thousands of U.S. dollars)</i>		
Equity securities	¥ 1,041	¥ 698	¥ 4	\$ 33,949	\$ 31,812	\$ –
Debt securities:						
Corporate bonds	800	–	31	7,488	–	–
Others	–	–	–	–	–	–
Others	189	113	–	–	–	–
	<u>¥ 2,030</u>	<u>¥ 811</u>	<u>¥ 36</u>	<u>\$ 41,438</u>	<u>\$ 31,812</u>	<u>\$ –</u>

- (c) Impairment losses on securities classified as other securities of ¥489 million and ¥602 million (\$4,513 thousand) were recognized for the years ended March 31, 2022 and 2023, respectively.

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

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

20. Derivative Transactions

Summarized below are the notional amounts and the estimated fair value of the derivative instruments outstanding at March 31, 2022 and 2023, for which hedge accounting has been applied.

Interest-related transactions

<i>Method of hedge accounting</i>	<i>Hedging instruments</i>		<i>Hedged items</i>	2022		
				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	–
				2023		
<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	¥ 9,679	¥ 9,022	¥ (81)
Simplified method	Interest rate and currency swap	Pay: fixed Receive: floating Pay: JPY Receive: USD	Long-term debt	251	–	–
				2023		
<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	\$ 72,487	\$ 67,571	\$ (607)
Simplified method	Interest rate and currency swap	Pay: fixed Receive: floating Pay: JPY Receive: USD	Long-term debt	1,879	–	–

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.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

21. Supplemental Information on Consolidated Statement of Cash Flows

- (a) Cash and cash equivalents in the consolidated statement of cash flows for the years ended March 31, 2022 and 2023 are reconciled to cash on hand and in banks in the consolidated balance sheet as follows:

	<u>2022</u>	<u>2023</u>	<u>2023</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Cash on hand and in banks	¥ 39,021	¥ 67,534	\$ 505,763
Time deposits with maturities of more than three months	(1,229)	(3,682)	(27,580)
Cash and cash equivalents	<u>¥ 37,791</u>	<u>¥ 63,851</u>	<u>\$ 478,183</u>

- (b) Major breakdown of assets and liabilities of the newly consolidated companies

Information on the newly consolidated companies, Chuorika kougyo Co., Ltd. and its eight subsidiaries, as a result of a share acquisition for the year ended March 31, 2022 is as follows:

	<u>2022</u>
	<i>(Millions of yen)</i>
Current assets	¥ 2,953
Fixed assets	3,554
Goodwill	863
Current liabilities	(1,675)
Fixed liabilities	(1,265)
Acquisition cost of shares	4,431
Cash and cash equivalents	(1,559)
Difference: Expenditures for acquisition	<u>¥ 2,871</u>

Information on the newly consolidated companies, Kirishima mokushitsu hatsuden Co., Ltd. and its subsidiary Kirishima mokushitsu nenryo Co., Ltd., as a result of a share acquisition for the year ended March 31, 2023 is as follows:

	<u>2023</u>	<u>2023</u>
	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Current assets	¥ 1,011	\$ 7,572
Fixed assets	2,036	15,254
Goodwill	729	5,466
Current liabilities	(1,517)	(11,361)
Fixed liabilities	(1,699)	(12,727)
Acquisition cost of shares	510	3,819
Cash and cash equivalents	(412)	(3,091)
Difference: Expenditures for acquisition	<u>¥ 97</u>	<u>\$ 727</u>

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

- (c) Information regarding details of significant non-monetary transactions for the years ended March 31, 2022 and 2023 is as follows:

Leased assets and lease obligations related to new finance lease transactions recorded for the years ended March 31, 2022 and 2023 amounted to ¥1,143 million and ¥1,612 million (\$12,075 thousand), respectively.

Significant asset retirement obligations recorded for the year ended March 31, 2022 amounted to ¥40 million.

22. Segment Information

- (a) Business segment information

- (1) Outline of reportable segments

The reportable segments of 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)

22. 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

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, 2022 and 2023 are summarized as follows:

	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	<u>¥ 365,260</u>	<u>¥ 17,196</u>	<u>¥ 382,456</u>	<u>¥ (5,893)</u>	<u>¥ 376,563</u>
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

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

22. Segment Information (continued)

(a) Business segment information (continued)

- (3) Information as to net sales, income or loss and other items for each reportable segment for the years ended March 31, 2022 and 2023 are summarized as follows:
(continued)

	2023				
	Utilities engineering service	Others	Total	Adjustments and eliminations	Consolidated
	<i>(Millions of yen)</i>				
Net sales:					
Sales to third parties	¥ 380,355	¥ 15,428	¥ 395,783	¥ –	¥ 395,783
Intersegment sales and transfers	1,265	5,074	6,340	(6,340)	–
Total	¥ 381,620	¥ 20,503	¥ 402,123	¥ (6,340)	¥ 395,783
Segment income	¥ 28,908	¥ 3,015	¥ 31,924	¥ 158	¥ 32,083
Other items:					
Depreciation and amortization	3,935	2,188	6,123	(104)	6,018
Amortization of goodwill	215	121	337	–	337
Amortization of customer related intangible assets	220	–	220	–	220
	2023				
	Utilities engineering service	Others	Total	Adjustments and eliminations	Consolidated
	<i>(Thousands of U.S. dollars)</i>				
Net sales:					
Sales to third parties	\$ 2,848,462	\$ 115,542	\$ 2,964,004	\$ –	\$ 2,964,004
Intersegment sales and transfers	9,474	38,006	47,480	(47,480)	–
Total	\$ 2,857,936	\$ 153,548	\$ 3,011,485	\$ (47,480)	\$ 2,964,004
Segment income	\$ 216,495	\$ 22,583	\$ 239,079	\$ 1,189	\$ 240,268
Other items:					
Depreciation and amortization	29,471	16,386	45,857	(786)	45,071
Amortization of goodwill	1,617	911	2,528	–	2,528
Amortization of customer related intangible assets	1,653	–	1,653	–	1,653

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

22. Segment Information (continued)

(a) Business segment information (continued)

- (3) Information as to net sales, income or loss and other items by reportable segment for the years ended March 31, 2022 and 2023 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 ¥107 million and ¥158 million (\$1,189 thousand) for the years ended March 31, 2022 and 2023, respectively, reflect the elimination of transactions between segments.
- (iii) Segment income or loss is reconciled to operating income on the consolidated statement of income.
- (iv) Impairment loss of goodwill was recorded in “Others” segment of ¥326 million (\$2,448 thousand) for the year ended March 31, 2023.

(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, 2022 and 2023.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

22. Segment Information (continued)

(b) Related information (continued)

(2) Information by major customers

The following table presents major customer information for the years ended March 31, 2022 and 2023:

	<u>2022</u>	<u>2023</u>	<u>2023</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	¥ 47,109	¥ 47,368	\$ 354,742

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

The following table presents the amortization and balance of goodwill as of and for the years ended March 31, 2022 and 2023 by reportable segment: Information on amortization of goodwill is omitted because the same information is disclosed in Note 22 (a) (3). The “Others” segment represents the renewable energy generation business.

	<u>2022</u>			
	Utilities engineering service	Others	Adjustments and eliminations	Consolidated
	<i>(Millions of yen)</i>			
Balance as of March 31	¥ 755	¥ –	¥ –	¥ 755
	<u>2023</u>			
	Utilities engineering service	Others	Adjustments and eliminations	Consolidated
	<i>(Millions of yen)</i>			
Balance as of March 31	¥ 539	¥ 281	¥ –	¥ 821
	<i>(Thousands of U.S. dollars)</i>			
Balance as of March 31	\$ 4,042	\$ 2,107	\$ –	\$ 6,149

(d) Gain on bargain purchase by reportable segment

No gain on bargain purchase was recorded for the years ended March 31, 2022 and 2023.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

23. Related Party Transactions

Transactions and balances with related parties as of and for the years ended March 31, 2022 and 2023 were as follows:

	<u>2022</u>	<u>2023</u>	<u>2023</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Kyushu Electric Power Co., Inc.			
Construction order	¥ 1,183	¥ 1,073	\$ 8,041
Electricity sales	1,580	1,558	11,672
Accounts receivable on completed construction contracts	533	514	3,851
Advances received on uncompleted construction contracts	–	15	119
Accounts receivable	74	56	423
Kyushu Electric Power Transmission and Distribution Co., Inc.			
Construction order	43,590	43,749	327,637
Electricity sales	1,897	2,045	15,317
Accounts receivable on completed construction contracts and other accounts receivable	7,154	7,453	55,817

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 (\$1,777,165 thousand) engaged in the business of sales of electric power and contracting and related construction work) is a related company which owned 22.75% of the shares of the Company as of March 31, 2022 and 2023.

Kyushu Electric Power Transmission and Distribution Co., Inc. (located in Fukuoka City, with a capital amount of ¥20,000 million (\$149,779 thousand) engaged in the business of sales of electric power and contracting and related construction work is a subsidiary of a related company which owned no shares of the Company as of March 31, 2022 and 2023.

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

Electricity sales prices are based on the feed-in tariff system and others.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

24. Revenue Recognition

Disaggregation of revenue arising from contracts with customers

A disaggregation of revenue by type of goods or services for the years ended March 31, 2022 and 2023 was 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	<u>¥ 364,440</u>	<u>¥ 12,123</u>	<u>¥ 376,563</u>
	2023		
	Utilities engineering service	Others	Total
	<i>(Millions of yen)</i>		
Power distribution line work	¥ 46,628	¥ –	¥ 46,628
Electrical work	199,403	–	199,403
HVAC and sanitary facility work	134,323	–	134,323
Others	–	15,428	15,428
Revenue arising from contracts with customers	<u>380,355</u>	<u>15,428</u>	<u>395,783</u>
Revenue to external customers	<u>¥ 380,355</u>	<u>¥ 15,428</u>	<u>¥ 395,783</u>
	2023		
	Utilities engineering service	Others	Total
	<i>(Thousands of U.S. dollars)</i>		
Power distribution line work	\$ 349,195	\$ –	\$ 349,195
Electrical work	1,439,321	–	1,493,321
HVAC and sanitary facility work	1,005,945	–	1,005,945
Others	–	115,542	115,542
Revenue arising from contracts with customers	<u>2,848,462</u>	<u>115,542</u>	<u>2,964,004</u>
Revenue to external customers	<u>\$ 2,848,462</u>	<u>\$ 115,542</u>	<u>\$ 2,964,004</u>

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

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

24. Revenue Recognition (continued)

Information that serves as a basis for understanding of revenue arising from contracts with customers

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

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

(a) Contract assets and contract liabilities outstanding

Beginning and ending balances of contract assets and contract liabilities outstanding for the years ending March 31, 2022 and 2023 were as follows:

	Beginning of 2022	Ending of 2022
	<i>(Millions of yen)</i>	
Receivables arising from contracts with customers		
Notes receivable	¥ 6,282	¥ 4,715
Electronically recorded receivables	16,731	15,410
Accounts receivable	61,265	59,123
Other accounts receivable	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 2023	Ending of 2023
	<i>(Millions of yen)</i>	
Receivables arising from contracts with customers		
Notes receivable	¥ 4,715	¥ 3,563
Electronically recorded receivables	15,410	19,838
Accounts receivable	59,123	63,246
Other accounts receivable	5,441	6,260
	<u>¥ 84,690</u>	<u>¥ 92,909</u>
Contract assets	¥ 52,095	¥ 55,992
Contract liabilities	11,546	26,627

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

24. Revenue Recognition (continued)

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

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

	Beginning of 2023	Ending of 2023
	<i>(Thousands of U.S. dollars)</i>	
Receivables arising from contracts with customers		
Notes receivable	\$ 35,312	\$ 26,685
Electronically recorded receivables	115,404	148,571
Accounts receivable	442,770	473,649
Other accounts receivable	40,754	46,886
	<u>\$ 634,242</u>	<u>\$ 695,794</u>
Contract assets	\$ 390,138	\$ 419,327
Contract liabilities	86,471	199,412

Contract assets are rights to consideration received 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 Group to the consideration become unconditional. The consideration for such construction is mainly received within one year from the time the Company's performance obligation is satisfied.

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 are reversed upon revenue recognition.

The amount of revenue recognized in the current fiscal year ended March 31, 2023 that was included in the contract liability balance at the beginning of the period was ¥9,875 million (\$73,957 thousand).

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

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

24. Revenue Recognition (continued)

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

(b) Transaction price allocated to remaining performance obligations

The transaction price allocated to the unfulfilled performance obligation recorded for the years ended March 31, 2022 and 2023 amounted to ¥407,649 million and ¥467,801 million (\$3,503,343 thousand), respectively. The remaining performance obligation relates to a construction contract in the Utilities engineering service and is expected to be recognized as revenue primarily within five years as the construction progresses.

25. 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, 2023, was approved at the meeting of the Board of Directors held on April 28, 2023:

	<u>Total dividends paid</u>		<u>Record date</u>	<u>Effective date</u>
	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>		
Cash dividends (¥60.00 = \$0.45 per share)	¥ 4,251	\$ 31,841	March 31, 2023	June 6, 2023