

Consolidated Financial Statements

KYUDENKO CORPORATION

*Year ended March 31, 2019
with Independent Auditor's Report*



KYUDENKO CORPORATION and Consolidated Subsidiaries

Consolidated Financial Statements

Year ended March 31, 2019

Contents

Consolidated Financial Statements

Independent Auditor's Report.....	1
Consolidated Balance Sheet.....	2
Consolidated Statement of Income	4
Consolidated Statement of Comprehensive Income	5
Consolidated Statement of Changes in Net Assets	6
Consolidated Statement of Cash Flows.....	8
Notes to Consolidated Financial Statements.....	10

Independent Auditor's Report

The Board of Directors
KYUDENKO CORPORATION .

We have audited the accompanying consolidated financial statements of KYUDENKO CORPORATION . and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2019, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of KYUDENKO CORPORATION and its consolidated subsidiaries as at March 31, 2019, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 1.

June 25, 2019
FUKUOKA, Japan

Ernst & Young ShinNihon LLC

KYUDENKO CORPORATION and Consolidated Subsidiaries

Consolidated Balance Sheet

March 31, 2019

	March 31,		
	2018	2019	2019
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Assets			
Current assets:			
Cash on hand and in banks (Notes 16, 18 and 21)	¥ 35,189	¥ 41,017	\$ 369,557
Notes receivable, accounts receivable on completed construction contracts and other accounts receivable (Notes 18 and 23)	127,610	150,612	1,356,992
Short-term investments (Notes 18 and 19)	26	20	185
Costs of uncompleted construction contracts	6,826	5,106	46,004
Merchandise	897	1,765	15,905
Raw materials and supplies	5,444	979	8,824
Other current assets (Note 16)	2,906	6,791	61,186
Allowance for doubtful accounts (Note 18)	(17)	(23)	(212)
Total current assets	178,884	206,268	1,858,444
Fixed assets:			
Property and equipment:			
Buildings and structures (Notes 3 and 16)	65,757	66,155	596,051
Machinery, vehicles, tools, furniture and fixtures (Notes 3 and 16)	39,515	41,095	370,259
Leased assets	6,345	6,126	55,199
Land (Note 16)	28,484	28,874	260,156
Construction in progress	1,718	1,757	15,831
Accumulated depreciation	(56,657)	(60,259)	(542,925)
Total property and equipment	85,164	83,750	754,573
Intangible assets:			
Goodwill (Notes 4 and 22)	500	343	3,091
Other intangible assets	943	986	8,891
Total intangible assets	1,443	1,329	11,983
Investments and other assets:			
Investments in securities (Notes 16, 18 and 19)	37,908	42,684	384,578
Investments in unconsolidated subsidiaries and affiliates (Notes 16 and 18)	10,717	11,088	99,904
Long-term loans receivable (Note 16)	932	1,179	10,625
Asset for retirement benefits (Note 6)	353	1,646	14,834
Deferred tax assets (Note 13)	5,955	5,720	51,544
Other (Note 16)	4,678	5,291	47,678
Allowance for doubtful accounts	(1,119)	(1,688)	(15,215)
Total investments and other assets	59,427	65,922	593,951
Total fixed assets	146,034	151,002	1,360,507
Total assets	¥ 324,919	¥ 357,271	\$ 3,218,951

	March 31,		
	2018	2019	2019
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Liabilities			
Current liabilities:			
Notes payable, accounts payable on construction contracts and other accounts payable (Note 18)	¥ 85,732	¥ 88,360	\$ 796,115
Electronically recorded obligations (Note 18)	13,006	21,094	190,057
Short-term borrowings (Notes 5, 16 and 21)	400	87	791
Current portion of long-term debt (Notes 5, 16 and 18)	7,184	1,902	17,145
Lease obligations (Note 5)	899	942	8,490
Income taxes payable (Note 13)	6,239	8,412	75,796
Advances received on uncompleted construction contracts (Note 23)	6,918	12,909	116,309
Other current liabilities	9,841	8,434	75,994
Total current liabilities	130,222	142,144	1,280,700
Long-term liabilities:			
Long-term debt (Notes 5, 16 and 18)	8,983	13,660	123,076
Lease obligations (Note 5)	2,597	2,596	23,392
Provision for retirement benefits for directors and audit and supervisory board members	406	324	2,926
Liability for retirement benefits (Note 6)	15,746	13,936	125,565
Other long-term liabilities (Notes 7 and 13)	2,822	2,432	21,911
Total long-term liabilities	30,557	32,949	296,873
Total liabilities	160,780	175,094	1,577,573
Commitments and contingencies (Note 15)			
Net assets (Note 8)			
Shareholders' equity:			
Common stock:			
Authorized – 250,000,000 shares			
Issued – 71,158,510 and 71,165,783 shares in 2018 and 2019, respectively	12,555	12,561	113,177
Capital surplus	12,853	13,012	117,244
Retained earnings	139,809	159,401	1,436,176
Treasury stock, at cost	(8)	(10)	(94)
Total shareholders' equity	165,209	184,965	1,666,503
Accumulated other comprehensive loss			
Unrealized holding gain on securities	4,261	3,585	32,303
Unrealized loss on hedging instruments	(570)	(423)	(3,816)
Translation adjustments	306	179	1,615
Retirement benefit liability adjustments (Note 6)	(7,757)	(7,988)	(71,977)
Total accumulated other comprehensive loss	(3,759)	(4,647)	(41,873)
Non-controlling interests	2,689	1,858	16,748
Total net assets	164,139	182,176	1,641,377
Total liabilities and net assets	¥ 324,919	¥ 357,271	\$ 3,218,951

See accompanying notes to consolidated financial statements.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Income

Year ended March 31, 2019

	Year ended March 31,		
	2018	2019	2019
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Net sales (Note 22):			
Construction contracts (Note 9)	¥ 346,403	¥ 388,327	\$ 3,498,759
Other	14,468	19,816	178,539
Total net sales	360,872	408,143	3,677,298
Cost of sales (Notes 10 and 12):			
Construction contracts	292,664	331,391	2,985,776
Other	11,547	16,191	145,878
Total cost of sales	304,212	347,582	3,131,654
Gross profit:			
Construction contracts	53,738	56,935	512,982
Other	2,921	3,625	32,661
Total gross profit	56,659	60,561	545,643
Selling, general and administrative expenses (Notes 11 and 12)	21,932	23,813	214,559
Operating income (Note 22)	34,726	36,747	331,084
Non-operating income (expenses):			
Interest income	83	62	559
Dividend income	564	564	5,087
Interest expenses	(411)	(372)	(3,356)
Equity in earnings of affiliates	310	754	6,799
Gain on investments in partnership	641	976	8,796
Rent income	326	312	2,819
Insurance and dividend income	606	443	3,993
Extra retirement payments	(88)	(80)	(729)
Provision of allowance for doubtful accounts of subsidiary	(151)	(153)	(1,378)
Other, net	733	670	6,040
Ordinary income	37,342	39,924	359,716
Extraordinary income (loss):			
Gain on sales of property and equipment	516	63	574
Impairment loss on fixed assets (Notes 4 and 22)	(831)	—	—
Loss on disposal and sales of fixed assets	(318)	(553)	(4,983)
Gain on sales of investments in securities (Note 19)	263	40	365
Impairment loss on investments in securities	(7)	(185)	(1,674)
Impairment loss on investment in unconsolidated subsidiary	—	(0)	(6)
Loss on sales of investments in securities (Note 19)	—	(15)	(141)
Gain on bargain purchase (Note 22)	183	—	—
Gain on liquidation of subsidiary	0	—	—
Loss on valuation of utility rights	(1)	(13)	(118)
Profit before income taxes	37,148	39,260	353,733
Income taxes (Note 13):			
Current	10,856	12,001	108,126
Deferred	789	569	5,134
Profit	25,502	26,689	240,471
Profit attributable to:			
Non-controlling interests	206	(1)	(10)
Owners of parent	¥ 25,296	¥ 26,691	\$ 240,482

KYUDENKO CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income

Year ended March 31, 2019

	Year ended March 31		
	2018	2019	2019
	(Millions of yen)		(Thousands of U.S. dollars)
			(Note 1)
Profit	¥ 25,502	¥ 26,689	\$ 240,471
Other comprehensive income (loss) (Note 14):			
Unrealized holding gain (loss) on securities	1,161	(678)	(6,109)
Unrealized (loss) gain on hedging instruments	(172)	254	2,293
Translation adjustments	153	(143)	(1,291)
Retirement benefit liability adjustments	(1,327)	(231)	(2,084)
Share of other comprehensive loss of affiliates accounted for by the equity method	(211)	(106)	(957)
Total other comprehensive loss	(396)	(904)	(8,149)
Comprehensive income	¥ 25,106	¥ 25,785	\$ 232,322
Comprehensive income (loss) attributable to:			
Owners of parent	¥ 24,888	¥ 25,803	\$ 232,484
Non-controlling interests	¥ 218	¥ (17)	\$ (161)

KYUDENKO CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Changes in Net Assets

Year ended March 31, 2019

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Unrealized holding gain on securities	Unrealized loss on hedging instruments	Translation adjustments	Retirement benefit liability adjustments	Total accumulated other comprehensive loss	Non- controlling interests	Total net assets
	<i>(Millions of yen)</i>											
Balance at April 1, 2017	¥ 11,632	¥ 11,907	¥ 119,700	¥ (8)	¥ 143,232	¥ 3,097	¥ (185)	¥ 167	¥ (6,430)	¥ (3,351)	¥ 1,622	¥ 141,503
Issuance of new shares	922	921	—	—	1,844	—	—	—	—	—	—	1,844
Cash dividends paid	—	—	(5,645)	—	(5,645)	—	—	—	—	—	—	(5,645)
Profit attributable to owners of parent for the period	—	—	25,296	—	25,296	—	—	—	—	—	—	25,296
Increase in retained earnings resulting from increase in investment in equity method affiliate	—	—	446	—	446	—	—	—	—	—	—	446
Purchase of treasury stock	—	—	—	(7)	(7)	—	—	—	—	—	—	(7)
Disposal of treasury stock	—	(4)	—	7	3	—	—	—	—	—	—	3
Purchase of shares of consolidated subsidiaries	—	28	—	—	28	—	—	—	—	—	—	28
Increase in retained earnings due to change in accounting period of a subsidiary	—	—	10	—	10	—	—	—	—	—	—	10
Net changes in items other than those in shareholders' equity	—	—	—	—	—	1,164	(384)	139	(1,327)	(407)	1,067	659
Net changes during the year	922	945	20,108	(0)	21,976	1,164	(384)	139	(1,327)	(407)	1,067	22,635
Balance at April 1, 2018	12,555	12,853	139,809	(8)	165,209	4,261	(570)	306	(7,757)	(3,759)	2,689	164,139
Issuance of new shares	6	6	—	—	13	—	—	—	—	—	—	13
Cash dividends paid	—	—	(7,116)	—	(7,116)	—	—	—	—	—	—	(7,116)
Profit attributable to owners of parent for the period	—	—	26,691	—	26,691	—	—	—	—	—	—	26,691
Purchase of treasury stock	—	—	—	(1)	(1)	—	—	—	—	—	—	(1)
Purchase of treasury stock of consolidated subsidiary	—	2	—	—	2	—	—	—	—	—	—	2
Purchase of shares of consolidated subsidiaries	—	150	—	—	150	—	—	—	—	—	—	150
Increase in retained earnings due to change in accounting period of a subsidiary	—	—	16	—	16	—	—	—	—	—	—	16
Net changes in items other than those in shareholders' equity	—	—	—	—	—	(676)	147	(127)	(231)	(887)	(830)	(1,718)
Net changes during the year	6	159	19,591	(1)	19,755	(676)	147	(127)	(231)	(887)	(830)	18,037
Balance at March 31, 2019	¥ 12,561	¥ 13,012	¥ 159,401	¥ (10)	¥ 184,965	¥ 3,585	¥ (423)	¥ 179	¥ (7,988)	¥ (4,647)	¥ 1,858	¥ 182,176

KYUDENKO CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Changes in Net Assets (continued)

Year ended March 31, 2019

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Unrealized holding gain on securities	Unrealized loss on hedging instruments	Translation adjustments	Retirement benefit liability adjustments	Total accumulated other comprehensive loss	Non- controlling interests	Total net assets
<i>(Thousands of U.S. dollars) (Note 1)</i>												
Balance at April 1, 2018	\$ 113,118	\$ 115,805	\$ 1,259,658	\$ (76)	\$ 1,488,505	\$ 38,395	\$ (5,140)	\$ 2,764	\$ (69,892)	\$ (33,873)	\$ 24,231	\$ 1,478,863
Issuance of new shares	58	58	—	—	117	—	—	—	—	—	—	117
Cash dividends paid	—	—	(64,115)	—	(64,115)	—	—	—	—	—	—	(64,115)
Profit attributable to owners of parent for the period	—	—	240,482	—	240,482	—	—	—	—	—	—	240,482
Purchase of treasury stock	—	—	—	(18)	(18)	—	—	—	—	—	—	(18)
Purchase of treasury stock of consolidated subsidiary	—	23	—	—	23	—	—	—	—	—	—	23
Purchase of shares of consolidated subsidiaries	—	1,356	—	—	1,356	—	—	—	—	—	—	1,356
Increase in retained earnings due to change in accounting period of a subsidiary	—	—	151	—	151	—	—	—	—	—	—	151
Net changes in items other than those in shareholders' equity	—	—	—	—	—	(6,091)	1,324	(1,149)	(2,084)	(8,000)	(7,482)	(15,483)
Net changes during the year	58	1,438	176,517	(18)	177,997	(6,091)	1,324	(1,149)	(2,084)	(8,000)	(7,482)	162,514
Balance at March 31, 2019	\$ 113,177	\$ 117,244	\$ 1,436,176	\$ (94)	\$ 1,666,503	\$ 32,303	\$ (3,816)	\$ 1,615	\$ (71,977)	\$ (41,873)	\$ 16,748	\$ 1,641,377

See accompanying notes to consolidated financial statements.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Cash Flows

Year ended March 31, 2019

	2018	2019	2019
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars) (Note 1)</i>
Cash flows from operating activities			
Profit before income taxes	¥ 37,148	¥ 39,260	\$ 353,733
Depreciation and amortization	5,512	6,074	54,728
Impairment loss on fixed assets	831	—	—
Increase in allowance for doubtful accounts	107	575	5,186
Decrease in liability for retirement benefits and provision for retirement benefits for directors and audit and supervisory board members	(3,634)	(3,295)	(29,688)
Decrease in provision for loss on construction contracts	(214)	—	—
Loss on valuation of utility rights	1	13	118
Gain on investments in partnership	(641)	(976)	(8,796)
Interest and dividend income	(648)	(626)	(5,646)
Interest expenses	411	372	3,356
Foreign exchange (gain) loss	(35)	22	205
Equity in earnings of affiliates	(310)	(541)	(4,879)
Gain on sales of property and equipment, net	(509)	(63)	(574)
Loss on disposal of fixed assets	318	553	4,983
Impairment loss on investments in securities	7	185	1,674
Gain on sales of investments in securities	(263)	(24)	(224)
Gain on bargain purchase	(183)	—	—
Gain on liquidation of subsidiary	(0)	—	—
Increase in notes and accounts receivable on completed construction contracts	(17,939)	(23,007)	(207,294)
Decrease in costs of uncompleted construction contracts	76	1,585	14,282
(Increase) decrease in inventories	(1,500)	3,597	32,410
Increase in notes and accounts payable on construction contracts	15,598	10,751	96,869
(Decrease) increase in advances received on uncompleted construction contracts	(3,098)	6,073	54,717
Increase in long-term accounts payable	9	20	180
Increase (decrease) in consumption taxes payable, net	3,594	(1,896)	(17,085)
Other, net	5,711	(2,866)	(25,825)
Subtotal	40,349	35,786	322,431
Interest and dividend income received	629	604	5,446
Interest expenses paid	(398)	(384)	(3,461)
Income taxes paid	(10,562)	(9,952)	(89,673)
Net cash provided by operating activities	¥ 30,016	¥ 26,054	\$ 234,742

KYUDENKO CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Cash Flows (continued)

Year ended March 31, 2019

	2018	2019	2019
	<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	¥ (406)	¥ (644)	\$ (5,802)
Proceeds from withdrawal of time deposits	168	488	4,401
Purchase of property and equipment	(4,092)	(2,877)	(25,923)
Proceeds from sales of property and equipment	710	211	1,906
Payments of disposal of property, plant and equipment	(113)	(501)	(4,522)
Purchase of investments in securities	(3,278)	(9,334)	(84,103)
Proceeds from sales of investments in securities	3,140	2,405	21,676
Purchase of subsidiaries' shares resulting in changes in scope of consolidation	(168)	—	—
Payments of long-term loans receivable	(929)	(289)	(2,607)
Collection of long-term loans receivable	92	181	1,636
Other, net	1,046	(938)	(8,455)
Net cash used in investing activities	(3,830)	(11,298)	(101,794)
Cash flows from financing activities			
Net decrease in short-term borrowings	(14,872)	(348)	(3,140)
Proceeds from long-term debt	6,187	7,496	67,538
Repayments of long-term debt	(6,549)	(8,040)	(72,440)
Purchase of treasury stock	(7)	(1)	(18)
Cash dividends paid	(5,635)	(7,108)	(64,049)
Cash dividends paid to non-controlling shareholders	(1)	(6)	(54)
Repayments to non-controlling shareholders	(20)	(22)	(201)
Purchase of subsidiaries' shares not resulting in changes in scope of consolidation	(1)	(0)	(4)
Other, net	(881)	(988)	(8,909)
Net cash used in financing activities	(21,783)	(9,021)	(81,279)
Effect of exchange rate changes on cash and cash equivalents	84	(48)	(435)
Net increase in cash and cash equivalents	4,486	5,686	51,234
Cash and cash equivalents at the beginning of the year	30,027	34,505	310,883
(Decrease) increase in cash and cash equivalents resulting from changes in accounting period of consolidated subsidiary	(9)	1	11
Cash and cash equivalents at the end of the year	¥ 34,505	¥ 40,192	\$ 362,129
<i>(Note 21)</i>			

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements

March 31, 2019

1. Basis of Presentation

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

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

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

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

The U.S. dollar amounts in the accompanying consolidated financial statements have been translated from yen amounts solely for the convenience of the reader, as a matter of arithmetic computation only, at ¥110.99 = U.S.\$1.00, the rate of exchange prevailing on March 31, 2019. 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, 2019 and 2018 have been omitted. Consequently, the totals shown in the accompanying consolidated financial statements for the years ended March 31, 2019 and 2018 (both in yen and in U.S. dollars) do not necessarily agree with the sum of the individual amounts.

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.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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

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, 2019, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 48 and 7 (48 and 7 in 2018), respectively.

Effective April 1, 2018, Jinnouchi Koumuten Co. changed its fiscal year end from May 31 to March 31 to conform with the consolidated fiscal year end. Since the provisional financial statements as of February 28 were used in the preparation of the consolidated financial statements for the year ended March 31, 2018. Profit or loss of the subsidiary for the one month from March 1 to March 31, 2018 has been recognized in retained earnings. Corresponding changes in cash and cash equivalents are indicated as “Decrease in cash and cash equivalents resulting from changes of accounting period of consolidated subsidiaries” in the consolidated statement of cash flows.

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

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

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

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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

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

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

(b) Foreign currency translation

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

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

(c) Cash and cash equivalents

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

(d) Inventories

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

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

(e) Short-term investments and investments in securities

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

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

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

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

(g) Intangible assets (excluding leased assets)

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

(h) Goodwill

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

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

(i) Leases

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

(j) Allowance for doubtful accounts

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

(k) Allowance for investment loss

Allowance for investment loss is provided at an amount considered to be appropriate based on an evaluation of the financial condition of the individual investees. As of March 31, 2019, no allowance for investment loss was recognized, because there were no investments for which losses were anticipated.

(l) 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.

As of March 31, 2019, no provision for loss on construction contracts was recognized, because there were no construction contracts for which losses were anticipated.

(m) 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.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

(m) Retirement benefits (continued)

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.

(n) 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.

(o) Research and development costs

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

(p) Recognizing revenues and costs of construction contracts

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

(q) Consumption taxes

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

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

(r) Derivative financial instruments

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

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

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

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

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

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

(s) Accounting standards issued but not yet effective

Accounting standard and Implementation Guidance on Revenue Recognition

On March 30, 2018, the Accounting Standard Board of Japan (hereinafter referred to as the “ASBJ”) issued “Accounting Standard for Revenue Recognition” (ASBJ Statement No.29) and “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No.30).

(1) Overview

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

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

(2) Scheduled date of adoption

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

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

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

(t) Change in presentation

Partial Amendment to Accounting Standard for Tax Effect Accounting

The Company and its consolidated subsidiaries have adopted “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018) (hereinafter, the “Partial Amendments”) from the beginning of the fiscal year ended March 31, 2019. As such, deferred tax assets and deferred tax liabilities are included within investments and other assets and long-term liabilities, respectively.

As a result, ¥3,755 million of deferred tax assets in current assets and ¥3 million of deferred tax liabilities in current liabilities and ¥230 million out of ¥496 million of deferred tax liabilities in long-term liabilities previously presented in the consolidated balance sheet as of March 31, 2018 have been reclassified and included with in ¥5,955 million of deferred tax assets in investments and other assets.

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 subsidies 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, 2018 and 2019 are as follows:

	<u>2018</u>	<u>2019</u>	<u>2019</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Structures	¥ 283	¥ 283	\$ 2,552
Machinery	2,809	2,809	25,313
	<u>¥3,092</u>	<u>¥3,092</u>	<u>\$ 27,866</u>

4. Impairment Loss on Fixed Assets

The Company and its consolidated subsidiaries perform impairment test by grouping their property and equipment and intangible assets for business use in each branch of the Company or each consolidated subsidiary principally based on their management accounting categories. Rental properties and idle assets which are not anticipated to be utilized in the future are grouped individually.

		<u>2018</u>
<u>Location</u>	<u>Classification</u>	<i>(Millions of yen)</i>
Singapore	Goodwill	¥ 831

For the year ended March 31, 2018, as profitability of ASIA PROJECTS ENGINEERING PTE. LTD. decreased significantly, the carrying value of goodwill of ¥831 million resulting from the acquisition of this company was fully written down due to losing profitability and impairment loss on goodwill 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 7.0%.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

5. Short-Term Borrowings, Long-Term Debt, Convertible Bond-type Bonds with Share Subscription Rights and Lease Obligations

The annual weighted-average interest rates applicable to short-term borrowings (excluding the current portion of long-term debt) were 0.83% and 0.26% for the years ended March 31, 2018 and 2019, respectively.

Long-term debt, convertible bond-type bonds with share subscription rights and lease obligations at March 31, 2018 and 2019 consisted of the following:

	2018 <i>(Millions of yen)</i>	2019	2019 <i>(Thousands of U.S. dollars)</i>
Loans from banks due through 2033 with interest rates ranging from 0.116% to 3.137%	¥ 16,168	¥ 15,563	\$ 140,221
Convertible bond-type bonds with share subscription rights (non-interest bearing due March 15, 2019)	13	—	—
Lease obligations due through 2028	3,497	3,538	31,882
	19,678	19,101	172,104
Less current portion	(8,097)	(2,845)	(25,635)
	<u>¥ 11,581</u>	<u>¥ 16,256</u>	<u>\$ 146,469</u>

The aggregate annual maturities of long-term debt and lease obligations as of March 31, 2019 are summarized as follows:

<u>Year ending March 31,</u>	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
2020	¥ 2,845	\$ 25,635
2021	2,658	23,955
2022	2,504	22,562
2023	7,292	65,699
2024	1,281	11,550
2025 and thereafter	2,519	22,700
	<u>¥ 19,101</u>	<u>\$ 172,104</u>

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Retirement Benefit Plans

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

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

The employees' pension fund system named "Tohoku shichiken denki kouseinenkin kikin," a multiple-employer pension plan which some consolidated subsidiaries had joined, has been transferred to a employees' defined benefit pension fund system. If the amount of plan assets corresponding to the contributions of each subsidiary cannot be reasonably calculated, such plans are accounted for by the same method as that for defined contribution plans.

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, 2018 and 2019 were as follows:

	2018	2019	2019
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Balance at the beginning of the year	¥ 44,233	¥ 46,052	\$ 414,923
Service cost	1,855	2,100	18,920
Interest cost	309	277	2,495
Actuarial gain and loss	100	94	852
Retirement benefit paid	(2,746)	(3,134)	(28,239)
Prior service cost	2,300	—	—
Balance at the end of the year	<u>¥ 46,052</u>	<u>¥ 45,389</u>	<u>\$ 408,953</u>

2) The changes in the plan assets for the years ended March 31, 2018 and 2019 were as follows:

	2018	2019	2019
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Balance at the beginning of the year	¥ 28,028	¥ 31,454	\$ 283,403
Expected return on plan assets	560	629	5,668
Actuarial gain and loss	655	(165)	(1,488)
Contributions by the Company	4,508	4,530	40,818
Retirement benefit paid	(2,349)	(2,570)	(23,160)
Other	52	54	487
Balance at the end of the year	<u>¥ 31,454</u>	<u>¥ 33,932</u>	<u>\$ 305,727</u>

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Retirement Benefit Plans (continued)

(a) Defined benefit plans (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, 2018 and 2019 for the Company's and its consolidated subsidiaries' defined benefit plans:

	2018	2019	2019
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Funded retirement benefit obligation	¥ 36,590	¥ 36,017	\$ 324,513
Plan assets at fair value	(31,454)	(33,932)	(305,727)
	5,135	2,085	18,786
Unfunded retirement benefit obligation	9,461	9,371	84,439
Net liability for retirement benefits in the consolidated balance sheet	14,597	11,457	103,225
Liability for retirement benefits	14,597	11,457	103,225
Asset for retirement benefits	—	—	—
Net liability for retirement benefits in the consolidated balance sheet	¥ 14,597	¥ 11,457	\$ 103,225

- 4) The components of retirement benefit expenses for the years ended March 31, 2018 and 2019 were as follows:

	2018	2019	2019
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Service cost	¥ 1,803	¥ 2,045	\$ 18,433
Interest cost	309	277	2,495
Expected return on plan assets	(560)	(629)	(5,668)
Amortization of actuarial gain and loss	127	100	902
Amortization of prior service cost	(287)	(172)	(1,558)
Other	86	80	729
Retirement benefit expenses	¥ 1,479	¥ 1,701	\$ 15,334

Contributions from employees of ¥52 million and ¥54 million (\$487 thousand) for the years ended March 31, 2018 and 2019 are not included in above service cost.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Retirement Benefit Plans (continued)

(a) Defined benefit plans (continued)

- 5) The components of retirement benefit liability adjustments included in other comprehensive income (before tax effect) for the years ended March 31, 2018 and 2019 were as follows:

	2018	2019	2019
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Prior service cost	¥ (2,588)	¥ (172)	\$ (1,558)
Actuarial gain and loss	682	(159)	(1,438)
Total	¥ (1,905)	¥ (332)	\$ (2,997)

- 6) The components of retirement benefit liability adjustments included in accumulated other comprehensive income (before tax effect) as of March 31, 2018 and 2019 were as follows:

	2018	2019	2019
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Unrecognized prior service cost	¥ 7,780	¥ 7,953	\$ 71,658
Unrecognized actuarial gain and loss	3,374	3,534	31,845
Total	¥ 11,155	¥ 11,487	\$ 103,504

- 7) The fair value of plan assets, by major category, as a percentage of total plan assets at March 31, 2018 and 2019 was as follows:

	2018	2019
Bonds	44%	54%
Stocks	25%	26%
General accounts of life insurance	8%	8%
Other	23%	12%
Total	100%	100%

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

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

	2018	2019
Discount rates	0.6%	0.6%
Expected rates of return on plan assets	2.0%	2.0%

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

- 1) The changes in liability for retirement benefits calculated using the simplified method for the years ended March 31, 2018 and 2019 were as follows:

	2018	2019	2019
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Balance at the beginning of the year	¥ 1,024	¥ 794	\$ 7,161
Retirement benefit expenses	354	655	5,901
Retirement benefit paid	(188)	(160)	(1,444)
Contributions	(349)	(450)	(4,057)
Other	(46)	(6)	(55)
Balance at the end of the year	<u>¥ 794</u>	<u>¥ 833</u>	<u>\$ 7,505</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, 2018 and 2019 for the defined benefit plans:

	2018	2019	2019
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Funded retirement benefit obligation	¥ 4,040	¥ 4,323	\$ 38,954
Plan assets at fair value	(3,447)	(3,693)	(33,277)
	592	630	5,677
Unfunded retirement benefit obligation	202	202	1,827
Net liability for retirement benefits in the consolidated balance sheet	<u>794</u>	<u>833</u>	<u>7,505</u>
Liability for retirement benefits	1,148	1,228	11,066
Asset for retirement benefits	(353)	(395)	(3,561)
Net liability for retirement benefits in the consolidated balance sheet	<u>¥ 794</u>	<u>¥ 833</u>	<u>\$ 7,505</u>

- 3) Retirement benefit expenses calculated using the simplified method amounted to ¥354 million and ¥655 million (\$5,901 thousand) for the years ended March 31, 2018 and 2019, respectively

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Retirement Benefit Plans (continued)

(c) Defined contribution plans

Contributions made to defined contribution plans by the Company for the years ended March 31, 2018 and 2019 were ¥364 million and ¥440 million (\$3,969 thousand), respectively.

(d) Multiple-employer pension plans

The employees' pension fund system named "Tohoku shichiken denki kouseinenkin kikin," a multiple-employer pension plan, to which some consolidated subsidiaries had joined, has been transferred to a employees' defined benefit pension fund system. The notes on the most recent funded status of the plan, the ratio of the Group to the contributions of the multi-employer plan, and supplementary explanations are omitted.

7. Asset Retirement Obligations

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

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

The following table indicates the changes in asset retirement obligations included in "Other long-term liabilities" for the years ended March 31, 2018 and 2019:

	<u>2018</u>	<u>2019</u>	<u>2019</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Balance at the beginning of the year	¥ 1,028	¥ 1,157	\$ 10,425
Increase due to acquisition of property and equipment	111	140	1,262
Adjustment due to passage of time	17	19	173
Balance at the end of the year	<u>¥ 1,157</u>	<u>¥ 1,316</u>	<u>\$ 11,861</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, 2018 and 2019 amounted to ¥12,537 million and ¥12,543 million (\$113,018 thousand), respectively.

There was no legal reserve for the years ended March 31, 2018 and 2019.

(a) Shares issued and outstanding / Treasury shares

For the year ended March 31, 2018:

<i>Types of shares</i>	<i>Number of shares at April 1, 2017</i>	<i>Increase</i>	<i>Decrease</i>	<i>Number of shares at March 31, 2018</i>
		<i>(Number of Shares)</i>		
Shares issued:				
Common stock	70,134,971	1,023,539	—	71,158,510
Treasury stock:				
Common stock	18,941	1,615	1,665	18,891

Detail of the increase in shares issued is as follows:

Issuance of new shares due to exercise of share subscription rights	
2nd unsecured convertible bond-type bonds with share subscription rights	1,023,539

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

Increase due to purchase of shares of less than one standard unit	1,615
Decrease due to exercise of share subscription rights of 2nd unsecured convertible bond-type bonds with share subscription rights	1,665

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Net Assets (continued)

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

For the year ended March 31, 2019:

<i>Types of shares</i>	<i>Number of shares at April 1, 2017</i>	<i>Increase</i>	<i>Decrease</i>	<i>Number of shares at March 31, 2018</i>
		<i>(Number of Shares)</i>		
Shares issued:				
Common stock	71,158,510	7,273	—	71,165,783
Treasury stock:				
Common stock	18,891	440	—	19,331

Detail of the increase in shares issued is as follows:

Issuance of new shares due to exercise of share subscription rights of 2nd unsecured convertible bond-type bonds with share subscription rights	7,273
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Details of the increase and decrease in treasury stock are as follows:

Increase due to purchase of shares of less than one standard unit	440
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(b) Share subscription rights

For the year ended March 31, 2018

<i>Issuer</i>	<i>Description</i>	<i>Type of shares</i>	<i>Number of shares subject to share subscription rights</i>			<i>At March 31, 2017</i>
			<i>At April 1, 2017</i>	<i>Increase</i>	<i>Decrease</i>	
				<i>(Number of Shares)</i>		
The Company	2nd unsecured convertible bond-type bonds with share subscription rights	Common stock	1,021,528	10,892	1,025,204	7,216

1. Number of shares subject to share subscription rights represents the number of shares to be issued upon exercise of the share subscription rights.
2. The increase during the year was due to adjustments to the conversion value, and the decrease was due to exercise of the share subscription rights.
3. Share subscription rights were not accounted for separately.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Net Assets (continued)

(b) Share subscription rights (continued)

For the year ended March 31, 2019

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

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

(C) Dividends

1) Dividends paid

For the year ended March 31, 2018:

	<i>Total dividends</i>	<i>Record date</i>	<i>Effective date</i>
	<i>(Millions of yen)</i>		
Resolution: Meeting of the Board of Directors on April 28, 2017		March 31, 2017	June 6, 2017
Cash dividends (¥40 per share)	¥ 2,805		
Resolution: Meeting of the Board of Directors on October 27, 2017		September 30, 2017	December 1, 2017
Cash dividends (¥40 per share)	¥ 2,839		

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, 2019:

	<i>Total dividends</i>		<i>Record</i>	<i>Effective</i>
	<i>(Millions of</i>	<i>Thousands</i>	<i>date</i>	<i>date</i>
	<i>yen)</i>	<i>of U.S.</i>		
		<i>dollars)</i>		
Resolution: Meeting of the Board of Directors on April 27, 2018				
Cash dividends (¥50 (\$0.45) per share)	¥ 3,557	\$ 32,056	March 31, 2018	June 6, 2018
Resolution: Meeting of the Board of Directors on October 26, 2018				
Cash dividends (¥50 (\$0.45) per share)	¥ 3,558	\$ 32,059	September 30, 2018	December 3, 2018

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

Net sales from construction contracts recognized by the percentage-of-completion method for the years ended March 31, 2018 amounted to ¥180,913 million and ¥224,182 million (\$2,019,839 thousand), respectively.

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

Provision (reversal of provision) for loss on construction contracts included in cost of sales for the years ended March 31, 2018 represents reversal of provision of ¥214 million. There were no provision and reverse of provision for the year ended March 31, 2019.

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, 2018 and 2019 were as follows:

	2018	2019	2019
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Salaries and wages	¥ 9,200	¥ 10,070	\$ 90,736
Retirement benefit expenses	362	423	3,811
Retirement benefits expenses for directors and audit and supervisory board members	51	(48)	(441)
Depreciation and amortization	948	932	8,400

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, 2018 and 2019 amounted to ¥286 million and ¥326 million (\$2,942 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 statutory rates of approximately 30.69% and 30.46% for the years ended March 31, 2018 and 2019, respectively. Income taxes of the foreign consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

The reconciliation between the effective tax rates reflected in the consolidated statement of income and the effective statutory tax rates for year ended March 31, 2019 is as follows. The reconciliation for the years ended March 31, 2018 has been omitted as the difference was less than 5% of the statutory tax rate.

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

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, 2018 and 2019 were as follows:

	2018	2019	2019
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Deferred tax assets:			
Liability for retirement benefits	¥ 4,784	¥ 4,204	\$ 37,884
Accrued bonuses	2,241	2,252	20,294
Unrealized profits on fixed assets	850	970	8,742
Enterprise tax payable	416	498	4,487
Other	3,099	3,305	29,785
Gross deferred tax assets	11,391	11,231	101,195
Valuation allowance	(1,045)	(1,210)	(10,902)
Total deferred tax assets	10,346	10,021	90,292
Deferred tax liabilities:			
Unrealized holding gain on other securities	(1,864)	(1,568)	(14,135)
Reserve for deductions in acquisition costs of property and equipment	(1,249)	(1,233)	(11,110)
Reserve for special depreciation	(627)	(431)	(3,888)
Other	(916)	(1,385)	(12,486)
Total deferred tax liabilities	(4,657)	(4,619)	(41,619)
Net deferred tax assets	¥ 5,688	¥ 5,402	\$ 48,673

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

14. Other Comprehensive Income

reclassification adjustments and tax effects allocated to each component of other comprehensive income (loss) for the years ended March 31, 2018 and 2019 were as follows:

	<u>2018</u>	<u>2019</u>	<u>2019</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Unrealized holding gain (loss) on securities:			
Amount arising during the year	¥ 1,949	¥ (1,180)	\$ (10,636)
Reclassification adjustments for gain or loss included in profit attributable to owners of parent	(253)	197	1,781
Amount before tax effect	1,695	(982)	(8,854)
Tax effect	(533)	304	2,744
Unrealized holding gain (loss) on securities	1,161	(678)	(6,109)
Unrealized (loss) gain on hedging instruments:			
Amount arising during the year	(248)	365	3,297
Reclassification adjustments included in profit	—	—	—
Amount before tax effect	(248)	365	3,297
Tax effect	75	(111)	(1,004)
Unrealized gain (loss) on hedging instruments:	(172)	254	2,293
Translation adjustments:			
Amount arising during the year	153	(143)	(1,291)
Retirement benefit liability adjustments:			
Amount arising during the year	(1,745)	(259)	(2,341)
Reclassification adjustments for gain and loss included in profit attributable to owners of parent	(160)	(72)	(655)
Amount before tax effect	(1,905)	(332)	(2,997)
Tax effect	578	101	912
Retirement benefits liability adjustments	(1,327)	(231)	(2,084)
Share of other comprehensive loss of affiliates accounted for by the equity method:			
Amount arising during the year	(211)	(106)	(957)
Total other comprehensive loss	¥ (396)	¥ (904)	\$ (8,149)

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

15. Commitments and Contingencies

At March 31, 2018 and 2019, the Company and its consolidated subsidiaries were contingently liable for guarantees as follows:

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

	2018	2019	2019
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Debt guarantee:			
Mizuho Bank, Ltd. (Atsumi Greenpower Co.)	¥ 378	¥ 291	\$ 2,629
Development Bank of Japan Inc. (Nagashima Windhill Co.)	217	179	1,614
The Hokuriku Bank, Ltd. and others (Matusima Fuuryoku Co.)	880	1,880	16,938
Amount borne by other joint obligors out of joint obligation for payments concerning fuel supply agreement:			
Sumitomo Corporation (Aible Energy LCC)	—	333	3,000
Bond insurance:			
Sumitomo Mitsui Banking Corporation (KYUDENKO MALAYSIA SDN. BHD.)	—	43	392
Sumitomo Mitsui Banking Corporation (KYUDENKO (THAILAND) CO., LTD.)	—	7	63
MUFG Bank, Ltd. (KYUDENKO VIETNAM CO., LTD.)	—	77	699
Total	¥1,475	¥ 2,812	\$ 25,338

Discounted notes receivable

2018	2019	2019
<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
¥ 413	¥ —	\$ —

Endorsement for transfer of notes receivable

2018	2019	2019
<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
¥ 2	¥ 3	\$ 31

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

15. Commitments and Contingencies (continued)

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

At March 31, 2018 and 2019, the Company had loan commitment agreements with 10 companies, respectively. The unused balances under the loan commitment contracts at March 31, 2018 and 2019 were as follows:

	2018	2019	2019
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Total loan commitments	¥ 155	¥ 155	\$ 1,402
Aggregated borrowings	—	—	—
Unused balances	<u>¥ 155</u>	<u>¥ 155</u>	<u>\$ 1,402</u>

16. Pledged Assets

The assets pledged as collateral for short-term borrowings of ¥1,399 million and ¥475 million (\$4,288 thousand) and long-term debt of ¥1,792 million and ¥3,706 million (\$33,393 thousand) of the Company's investees involved in the renewable energy generation business and/or PFI business at March 31, 2018 and 2019 were as follows:

	2018	2019	2019
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Cash on hand and in banks	¥ 418	¥ 536	\$ 4,832
Other current assets short-term			
loans receivable	15	6	55
Buildings and structures	6	35	319
Machinery, vehicles, tools, furniture and fixtures	1,271	2,596	23,392
Land	0	0	3
Investments in securities and investments in unconsolidated subsidiaries and affiliates	6,826	6,845	61,679
Long-term loans receivable	77	70	638
Investments and other assets-rental deposit	15	15	135
Total	<u>¥ 8,631</u>	<u>¥ 10,106</u>	<u>\$ 91,057</u>

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

17. Amounts Per Share

Per share information as of March 31, 2018 and 2019 and for the years then ended is as follows:

	<u>2018</u>	<u>2019</u>	<u>2019</u>
	<i>(Yen)</i>		<i>(U.S. dollars)</i>
Profit attributable to owners of parent:			
Basic	¥ 356.89	¥ 375.17	\$ 3.38
Diluted	355.55	—	—
Net assets	¥ 2,269.48	¥ 2,534.46	\$ 22.84

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, and diluted profit attributable to owners of parent per share is computed based on the profit attributable to owners of parent available for distribution to the shareholders and the weighted average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the exercise of share subscription rights.

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

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

	<u>2018</u>	<u>2019</u>
	<i>(Thousands of shares)</i>	
Weighted average number of shares for basic profit attributable to owners of parent	70,878	71,143
Increase in shares of common stock:		
Exercise of share subscription rights	267	—

The entire amounts of profit attributable to owners of parent of ¥25,296 million and ¥26,691 million (\$240,482 thousand) for the years ended March 31, 2018 and 2019 were attributed to common shareholders.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

17. Amounts Per Share (continued)

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

	2018	2019	2019
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Total net assets	¥ 164,139	¥ 182,176	\$ 1,641,377
Amounts deducted from total net assets:			
Non-controlling interests	(2,689)	(1,858)	(16,748)
Net assets attributable to shares of common stock	<u>¥ 161,449</u>	<u>¥ 180,317</u>	<u>\$ 1,624,629</u>
	2018	2019	
	<i>(Thousands of shares)</i>		
Number of shares of common stock in issue	71,158	71,165	
Less: Number of shares of treasury stock	(18)	(19)	
Number of shares of common stock used for the calculation of net assets per share	<u>71,139</u>	<u>71,146</u>	

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

18. Financial Instruments

Overview

(a) Policy for financial instruments

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

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

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

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

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

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

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

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

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

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

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

Estimated fair value of financial instruments

The carrying value of financial instruments on the consolidated balance sheet as of March 31, 2018 and 2019, 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:

	March 31, 2018		
	Carrying value	Estimated fair value	Difference
	<i>(Millions of yen)</i>		
Cash on hand and in banks	¥ 35,189	¥ 35,189	¥ -
Notes receivable, accounts receivable on completed construction contracts and other accounts receivable	127,610		
Less: Allowance for doubtful accounts ^{(*)1}	(17)		
	127,593	127,593	-
Investments in securities	22,756	22,756	-
Total assets	¥ 185,539	¥ 185,539	¥ -
Notes payable, accounts payable on construction contracts and other accounts payable	85,732	85,732	-
Electronically recorded obligations	13,006	13,006	-
Long-term debt ^{(*)2}	16,168	16,142	(25)
Total liabilities	¥ 114,907	¥ 114,881	¥ (25)
Derivatives ^{(*)3}	¥ (329)	¥ (329)	¥ -

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

18. Financial Instruments (continued)

Estimated fair value of financial instruments (continued)

	March 31, 2019					
	Carrying value	Estimated fair value	Difference	Carrying value	Estimated fair value	Difference
	(Millions of yen)			(Thousands of U.S. dollars)		
Cash on hand and in banks	¥ 41,017	¥41,017	¥ –	\$ 369,557	\$ 369,557	\$ –
Notes receivable, accounts receivable on completed construction contracts and other accounts receivable	150,612			1,356,992		
Less: Allowance for doubtful accounts ^(*)	(23)			(212)		
	150,589	150,589	–	1,356,779	1,356,779	–
Investments in securities	21,772	21,772	–	196,162	196,162	–
Total assets	¥ 213,378	¥ 213,378	¥ –	\$ 1,922,499	\$ 1,922,449	\$ –
Notes payable, accounts payable on construction contracts and other accounts payable	88,360	88,360	–	796,115	796,115	–
Electronically recorded obligations	21,094	21,094	–	190,057	190,057	–
Long-term debt ^(*)	¥ 15,563	¥ 15,611	¥ 48	\$ 140,221	\$ 140,654	\$ 432
Total liabilities	¥ 125,018	¥ 125,066	¥ 48	\$ 1,126,394	\$ 1,126,827	\$ 432
Derivatives ^(*)	¥ 36	¥ 36	¥ –	\$ 333	\$ 333	\$ –

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

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

(*) The value of assets and liabilities arising from derivatives is shown at net value, and with the amount in parentheses representing net liability position.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

18. Financial Instruments (continued)

Estimated fair value of financial instruments (continued)

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

Assets

Cash on hand and in banks

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

Notes receivable, accounts receivable on completed construction contracts and other accounts receivable

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

Investments in securities

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

Liabilities

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

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

Long-term debt

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

Derivative transactions

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

Note 2: Unlisted equity securities of ¥25,869 million and ¥32,000 million (\$288,320 thousand) as of March 31, 2018 and 2019, respectively, were not included in the above table because it was extremely difficult to determine the fair value.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

18. Financial Instruments (continued)

Estimated fair value of financial instruments (continued)

Note 3: Redemption schedule for receivables and marketable securities with maturities at March 31, 2018 and March 31, 2019 were as follows:

	March 31, 2018			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
	<i>(Millions of yen)</i>			
Cash in banks	¥ 35,124	¥ –	¥ –	¥ –
Notes receivable, accounts receivable on completed construction contracts and other accounts receivable	127,610	–	–	–
Short-term investments and investments in securities				
Other securities with maturities (debt securities)	–	2,006	825	253
Other securities with maturities (Other)	40	231	–	11,310
Total	<u>¥ 162,775</u>	<u>¥ 2,237</u>	<u>¥ 825</u>	<u>¥ 11,563</u>
March 31, 2019				
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
	<i>(Millions of yen)</i>			
Cash in banks	¥ 40,928	¥ –	¥ –	¥ –
Notes receivable, accounts receivable on completed construction contracts and other accounts receivable	150,612	–	–	–
Short-term investments and investments in securities				
Other securities with maturities (debt securities)	–	2,050	832	253
Other securities with maturities (Other)	10	375	–	16,683
Total	<u>¥ 191,551</u>	<u>¥ 2,425</u>	<u>¥ 832</u>	<u>¥ 16,936</u>

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

18. Financial Instruments (continued)

Estimated fair value of financial instruments (continued)

	March 31, 2019			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
	<i>(Thousands of U.S. dollars)</i>			
Cash in banks	\$ 368,761	\$ –	\$ –	\$ –
Notes receivable, accounts receivable on completed construction contracts and other accounts receivable	1,356,992	–	–	–
Short-term investments and investments in securities				
Other securities with maturities (debt securities)	–	18,470	7,501	2,279
Other securities with maturities (Other)	92	3,383	–	150,317
Total	<u>\$1,725,847</u>	<u>\$ 21,853</u>	<u>\$ 7,501</u>	<u>\$ 152,597</u>

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

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

19. Securities

- (a) Information regarding marketable securities classified as other securities as of March 31, 2018 and 2019 is as follows:

March 31, 2018			
	Carrying value	Acquisition cost	Gross unrealized gain (loss)
	(Millions of yen)		
Securities whose carrying value exceeds their acquisition cost			
Equity securities	¥ 18,132	¥ 11,607	¥ 6,525
Debt securities	123	88	34
Others	189	106	82
Subtotal	18,445	11,802	6,643
Securities whose carrying value does not exceed their acquisition cost			
Equity securities	1,347	1,691	(343)
Debt securities	2,954	3,007	(53)
Others	36	50	(13)
Subtotal	4,338	4,749	(411)
Total	¥ 22,783	¥ 16,551	¥ 6,231

March 31, 2019						
	Carrying value	Acquisition cost	Gross unrealized gain (loss)	Carrying value	Acquisition cost	Gross unrealized gain (loss)
	(Millions of yen)			(Thousands of U.S. dollars)		
Securities whose carrying value exceeds their acquisition cost						
Equity securities	¥ 15,561	¥ 9,997	¥ 5,563	\$ 140,201	\$ 90,072	\$ 50,129
Debt securities	1,243	1,209	34	11,207	10,898	309
Others	167	95	71	1,506	861	644
Subtotal	16,972	11,302	5,669	152,916	101,832	51,083
Securities whose carrying value does not exceed their acquisition cost						
Equity securities	2,943	3,338	(394)	26,524	30,076	(3,552)
Debt securities	1,856	1,885	(29)	16,726	16,988	(261)
Others	20	20	(0)	181	186	(5)
Subtotal	4,820	5,244	(423)	43,432	47,251	(3,819)
Total	¥ 21,792	¥ 16,546	¥ 5,245	\$ 196,348	\$ 149,084	\$ 47,264

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, 2018 and 2019 was as follows:

March 31, 2018							
	Proceeds from sales	Gain on sales					
	<i>(Millions of yen)</i>						
Equity securities	¥ 546	¥ 227					
Debt securities	—	—					
Others	45	36					
	<u>¥ 591</u>	<u>¥ 263</u>					

		March 31, 2019					
	Proceeds from sales	Gain on sales	Loss on sales	Proceeds from sales	Gain on sales	Loss on sales	
	<i>(Millions of yen)</i>			<i>(Thousands of U.S. dollars)</i>			
Equity securities	¥ 40	¥ 40	¥ —	\$ 363	\$ 362	\$ —	
Debt securities	—	—	—	—	—	—	
Others	24	0	15	222	3	141	
	<u>¥ 65</u>	<u>¥ 40</u>	<u>¥ 15</u>	<u>\$ 585</u>	<u>\$ 365</u>	<u>\$ 141</u>	

- (c) Impairment losses on securities classified as other securities of ¥7 million and ¥185 million (\$1,674 thousand) were recognized for the years ended March 31, 2018 and 2019, respectively.

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

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

Allowance for investment losses directly deducted from the corresponding investments in securities for the years ended March 31, 2018 and 2019 were as follows:

	2018	2019	2019
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Investments in securities	¥ 76	¥ —	\$ —

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, 2018 and 2019, for which hedge accounting has been applied.

a. Currency-related transactions

<i>Method of hedge accounting</i>	<i>Hedging instruments</i>		<i>Hedged items</i>	March 31, 2018		
				Notional amounts	Due after one year	Fair value
				<i>(Millions of yen)</i>		
Allocation method	Forward foreign exchange contracts	Buy: USD	Forecasted transactions denominated in foreign currencies	¥ 6,329	¥ 3,393	¥ (329)

<i>Method of hedge accounting</i>	<i>Hedging instruments</i>		<i>Hedged items</i>	March 31, 2019		
				Notional amounts	Due after one year	Fair value
				<i>(Millions of yen)</i>		
Allocation method	Forward foreign exchange contracts	Buy: USD	Forecasted transactions denominated in foreign currencies	¥ 3,393	¥ –	¥ 36

<i>Method of hedge accounting</i>	<i>Hedging instruments</i>		<i>Hedged items</i>	March 31, 2019		
				Notional amounts	Due after one year	Fair value
				<i>(Thousands of U.S. dollars)</i>		
Allocation method	Forward foreign exchange contracts	Buy: USD	Forecasted transactions denominated in foreign currencies	\$ 30,575	\$ –	\$ 333

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

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

20. Derivative Transactions

b. Interest-related transactions

			March 31, 2018			
<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	¥ 5,022	¥ 4,868	¥ (341)
Short-cut method	Interest rate and currency swap	Pay: fixed Receive: floating Pay: JPY Receive: USD	Long-term debt	1,506	1,255	–
			March 31, 2019			
<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	¥ 8,495	¥ 8,339	¥ (449)
Short-cut method	Interest rate and currency swap	Pay: fixed Receive: floating Pay: JPY Receive: USD	Long-term debt	1,255	1,004	–
			March 31, 2019			
<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	\$ 76,547	\$ 75,135	\$ (4,047)
Short-cut method	Interest rate and currency swap	Pay: fixed Receive: floating Pay: JPY Receive: USD	Long-term debt	11,307	9,045	–

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

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

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

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

21. Supplemental Information on Consolidated Statement of Cash Flows

- (a) Cash and cash equivalents in the consolidated statement of cash flows for the years ended March 31, 2018 and 2019 are reconciled to cash on hand and in banks in the consolidated balance sheet as follows:

	2018	2019	2019
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Cash on hand and in banks	¥ 35,189	¥ 41,017	\$ 369,557
Time deposits with maturities of more than three months	(668)	(824)	(7,427)
Short-term borrowings	(16)	—	—
Cash and cash equivalents	<u>¥ 34,505</u>	<u>¥ 40,192</u>	<u>\$ 362,129</u>

- (b) Information regarding details of significant non-monetary transactions for the years ended March 31, 2018 and 2019 is as follows:

Leased assets and lease obligations related to new finance lease transactions recorded for the years ended March 31, 2018 and 2019 amounted to ¥1,153 million and ¥936 million (\$8,436 thousand), respectively. Asset retirement obligations recorded for the years ended March 31, 2018 and 2019 amounted to ¥111 million and ¥140 million (\$1,262 thousand), respectively.

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

	2018	2019	2019
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Gain on disposal of treasury stock due to exercise of share subscription rights	¥ (4)	¥ —	\$ —
Increase in common stock due to exercise of share subscription rights	922	6	58
Increase in capital surplus due to exercise of share subscription rights	921	6	58
Decrease in treasury stock due to exercise of share subscription rights	7	—	—
Decrease in convertible bond-type bonds with share subscription rights due to exercise of share subscription rights	<u>¥ 1,847</u>	<u>¥ 13</u>	<u>\$ 117</u>

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

22. Segment Information

(a) Business segment information

(1) Outline of reportable segments

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

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

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

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

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

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

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

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

22. Segment Information (continued)

(a) Business segment information (continued)

(3) Information as to net sales, income or loss and other items for each reportable segment for the years ended March 31, 2018 and 2019 are summarized as follows:

	Year ended March 31, 2018				
	Utilities engineering service	Others	Total	Adjustments and eliminations	Consolidated
	<i>(Millions of yen)</i>				
Net sales					
Sales to third parties	¥ 346,403	¥ 14,468	¥ 360,872	¥ —	¥ 360,872
Intersegment sales and transfers	2,567	4,938	7,506	(7,506)	—
Total	¥ 348,970	¥ 19,407	¥ 368,378	¥ (7,506)	¥ 360,872
Segment income or loss	¥ 33,273	¥ 1,735	¥ 35,008	¥ (281)	¥ 34,726
Other items					
Depreciation and amortization	¥ 3,211	¥ 2,446	¥ 5,658	¥ (145)	¥ 5,512
Amortization of goodwill	¥ 148	¥ —	¥ 148	¥ —	¥ 148
	Year ended March 31, 2019				
	Utilities engineering service	Others	Total	Adjustments and eliminations	Consolidated
	<i>(Millions of yen)</i>				
Net sales					
Sales to third parties	¥ 388,327	¥ 19,816	¥ 408,143	¥ —	¥ 408,143
Intersegment sales and transfers	589	3,666	4,256	(4,256)	—
Total	¥ 388,917	¥ 23,482	¥ 412,399	¥ (4,256)	¥ 408,143
Segment income	¥ 34,949	¥ 1,738	¥ 36,687	¥ 59	¥ 36,747
Other items					
Depreciation and amortization	¥ 3,407	¥ 2,861	¥ 6,269	¥ (195)	¥ 6,074
Amortization of goodwill	¥ 115	¥ 41	¥ 156	¥ —	¥ 156

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

22. Segment Information (continued)

(a) Business segment information (continued)

(3) Net sales, profit or loss and other items by reportable segment for the years ended March 31, 2018 and 2019 are summarized as follows: (continued)

	Year ended March 31, 2019				
	Utilities engineering service	Others	Total	Adjustments and eliminations	Consolidated
	<i>(Thousands of U.S. dollars)</i>				
Net sales					
Sales to third parties	\$ 3,498,759	\$ 178,539	\$ 3,677,298	\$ –	\$ 3,677,298
Intersegment sales and transfers	5,314	33,037	38,351	(38,351)	–
Total	\$ 3,504,073	\$ 211,576	\$ 3,715,650	\$ (38,351)	\$ 3,677,298
Segment income	\$ 314,891	\$ 15,660	\$ 330,551	\$ 533	\$ 331,084
Other items					
Depreciation and amortization	\$ 30,705	\$ 25,781	\$ 56,486	\$ (1,758)	\$ 54,728
Amortization of goodwill	\$ 1,039	\$ 374	\$ 1,413	\$ –	\$ 1,413

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

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

- (i) Segment assets and segment liabilities are not described since these are not allocated to each segment
- (ii) Adjustments and eliminations of segment income of ¥(281) million and ¥59 million (\$533 thousand) for the years ended March 31, 2018 and 2019 reflect the elimination of transactions between segments, respectively.
- (iii) Segment income or loss is reconciled to operating income on the consolidated statement of income.
- (iv) Impairment loss on goodwill of ¥831 million is recognized in “Utilities engineering service” was recognized for the year ended March 31, 2018.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

22. Segment Information (continued)

(b) Related information

(1) Geographical information

The disclosure of geographical segment information has been omitted as net sales to third parties and property and equipment in Japan constituted more than 90% of the consolidated sales for the years ended March 31, 2018 and 2019.

(2) Information by major customers

The following table presents major customer information for the years ended March 31, 2018 and 2019:

	2018	2019	2019
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Name of customers:			
Kyushu Electric Power Co., Inc.			
Reportable segment:			
Utilities engineering service and Others			
Net sales	¥ 51,910	¥ 52,805	\$ 475,766

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

Information on amortization of goodwill is omitted because the same information is disclosed in Note 22 (a) (3).

(d) Gain on bargain purchase by reportable segment

For the year ended March 31, 2018, the Company recorded a gain on bargain purchase of ¥183 million in the “Utilities engineering service” segment mainly as a result of the acquisition of shares of Ergotech Co., and newly including Ergotech Co., and its subsidiary, SEIWA KOGYO CO., LTD. in the scope of consolidation.

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, 2018 and 2019 were as follows:

	<u>2018</u>	<u>2019</u>	<u>2019</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Kyushu Electric Power Co., Inc.			
Construction order	¥ 47,881	¥ 48,794	\$ 439,625
Accounts receivable on completed construction contracts	¥ 8,435	¥ 8,628	\$ 77,744
Advances received on uncompleted construction contracts	¥ 92	¥ 191	\$ 1,724

The transaction amounts do not include consumption taxes. The balances include consumption taxes. Kyushu Electric Power Co., Inc. (located in Fukuoka City, with a capital amount of ¥237,304 million (\$2,138,074 thousand) engaged in the business of supplying electric power) is a related company which owned 22.66% and 22.65% of the shares of the Company as of March 31, 2018 and 2019, respectively.

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

24. Subsequent Events

Appropriation of retained earnings

The following appropriation of retained earnings of the Company, which has not been reflected in the consolidated financial statements for the year ended March 31, 2019, was approved at the meeting of the Board of Directors held on April 26, 2019:

	<u>Millions of yen</u>	<u>Thousands of U.S. dollars</u>
Cash dividends (¥50.00 = \$0.45 per share)	¥ 3,558	\$ 32,059

Acquisition and Cancellation of Treasury Stock

The Company has resolved the acquisition of treasury stock in accordance with Article 459, Paragraph 1 of Japan's Companies Act and Article 43 of the Company's Articles of Incorporation as well as the cancellation of treasury stock in accordance with Article 178 of Japan's Companies Act at the Board of Directors' meeting held on June 10, 2019.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

24. Subsequent Events (continued)

1) Objective for acquisition and cancellation of treasury stock

The acquisition and cancellation of treasury stock will enable the Company to execute a flexible capital policy corresponding to changes in the business environment and improve shareholder returns and capital efficiency.

2) Details of the acquisition of treasury stock

(a) Type of stock to be acquired:

Common stock

(b) Total number of treasury stock to be acquired:

Up to 300,000 sharps stock (0.42% of the total number of outstanding (excluding treasury stock))

(c) Total amount of treasury stocks to be acquired:

Up to ¥1,000 million (\$9,010 thousand)

(d) Acquisition period:

From June 11, 2019 to September 10, 2019

(e) Acquisition method:

Tender offer at Tokyo Stock Exchange and Fukuoka Stock Exchange

There is a possibility that the execution of some or all of the orders is not performed due to market trends or others reason

3) Details of the cancellation of treasury stock

(a) Type of stock to be canceled:

Common stock

(b) Total number of treasury stock to be canceled:

Sum of all shares of treasury stock acquired under (2) above and all 822 shares of treasury stock held as of May 31, 2019 (0.42% of the total number of outstanding stocks before the cancellation)

(c) Effective date of cancellation:

September 30, 2019