

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

TOA CORPORATION and its consolidated subsidiaries

## 1. Significant Items that Form the Basis of Preparing Consolidated Financial Statements:

The accompanying consolidated financial statements of TOA CORPORATION (the "Company") and its consolidated subsidiaries (the "Companies") are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to 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 Law of Japan. Certain reclassifications and rearrangements were made for the convenience of readers outside of Japan.

As permitted by the Financial Instruments and Exchange Law of Japan, amounts of less than one million yen have been rounded down to the nearest million Japanese yen.

### I. Basis of consolidation

The Company has 16 majority-owned subsidiaries as of March 31, 2020. The consolidated financial statements for the year ended March 31, 2020 include the accounts of the Company and 10 majority-owned subsidiaries. Principal consolidated subsidiaries were TOA Agency Co., Ltd., Shinko Corporation, TOA Kikai Kogyo Co., Ltd. Consolidated subsidiaries have the same financial period as the Company that ends on March 31.

TOA Estate Co., Ltd, which was a consolidated subsidiary, was excluded from the scope of consolidation due to an absorption-type merger with another consolidated subsidiary, Tsurumi Rinko Co., Ltd, which is the surviving company, on April 1, 2019.

Tsurumi Rinko Co., Ltd. changed its name to TOA Real Estate Corporation effective from April 1, 2019.

Other 6 subsidiaries are not consolidated as they are at small scale and not significant in terms of total assets, net sales, retained earnings or net income in aggregate.

Investments in unconsolidated subsidiaries (Human Affair Co., Ltd. and others) and affiliates (Sengenyama Developing Co., Ltd. and others) are excluded from application of the equity method as they are not significant in terms of net income or retained earnings in aggregate.

### II. Basis of accounting treatment

#### (1) Basis of valuation for significant assets

##### a) Securities

Securities held by the Companies are classified into two categories;

Held-to-maturity debt securities are carried at amortized cost.

Other securities for which market quotations are available are stated at fair value. Net unrealized gains or losses on these securities are included directly in the net assets and cost of securities sold is computed by the moving average method.

Other securities for which market quotations are unavailable are stated at moving average cost method.

##### b) Derivatives

With changes in fair value included in net income or loss for the period in which they arise, derivatives are stated at fair value.

##### c) Inventories

Cost on construction contracts in progress, PFI projects and real estate for sale are stated at

specific cost method for each contract. Materials and supplies are stated at moving average cost method.

However, in the case that net selling value falls below the acquisition cost at the end of the period, inventories except for cost on construction contracts in progress are carried at the net selling value on the balance sheet, regarded as decreased profitability of assets.

#### (2) Depreciation for property, plant and equipment and other

Except for leased assets, depreciation is principally computed by the declining-balance method at rates based on the estimated useful lives. However, depreciation of buildings which the Companies acquired on or after April 1, 1998, and facilities attached to buildings and other non-building structures acquired on or after April 1, 2016 are computed on a straight-line basis over the estimated period. Useful lives and residual value are in conformity with the provisions of the Corporation Tax Law of Japan.

As for intangible fixed assets excluding leased assets and long-term prepaid expenses, amortization is computed by the straight-line method and the useful lives are in conformity with the provisions of the Corporation Tax Law of Japan.

As for leased assets related to finance lease, other than those which are deemed to transfer ownership of the leased assets to the lessee, depreciation is principally computed by the straight-line method over the useful lives equivalent to lease term and residual value is equal to zero.

#### (3) Reserve and allowance

##### a) Allowance for doubtful accounts

Allowance for general receivables are established in amounts considered to be appropriate based upon credit loss experience. For specific receivables such as doubtful accounts, allowance for these are established in amounts considered to be uncollectible based upon an evaluation of possibility of collection in each outstanding receivable.

##### b) Reserve for indemnity on completed contracts

Reserve for indemnity on completed contracts is provided for the future defect expenses based upon the estimated indemnity amount for net sales for the year.

##### c) Reserve for loss on construction works

Reserve for loss on construction works is provided for the amount equivalent to cover future loss by evaluating individual construction form which loss is assumed and estimated.

##### d) Reserve for loss on construction defects

Reserve for loss on construction defects is provided for the amount equivalent to cover future defect expenses based upon the estimated repair costs for construction defects for soil investment projects.

##### e) Provision for board benefit trust

Provision for board benefit trust is provided for the amount equivalent to cover future benefit obligations for members of the Board of Directors and the Executive Officers in accordance with the regulations of the board benefit trust.

#### (4) Retirement benefits

Liabilities for retirement benefits has been provided on an accrual basis as of the balance sheet date based

on an estimate of the projected benefit obligation and the employees' pension plan assets.

To calculate projected benefit obligation, the benefit formula method is used to allocate expected retirement benefit payments to the each period through current fiscal year-end.

Actuarial gain or loss is amortized by the straight-line method over a defined period (13 years), not exceeding the average remaining service period of the employees from the next fiscal year after the incurrence.

Certain consolidated subsidiaries apply the simplified method which assumes retirement benefit obligation to be equal to the benefits payable assuming voluntary retirement of all employees at fiscal year-end.

#### (5) Recognition of contract revenue and cost

The Companies adopt the percentage-of-completion method for revenue recognition for the construction-type contracts where the outcome of the construction activities by the end of this year can be reliably estimated.

Completion method is adopted otherwise. The percentage of completion is measured by the ratio of the costs incurred to the estimated total costs for each contract.

#### (6) Deferred assets

Bond issuance costs are expensed in full when incurred.

#### (7) Hedge accounting

Gains or losses arising from changes in fair value of the derivatives designated as "hedging instruments" are deferred as a component of net assets and included in net income or loss in the same period during which the gains and losses on the hedged items or transactions are recognized.

For interest rate swaps, if certain hedging criteria are met, interest rate swaps are not recognized at their fair values but an alternative (short-cut) method under Japanese accounting standards is applied by which the amounts received or paid for such interest swap arrangements are recognized as interest over the life of each of the arrangements.

The derivatives designated as hedging instruments by the Companies are principally interest swaps and forward exchange contracts. The related hedged items are bank loans, foreign currency monetary liabilities and forecasted transactions.

The Companies have a policy to utilize the above hedging instruments in order to reduce the Company's exposure to the risk of interest rate fluctuation and foreign exchange fluctuation. Thus, the Company's purchases of the hedging instruments are limited to, at maximum, the amounts of the hedged items.

The Companies evaluate effectiveness of its hedging activities by reference to the accumulated gains or losses on the hedging instruments and the related hedged items from the commencement of the hedges.

#### (8) Scope of cash and cash equivalents

Cash and cash equivalents in the consolidated statement of cash flows and composed of cash on hand, bank deposits which are able to be withdrawn on demand and short-term investment with an original maturity of three months or less and which represent a minor risk of fluctuation in value.

#### (9) Consumption taxes

Transactions subject to consumption taxes are

recorded at amounts exclusive of consumption taxes.

#### (10) U.S. Dollar amounts

The dollar amounts included in the financial statements and notes thereto represent the arithmetical results of translating yen to dollars at rate of ¥108=US\$1, the approximated rate of exchange prevailing on March 31, 2020. The inclusion of such dollar amounts is solely for the convenience of readers outside of Japan and is not intended to imply that yen and assets and liabilities originating in Yen have been or could be readily converted, realized or settled in dollars at this or any other rates.

Amounts less than one thousand have been rounded down to the nearest thousand dollars.

#### 2. Issued but not yet adopted accounting standard and others

Accounting Standard and Implementation Guidance on Revenue Recognition.

On March 31, 2020, 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.

#### Accounting Standard for Fair Value Measurement and Related Implementation Guidance

On July 4, 2019, the ASBJ issued "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30), and "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31), along with related updates to "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9), and "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10).

##### (1) Overview

The ASBJ has developed an "Accounting Standard for Fair Value Measurement" and "Implementation Guidance on Accounting Standard for Fair Value Measurement" (hereinafter collectively, the "Fair Value Measurement Standard"), which provide guidance for fair value measurement in order to improve comparability with internationally recognized accounting standards. The Fair Value Measurement Standard is applied with respect to the

fair value of the following items;

- Financial instruments defined in "Accounting Standard for Financial Instruments"
- Inventories held for trading purposes defined in "Accounting Standard for Measurement of Inventories"

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

The Company expects to adopt the accounting standards and related 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 the accounting standards and related implementation guidance on its consolidated financial statements.

#### Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections

On March 31, 2020, the ASBJ issued the revised "Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections" (ASBJ Statement No. 24).

##### (1) Overview

This accounting standard has been released to provide an outline of the applicable accounting principles and procedures in cases where directly relevant accounting standards are not available.

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

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

#### Accounting Standard for Disclosure of Accounting Estimates

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

##### (1) Overview

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

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

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

#### 3. Changes in Presentation

The Companies have changed the presentation of items in the consolidated statement of income as follows:

Loss on valuation of investment in securities included in Other, net of Other income (expenses) in the consolidated statement of income is presented separately from the fiscal year ended March 31, 2020. To reflect this change in presentation, the Companies reclassified this item in the consolidated financial statements.

Consequently, the amount of ¥(19) million shown Other, net of Other income (expenses) in the consolidated statement of income for the previous fiscal year was reclassified as Loss on valuation of investment in securities in the amount of ¥0 and

Other, net in the amount of ¥(18) million.

The Companies have changed the presentation of items in the consolidated statement of cash flows as follows:

Advanced money and Deposits received included in Other, net of cash flows from operating activities in the consolidated statement of cash flows for the previous fiscal year are presented separately from the fiscal year ended March 31, 2020. To reflect this change in presentation, the Companies reclassified these items in the consolidated financial statements.

Consequently, the amount of ¥(4,631) million shown Other, net of cash flows from operating activities in the consolidated statement of cash flows for the previous fiscal year was reclassified as Advanced money in the amount of ¥(7,892) million, Deposits received in the amount of ¥1,431 million and Other, net in the amount of ¥1,829 million.

#### 4. Additional information

Performance-linked stock compensation plan for directors and executive officers

##### (1) Transaction summary

The Company approved a resolution at the 129th Annual General Meeting of Shareholders held on June 27, 2019 to introduce the Board Benefit Trust (the "BBT"), a performance-linked stock compensation plan for its directors and executive officers (the Directors). The BBT plan clarifies how the Company's performance and its stock value influence the Directors' compensation, which enables the Directors to share with stockholders the benefits from the improvement of the Company's performance and corporate value over the medium to long-term period.

The Shares are acquired through the trust funded by the Company and established based on the BBT (the "Trust"). Under the BBT plan, Directors are granted shares in the Company and the amount of cash equivalent to the market price of the Company's shares (the "Shares") through the Trust in accordance with the Director's Stock Compensation Rules stipulated by the Company.

In principle, the Directors are to receive the such compensation upon their retirement from the position.

##### (2) The Company's own stock in the Trust

Since the BBT plan was introduced in the second quarter of the fiscal year ended March 31, 2020, Trust & Custody Services Bank, Ltd has acquired 100,200 shares of the Company.

The Company's outstanding shares in the Trust are included in treasury stock under net assets based on the book value in the Trust. The book value of such treasury stock was ¥129 million (US\$1,203 thousand), and the number of shares was 100,200 as of March 31, 2020.

##### (Impact of COVID-19 on Accounting Estimates)

Because of the worldwide spread of COVID-19, the Companies in Japan and also overseas have partially been affected. The Companies expect that the impact for spread of COVID-19 will remain until around the summer of 2020; therefore, the Companies make their accounting estimates regarding the determination of the realizability of deferred tax assets, impairment of fixed assets, and total construction costs based on this assumption.

However, there are many uncertainties in this assumption, and if the pandemic does not subside and the effect is prolonged, it may affect the financial position and operating results of the Companies in the fiscal year ending March 31, 2021 and/or following years.

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## 5. Notes to Consolidated Balance Sheet

### I. Cost on construction contracts in progress and other

Cost on construction contracts in progress and other as of March 31, 2020 and 2019 consisted of:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2020	2019	2020
Cost on construction contracts in progress	¥5,646	¥5,422	\$52,283
PFI projects	773	958	7,157
Other inventories	890	531	8,245
Cost on construction contracts in progress and other	¥7,310	¥6,912	\$67,686

### II. Reserve for loss on construction works

Cost on construction contracts in progress and reserve account in relation to the construction works, which loss is assumed, are represented in current assets and liabilities, respectively without setoff.

Among cost on construction contracts in progress, the aggregate amounts corresponding to reserve for loss on construction works as of March 31, 2020 and 2019 are as follows:

Millions of Japanese Yen		Thousands of U.S. Dollars
2020	2019	2020
¥192	¥335	\$1,785

### III. Investments in securities

Among investments in securities, the aggregate amounts corresponding to unconsolidated subsidiaries and affiliates as of March 31, 2020 and 2019 are as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2020	2019	2020
Investments in affiliates	¥303	¥222	\$2,808

### IV. Revaluation of land

In accordance with the "Act on Revaluation of Land" (Act No.34 promulgated on March 31, 1998) and the "Act on Partial Revision of the Act on Revaluation of Land" (Act No.19 promulgated on March 31, 2001), the Company revalued its land held for the business purpose and accounted for the amount equivalent to tax related to this differences on revaluation as "deferred tax liabilities on revaluation of land" in liabilities and accounted for the amount that tax amount were deducted from the differences on revaluation as "revaluation reserve for land" in net assets.

Furthermore, reviewing a collectability of "deferred tax assets for land revaluation" individually, among the amount equivalent to tax related to the differences on revaluation of land, the amount that were difficult to anticipate collectability were reduced from "revaluation reserve for land".

#### Revalued method

The Company revalued its land held for business purposes based on the value appraised by an appraiser, as regulated by Article No.2-4 of the "Enforcement Ordinance of the Law Concerning Land Revaluation (Article No.119 issued on March 31, 1998) with certain necessary adjustments.

Revalued date                      March 31, 2002

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2020	2019	2020
Differences of the land after revaluation exceeded its fair value	¥3,802	¥3,980	\$35,204

### V. Assets pledged as collateral and secured liabilities

Assets pledged as collateral and secured liabilities as of March 31, 2020 and 2019 were as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2020	2019	2020
Assets pledged as collateral:			
Current assets			
Other current assets	¥19	¥28	\$184
Investment and other assets			
Investment in securities	2,301	2,040	21,307
Long-term loans	147	167	1,368
Total	¥2,468	¥2,236	\$22,860

As of March 31, 2020, the assets listed above are pledged as collateral to secure contingent liabilities amounting to ¥1,768 million (US\$16,378 thousand) and liabilities based on the loan agreements with credit line between 12 PFI companies and financial institutions.

As of March 31, 2019, secured liabilities were in the amount of ¥1,746 million and liabilities were for 12 PFI companies.

#### VI .Securities lent

Among investments in securities, securities lent to financial institution under the security lending agreement at March 31, 2020 and 2019 were as follows:

Millions of Japanese Yen		Thousands of U.S. Dollars
2020	2019	2020
¥164	¥162	\$1,525

#### VII .Commitments and contingent liabilities

(a)The Companies are contingently liable for the following as of March 31, 2020 and 2019:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2020	2019	2020
Employees (Loan guarantee to bank)	¥13	¥15	\$126
National Federation of Promotion for Fishing Ports and Villages	44	65	412
Fisheries Cooperative Association (Loan guarantee)			
MORIMOTO CO., LTD (Deposit Money Guarantee)	325	989	3,016
Others	5	14	46
Total	¥389	¥1,084	\$3,602

#### VIII .Short-term borrowings

The Company had commitment lines for efficient financing from 7 banks at March 31, 2020 and 2019 as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2020	2019	2020
Total amount of contracts of commitment lines	¥20,000	¥20,000	\$185,185
Outstanding borrowings	—	—	—
Balance	¥20,000	¥20,000	\$185,185

#### IX .Non-recourse debt

The following non-recourse debts are included in current portion of long-term debt and long-term debt with PFI business pledged as collateral. The amount of non-recourse debts as of March 31, 2020 and 2019 are as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2020	2019	2020
Non-recourse debt included in current portion of long-term debt	¥542	¥545	\$5,025
Non-recourse debt included in long-term debt	658	1,201	6,096
Total	¥1,201	¥1,746	\$11,121

The amount of PFI assets pledged as collateral for non-recourse debt as of March 31, 2020 and 2019 are as follows:

Millions of Japanese Yen		Thousands of U.S. Dollars
2020	2019	2020
¥3,583	¥4,008	\$33,183

#### X .Notes receivable and notes payables

March 31, 2019 was a holiday for financial institutions in Japan, and therefore the following notes receivable and payable maturing on that date were included in the balance sheet and were settled on the next business day.

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2020	2019	2020
Notes receivable	—	¥174	—
Notes payable	—	117	—

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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## 6. Notes to Consolidated Statement of Income

### I .Net sales

The amounts of contract revenue which are accounted for by the percentage-of-completion method were as follows:

Millions of Japanese Yen		Thousands of U.S. Dollars
2020	2019	2020
¥172,431	¥159,781	\$1,596,586

### II .Loss on valuation of inventory

The ending inventory was the carrying value after writing down due to the decreased profitability. Among the cost of sales, the aggregate amounts corresponding to loss on valuation of inventory were as follows:

Millions of Japanese Yen		Thousands of U.S. Dollars
2020	2019	2020
¥212	¥152	\$1,967

### III .Reserve for loss on construction works

Among the cost of sales, the aggregate amount corresponding to reserve for loss on construction works were as follows:

Millions of Japanese Yen		Thousands of U.S. Dollars
2020	2019	2020
¥1,968	¥877	\$18,222

### IV .Selling, general and administrative expenses

The significant items of selling, general and administrative expenses were as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2020	2019	2020
Salaries to employees	¥4,804	¥4,567	\$44,487
Expenses for retirement benefits for employees	332	253	3,080
Research expenses	982	939	9,093
Provision for doubtful accounts, trade	(0)	0	(1)

### V .Research and development expenses

Among the general and administrative expenses and the cost on contract, the aggregate amounts corresponding to research and development expenses were as follows:

Millions of Japanese Yen		Thousands of U.S. Dollars
2020	2019	2020
¥1,058	¥1,013	\$9,803

### VI .Gain on sale of fixed assets

The breakdown of the gain on sale of fixed assets was as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2020	2019	2020
Land	22	42	206
Building and structures	4	2	40
Vessels	1	21	13
Others	¥0	¥43	\$1
Total	¥28	¥109	\$262

## VII .Loss on sale of fixed assets

The breakdown of the loss on disposition of fixed assets was as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2020	2019	2020
Land	¥0	¥16	\$4
Building and structures	0	3	1
Others	—	9	—
Total	¥0	¥28	\$5

## VIII .Loss on disposal of fixed assets

The breakdown of the loss on retirement of fixed assets was as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2020	2019	2020
Buildings and structures	¥56	¥66	\$518
Others	2	6	24
Total	¥58	¥72	\$542

## IX .Impairment of fixed assets

For the year ended March 31, 2020, the Companies recognized losses on impairment of the following assets:

Use	Type of assets	Location	Number of groups
Idle properties	Land	Kanagawa Pref and other	2

The construction business assets were grouped by each branch unit, the real estate leasing assets and the idle properties were grouped individually.

The carrying amount of the relevant assets was written down to the recoverable value due to the drop in fair value and ¥2 million (US\$20 thousand) was accounted for as loss on impairment of fixed assets, which consisted of ¥2 million (US\$20 thousand) for Land.

Meanwhile, the recoverable value of the relevant assets was based on the anticipated net sale value. Furthermore, the anticipated net sale value of land whose carrying amount was significant was based on the appraisal value by the licensed real-estate appraiser.

For the year ended March 31, 2019, the Companies recognized losses on impairment of the following assets:

Use	Type of assets	Location	Number of groups
Idle properties	Land and building	Singapore and others	5

The construction business assets were grouped by each branch unit, the real estate leasing assets and the idle properties were grouped individually.

The carrying amount of the relevant assets was written down to the recoverable value due to the drop in fair value and ¥74 million was accounted for as loss on impairment of fixed assets, which consisted of ¥26 million for Land, ¥48 million for Buildings.

Meanwhile, the recoverable value of the relevant assets was based on the anticipated net sale value. Furthermore, the anticipated net sale value of land whose carrying amount was significant was based on the appraisal value by the licensed real-estate appraiser.

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## 7. Notes to Consolidated Statement of Comprehensive Income

Reclassifications adjustments and tax effects in relation to the other comprehensive income were as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2020	2019	2020
Unrealized gains (losses) on securities:			
Amount arising during the year	(¥1,197)	(¥1,460)	(\$11,085)
Amount of reclassification adjustments	73	(412)	683
Amount before tax effect	(1,123)	(1,872)	(10,402)
Tax effect	360	572	3,341
Unrealized gains (losses) on securities	(762)	(1,300)	(7,060)
Deferred gains (losses) on hedges:			
Amount arising during the year	12	(26)	120
Amount of reclassification adjustments	—	—	—
Amount before tax effect	12	(26)	120
Tax effect	(3)	8	(36)
Deferred gains (losses) on hedges	8	(18)	83
Revaluation reserve for land:			
Tax effect	—	—	—
Revaluation reserve for land	—	—	—
Retirement benefits liability adjustments:			
Amount arising during the year	(2,555)	(712)	(23,663)
Amount of reclassification adjustments	565	266	5,232
Amount before tax effect	(1,990)	(445)	(18,430)
Tax effect	609	136	5,643
Retirement benefits liability adjustments	(1,381)	(309)	(12,787)
Total other comprehensive income	(¥2,134)	(¥1,628)	(\$19,764)

## 8. Notes to Consolidated Statement of Changes in Net Assets

### I. Type and number of shares

For the year ended March 31, 2020

Type of shares	Number of shares at beginning of year	Increase	Decrease	Thousands of shares
				Number of shares at end of year
Issued stock				
Common stock	22,494	—	—	22,494
Treasury stock				
Common stock	1,594	1,396	100	2,891

Notes: 1. The number of common shares of treasury stock includes 100 thousand shares acquired by the BBT.

2. The principal reasons for the increase and decrease in treasury stock were as follows:

Increase due to acquisition of common stock under BBT	100 thousand shares
Increase due to acquisition of treasury stock under the board resolution on Nov 27, 2019	1,296
Increase due to purchase of odd lot shares	0
Decrease due to disposition of treasury stock by third party allotment resulting from the introduction of the BBT	100

For the year ended March 31, 2019

Type of shares	Number of shares at beginning of year	Increase	Decrease	Thousands of shares
				Number of shares at end of year
Issued stock				
Common stock	22,494	—	—	22,494
Treasury stock				
Common stock	1,594	0	—	1,594

Notes: The principal details for increase and decrease in treasury stock were as follows:

Increase due to purchase of odd stock	0 thousand shares
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## II .Dividend payment

For the year ended March 31, 2019

Resolution	Type of share	Dividend resource	Millions of Japanese Yen		Record date	Effective date
			Total amount of dividends	Cash dividends per share (Yen)		
Annual Shareholders' Meeting held on June 27, 2019	Common stock	Retained earnings	¥637	¥30	March 31, 2019	June 28, 2019

## III .Among dividends whose record date belong in the current fiscal year, dividends which become effective in the following fiscal year was as follows:

For the year ended March 31, 2020

Resolution	Type of share	Dividend resource	Millions of Japanese Yen		Thousands of U.S. Dollars		Record date	Effective date
			Total amount of dividends	Cash dividends per share (Yen)	Total amount of dividends	Cash dividends per share (Dollars)		
Annual Shareholders' Meeting held on June 26, 2020	Common stock	Retained earnings	¥1,002	¥50	\$9,284	\$0.46	March 31, 2020	June 29, 2020

Notes: Total amount of dividends (¥1,002 million) based on the resolution adopted at the Ordinary General Shareholder's Meeting on Jun 26, 2020 is also included in the dividend payment of ¥5 million for the shares acquired by the BBT.

## IV .Stock acquisition rights

For the year ended March 31, 2020

Number of shares to be issued (Thousands of shares)

Company name	Description	Type of Share	Beginning of year	Increase	Decrease	End of year	Balance at end of year
Issuing Company	Stock acquisition rights, yen-denominated convertible corporate bonds with stock acquisition rights maturing in 2024 Issue date : December 13, 2019	Common stock	—	3,719	—	3,719	See Note

Notes: Convertible corporate bonds with stock acquisition rights are accounted for based on the lump-sum reporting method.

## 9.Notes to Consolidated Statement of Cash Flows

Cash and cash equivalents consisted of:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2020	2019	2020
Cash and bank deposits	¥43,767	¥31,820	\$405,252
Time deposits due over three months	(20)	(20)	(189)
Cash and cash equivalents	¥43,746	¥31,799	\$405,063

## 10.Leases

### Operating lease

The scheduled maturities of future operating lease payments, including an interest portion on such lease contracts as of March 31, 2020 and 2019, are as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2020	2019	2020
Due within one year	¥153	¥143	\$1,420
Due over one year	181	276	1,680
Total	¥334	¥419	\$3,101



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## 11. Financial Instruments

### I. Summary of financial instruments

#### a) Policy for financial instruments

The Companies limit its fund management to low-risk financial instruments, such as bank deposits in a short period and have a policy to raise low-interest funds through bank borrowings flexibly. The Companies utilize derivatives in order to reduce the risk of fluctuation in interest rates and foreign exchange rates for debts and credits in foreign currencies. The Companies, furthermore, utilize the hedging instruments for the purpose of stabilizing the cost on contracts and do not enter into derivatives for speculative purpose.

#### b) Contents of financial instruments, related risk and risk management

Notes and accounts receivable which categorized into operating receivables are exposed to credit risk of customers.

These risks are reviewed at entering into a contract and the concerned counterparts are managed by the administration headquarters in each case.

Investments in securities are exposed to fluctuation risks of market price.

Those securities are mainly shares of other companies with which the Company has business relationships and the Company monitors the monthly fair value.

Among the debt, short-term borrowings are principally applicable to funds for business activities and long-term debt (maturities are within five years in principle) are funds for capital investments. Long-term debt with variable interest rates are exposed to the risk of interest rate fluctuation. The Company utilizes derivatives which are the interest swaps in each contracts in order to avoid fluctuation risk of interest expenses and stabilize interest cost.

In addition, the Company utilizes foreign currency exchange contracts to hedge foreign currency exposure of certain transactions related to construction work denominated in foreign currencies.

Conducting of derivative transactions is managed by gaining approval by directors and derivatives provided by the highly-rated financial institutions are utilized in order to avoid credit risk.

#### c) Supplemental explanation for fair value of financial instruments

Notional amounts of derivatives are not indicative of the actual market risk involved in derivative transactions.

### II. Fair value of financial instruments

As of March 31, 2020, carrying amount, fair value and unrealized gain (loss) are as follows:

	Carrying amount	Fair value	Unrealized gain (loss)	Carrying amount	Fair value	Unrealized gain (loss)
	Millions of Japanese Yen			Thousands of U.S. Dollars		
Cash and bank deposits	¥43,767	¥43,767	¥—	\$405,252	\$405,252	\$—
Notes and accounts receivable, trade	83,275	83,275	—	771,072	771,072	—
Advanced money	12,068	12,068	—	111,745	111,745	—
Investments in securities						
Other securities	8,781	8,781	—	81,311	81,311	—
Total assets	147,893	147,893	—	1,369,381	1,369,381	—
Notes and accounts payable, trade	34,796	34,796	—	322,191	322,191	—
Electronically recorded obligations, operating	11,894	11,894	—	110,133	110,133	—
Short-term borrowings	8,636	8,636	—	79,962	79,962	—
Deposits received	21,161	21,161	—	195,937	195,937	—
Convertible bonds with stock acquisition rights	7,000	7,206	206	64,814	66,725	1,910
Long-term debt (*1)	18,834	18,901	66	174,397	175,014	616
Total liabilities	102,323	102,596	272	947,438	949,966	2,527
Derivative transactions (*2)	(¥39)	(¥39)	¥—	\$363.0	\$363.0	\$—

(\*1) Current portion of long-term debt of ¥6,100 million (US\$56,485 thousand) is included in long-term debt and carrying amount and fair value are represented.

(\*2) The assets and liabilities are reported as net amount.

As of March 31, 2019, carrying amount, fair value and unrealized gain (loss) are as follows:

	Carrying amount	Fair value	Unrealized gain (loss)
Millions of Japanese Yen			
Cash and bank deposits	¥31,820	¥31,820	¥—
Notes and accounts receivable, trade	89,145	89,145	—
Advanced money	15,417	15,417	—
Investments in securities			
Other securities	10,561	10,561	—
Total assets	146,943	146,943	—
Notes and accounts payable, trade	40,090	40,090	—
Electronically recorded obligations, operating	19,324	19,324	—
Short-term borrowings	8,758	8,758	—
Deposits received	15,450	15,450	—
Long-term debt (*1)	19,493	19,604	110
Total liabilities	103,117	103,228	110
Derivative transactions (*2)	(¥52)	(¥52)	¥—

(\*1) Current portion of long-term debt of ¥5,238 million is included in long-term debts and carrying amount and fair value are represented.

(\*2) The assets and liabilities are reported as net amount.

#### a) Computation of fair value for financial instruments, investment in securities and derivative transactions

##### Assets

Cash and bank deposits, and advanced money in other current assets

Those accounts are carrying value, since those are settled in a short period and their fair value is equivalent to carrying amount approximately.

Notes and accounts receivable, trade

The most of its account are carrying value, since those are settled in a short period and their fair value is equivalent to carrying amount approximately.

Investments in securities

Fair value of investments in securities is based on market price at Stock Exchange or asking price from correspondent financial institutions.

##### Liabilities

Notes and accounts payable, trade, electronically recorded obligations, operating, short-term borrowings, and deposits received in other current liabilities.

Those accounts are carrying value, since those are settled in a short period and their fair value is equivalent to carrying amount approximately.

Convertible bonds with stock acquisition rights

The fair value of convertible bonds with stock acquisition rights is calculated using prices provided by counterparty financial institutions.

Long-term debt

For the fair value of long-term debt by variable interest rates, the market rate is almost equal to the book price because it reflects the interest rates in a short time.

Fair value of long-term debt by fixed rate is based on the present value of the total of principal and interest discounted by the interest rate to be applied, provided that the equivalent loans are newly entered into.

In addition, long-term debt by some variable interest rates is subject to the special treatment of interest rate swaps. The total amount of the principal that is being treated as a combination of interest rate swaps is calculated by discounting the interest rate to be applied, provided that the equivalent loans are newly entered into.

Derivative Transactions

Please refer to Note 12, Derivative Transactions, of the notes the consolidated financial statements.

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## b) Financial instruments for which it is extremely difficult to determine fair value

Unlisted stocks are not included in Investments in securities, since those have no market price and it is extremely difficult to determine fair value.

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2020	2019	2020
Unlisted stocks	¥1,860	¥1,853	\$17,227

## c) Projected redemption

The projected redemption of monetary claims as of March 31, 2020 was as follows:

	Within one year	Over one year within five years	Over five years within ten years	Over ten years	Within one year	Over one year within five years	Over five years within ten years	Over ten years
	Millions of Japanese Yen				Thousands of U.S. Dollars			
Cash and bank deposits	¥43,767	¥—	¥—	¥—	\$405,252	\$—	\$—	\$—
Notes and accounts								
receivable, trade	77,172	6,095	8	—	714,558	56,436	77	—
Investments in securities								
Other securities with maturities	—	42	—	—	—	397	—	—
(Government bonds)	—	—	—	—	—	—	—	—
Total	¥120,939	¥6,138	¥8	¥—	\$1,119,810	\$56,833	\$77	\$—

The projected redemption of monetary claims as of March 31, 2019 was as follows:

	Within one year	Over one year within five years	Over five years within ten years	Over ten years
	Millions of Japanese Yen			
Cash and bank deposits	¥31,820	¥—	¥—	¥—
Notes and accounts				
receivable, trade	83,307	5,822	14	—
Investments in securities				
Other securities with maturities	—	43	—	—
(Government bonds)	—	—	—	—
Total	¥115,127	¥5,866	¥14	¥—

## d) The projected repayment of short-term borrowings, long-term debt and lease obligation as of March 31, 2020 was as follows:

	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years
	Millions of Japanese Yen					
Short-term borrowings	¥8,636	¥—	¥—	¥—	¥—	¥—
Long-term debt	6,100	5,797	3,545	2,304	1,080	7
Lease obligation	71	65	28	25	2	—
Total	¥14,808	¥5,862	¥3,574	¥2,329	¥1,082	¥7

	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years
Thousands of U.S. Dollars						
Short-term borrowings	\$79,962	\$—	\$—	\$—	\$—	\$—
Long-term debt	56,485	53,677	32,826	21,333	10,001	73
Lease obligation	665	605	266	239	22	0
<b>Total</b>	<b>\$137,113</b>	<b>\$54,282</b>	<b>\$33,093</b>	<b>\$21,572</b>	<b>\$10,024</b>	<b>\$73</b>

The projected repayment of short-term borrowings, long-term debt and lease obligation as of March 31, 2019 was as follows:

	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years
Millions of Japanese Yen						
Short-term borrowings	¥8,758	¥—	¥—	¥—	¥—	¥—
Long-term debt	5,238	5,965	4,673	2,421	1,180	14
Lease obligation	151	148	117	4	3	—
<b>Total</b>	<b>¥14,149</b>	<b>¥6,114</b>	<b>¥4,791</b>	<b>¥2,426</b>	<b>¥1,183</b>	<b>¥14</b>

## 12. Securities

(1) The following is certain information related to the aggregate acquisition costs, carrying amount and fair value of securities.

At March 31, 2020

	Millions of Japanese Yen			Thousands of U.S. Dollars		
	Acquisition cost	Fair value (Carrying value)	Unrealized gain (loss)	Acquisition cost	Fair value (Carrying value)	Unrealized gain (loss)
Other securities whose fair value amount exceeds their acquisition cost						
Stock	¥3,271	¥6,949	¥3,677	\$30,288	\$64,343	\$34,055
Government bond	41	42	1	380	397	16
<b>Sub total</b>	<b>3,312</b>	<b>6,992</b>	<b>3,679</b>	<b>30,669</b>	<b>64,741</b>	<b>34,072</b>
Other securities whose fair value does not exceed their acquisition cost						
Stock	2,013	1,789	(223)	18,642	16,569	(2,072)
Government bond	—	—	—	—	—	—
<b>Sub total</b>	<b>2,013</b>	<b>1,789</b>	<b>(223)</b>	<b>18,642</b>	<b>16,569</b>	<b>(2,072)</b>
<b>Total</b>	<b>¥5,325</b>	<b>¥8,781</b>	<b>¥3,456</b>	<b>\$49,311</b>	<b>\$81,311</b>	<b>\$32,000</b>

At March 31, 2019

	Millions of Japanese Yen		
	Acquisition cost	Fair value (Carrying value)	Unrealized gain (loss)
Other securities whose fair value exceeds its acquisition cost			
Stock	¥4,989	¥9,903	¥4,913
Government bond	40	43	2
<b>Sub total</b>	<b>5,030</b>	<b>9,946</b>	<b>4,916</b>
Other securities whose fair value does not exceed their acquisition cost			
Stock	827	614	(213)
Government bond	—	—	—
<b>Sub total</b>	<b>827</b>	<b>614</b>	<b>(213)</b>
<b>Total</b>	<b>5,858</b>	<b>¥10,561</b>	<b>¥4,703</b>

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(2) Other securities sold during the financial years ended March 31, 2020 and 2019 were as follows:

At March 31, 2020

	Millions of Japanese Yen			Thousands of U.S. Dollars		
	Sales proceeds	Gain on sales	Loss on sales	Sales proceeds	Gain on sales	Loss on sales
Stock	¥487	¥197	¥72	\$4,510	\$1,824	\$672
Other	—	—	—	—	—	—
Total	¥487	¥197	¥72	\$4,510	\$1,824	\$672

At March 31, 2019

	Millions of Japanese Yen		
	Sales proceeds	Gain on sales	Loss on sales
Stock	¥831	¥412	—
Other	—	—	—
Total	¥831	¥412	¥—

## 13. Derivative Transactions

Derivative transactions for the year ended March 31, 2020 were classified into:

**a) Hedge accounting unapplied**

Not applicable

**b) Hedge accounting applied**

Notional amounts and fair value conditioned on contracts based on each hedge accounting method are as follows:

(1) Currency related derivatives

Hedge accounting method	Types of derivative	Hedged item	Millions of Japanese Yen			Thousands of U.S. Dollars		
			Notional amount	Maturing over one year	Fair value	Notional amount	Maturing over one year	Fair value
Accounting in principle	Forward foreign exchange contracts Buying U.S. Dollars	Accounts payable	¥756	¥238	¥8 (*)	\$7,001	\$2,208	\$82 (*)

(\*) Fair value is calculated based on prices provided by counterparty financial institution.

(2) Interest rate related derivatives

Hedge accounting method	Types of derivative	Hedged item	Millions of Japanese Yen			Thousands of U.S. Dollars		
			Notional amount	Maturing over one year	Fair value	Notional amount	Maturing over one year	Fair value
Accounting in principle	Interest rate swaps Pay/fixed and receive/ floating	Long-term debt	¥4,428	¥3,393	(¥48) (*1)	\$41,004	\$31,416	(\$447) (*1)
Short-cut	Interest rate swaps Pay/fixed and receive/ floating	Long-term debt	¥914	¥83	(¥2)	\$8,467	\$775	(¥2)

(\*1) Fair value is calculated based on prices provided by counterparty financial institutions.

(\*2) Fair value based on the short-cut method is included in fair value of these long-term debt, since the derivative transactions are accounted for together with the hedged long-term debt collectively.

Derivative transactions for the year ended March 31, 2019 were classified into:

**a) Hedge accounting unapplied**

Not applicable

**b) Hedge accounting applied**

Notional amounts and fair value conditioned on contracts based on each hedge accounting method are as follows:

(1) Currency related derivatives

Hedge accounting method	Types of derivative	Hedged item	Millions of Japanese Yen		
			Notional amount	Maturing over one year	Fair value
Accounting in principle	Forward foreign exchange contracts Buying U.S. Dollars	Accounts payable	¥1,354	¥756	(¥7) (*)

(\*) Fair value is calculated based on prices provided by counterparty financial institutions.

(2) Interest rate related derivatives

Hedge accounting method	Types of derivative	Hedged item	Millions of Japanese Yen		
			Notional amount	Maturing over one year	Fair value
Accounting in principle	Interest rate swaps Pay/fixed and receive/floating	Long-term debt	¥3,806	¥3,078	(¥44)(*1)
Short-cut	Interest rate swaps Pay/fixed and receive/floating	Long-term debt	¥2,263	¥888	(*2)

(\*1) Fair value is calculated based on the price provided by counterparty financial institutions.

(\*2) Fair value based on the short-cut method is included in fair value of these long-term debt, since the derivative transactions are treated with the hedged long-term debts collectively.

#### 14. Reserve for Retirement Benefits and Pension Plan

The Company and some of its consolidated subsidiaries have the funded/unfunded defined benefit retirement plans.

The Company has the funded defined benefit plan, the cash balance plan and sets up the retirement benefit trust.

Some consolidated subsidiaries have the unfunded retirement lump sum plans.

Furthermore, additional severance payment covering substantially all employees.

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

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2020	2019	2020
Retirement benefit obligation balance at the beginning of the year	¥21,135	¥21,485	\$195,698
Service cost	781	771	7,238
Interest cost	78	92	724
Actuarial gain	158	104	1,471
Retirement benefit paid	(1,081)	(1,317)	(10,011)
Retirement benefit obligation balance at the end of the year	¥21,073	¥21,135	\$195,122

(2) The changes in plan assets during the years ended March 31, 2020 and 2019 are as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2020	2019	2020
Plan assets balance at the beginning of the year	¥17,889	¥18,595	\$165,640
Expected return on plan assets	233	224	2,157
Actuarial gain (loss)	(2,396)	(608)	(22,191)
Contributions by the Company	1,077	947	9,973
Retirement benefits paid	(1,080)	(1,269)	(10,005)
Plan assets balance at the end of the year	¥15,721	¥17,889	\$145,573

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

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2020	2019	2020
Funded retirement benefit obligation	¥20,596	¥20,721	\$190,711
Plan assets at fair value	(15,721)	(17,889)	(145,573)
	4,874	2,832	45,137
Unfunded retirement benefit obligation	476	413	4,410
Net liability for retirement benefits in the balance sheet	5,351	3,246	49,548
Liability for retirement benefits	5,351	3,246	49,548
Net liability for retirement benefits in the balance sheet	¥5,351	¥3,246	\$49,548

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2020	2019	2020
Service cost	¥781	¥771	\$7,238
Interest cost	78	92	724
Expected return on plan assets	(233)	(224)	(2,157)
Amortization of actuarial loss	565	266	5,232
Other	11	11	104
Retirement benefit expense	¥1,203	¥917	\$11,143

Notes:

1. Service cost does not include the amounts contributed by employees with respect to welfare pension fund plans.
2. Retirement benefit expenses for consolidated subsidiaries adopting the simplified method which assumes retirement benefit obligation to be equal to the benefits payable if all eligible employees voluntarily terminated their employment at fiscal year end are included in "Service cost."

(5)Unrecognized actuarial gain (loss) included in other comprehensive income (before tax effect) for the years ended March 31, 2020 and 2019 is as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2020	2019	2020
Actuarial gain (loss)	(¥1,990)	(¥445)	(\$18,430)

(6)Unrecognized actuarial gain (loss) included in accumulated other comprehensive income (before tax effect) as of March 31, 2020 and 2019 is as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2020	2019	2020
Unrecognized actuarial gain (loss)	¥3,671	¥1,681	\$33,997

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

	2020	2019
	Stocks	34%
Bonds	30%	28%
General account assets	19%	17%
Other	17%	18%
Total	100%	100%

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

(8)The assumptions used in accounting for the above plans as of March 31, 2020 and 2019 were as follows:

	(Weighted average)	
	2020	2019
Discount rate	0.4%	0.4%
Expected rate of return on plan assets	2.0%	2.0%
Expected rate of future salary increase	2.4%~7.2%	2.5%~7.1%

## 15. Tax Effect Accounting

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

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2020	2019	2020
<b>Deferred tax assets:</b>			
Net liability for retirement benefits	¥2,467	¥1,949	\$22,850
Loss carried forward	2,358	2,801	21,834
Reserve for loss on construction works	805	400	7,461
Accrued bonus to employees	820	616	7,600
Unrealized losses on securities	—	—	—
Loss on valuation of utility rights	233	258	2,159
Loss on valuation of investment in securities	142	170	1,319
Loss on impairment of fixed assets	252	324	2,338
Loss on construction defects	459	1,451	4,252
Others	1,389	1,957	12,867
Total gross deferred tax assets	¥8,929	¥9,930	\$82,684
Valuation allowance for tax loss carried forward	(¥242)	(¥223)	(2,242)
Valuation allowance for deductible temporary differences	(¥970)	(¥1,077)	(8,990)
Total valuation allowance	(¥1,213)	(¥1,300)	(11,233)
Total deferred tax assets	¥7,716	¥8,629	71,450
<b>Deferred tax liabilities:</b>			
Revaluation reserve for land	(¥545)	(¥545)	(5,055)
Unrealized gains on securities	(1,007)	(1,368)	(9,332)
Other	(58)	(151)	(544)
Total deferred tax liabilities	(1,612)	(2,066)	(\$14,932)
<b>Net deferred tax assets</b>	<b>¥6,103</b>	<b>¥6,563</b>	<b>\$56,518</b>

(Note) A breakdown of tax loss carried forward and valuation allowance by expiry date as of March 3, 2020 is as follows:

At March 31, 2020

	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years	Total
	Millions of Japanese Yen						
Tax loss carried forward (*1)	¥5	¥25	¥—	¥—	¥—	¥2,327	¥2,358
Valuation allowance	(4)	(21)	—	—	—	(216)	(242)
Deferred tax assets	0	3	—	—	—	2,111	2,115 (*2)
	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years	Total
	Thousands of U.S. Dollars						
Tax loss carried forward (*1)	\$50	\$233	\$—	\$—	\$—	\$21,550	\$21,834
Valuation allowance	(42)	(198)	—	—	—	(2,002)	(2,242)
Deferred tax assets	7	35	—	—	—	19,548	19,591 (*2)

(\*1) The amount is determined by multiplying the corresponding loss carried forward by effective statutory tax rate.

(\*2) Deferred tax assets of ¥2,115 million (US\$19,591 thousand) for the tax loss carried forward of ¥2,358 million (US\$21,834 thousand) (the amount is determined by multiplying the corresponding effective statutory tax rate) were recorded.

Deferred tax assets of ¥2,115 million (US\$19,591 thousand) mainly consist of the balance of tax loss carried forward of ¥2,100 million (the amount is determined by multiplying the corresponding effective statutory tax rate).



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The tax loss carried forward within deferred tax assets was mainly due to the reversal of a portion of the ¥14,100 million (US\$130,555 thousand) provision for loss on construction defects recorded in the fiscal year ended March 31, 2017.

The Companies consider that it is likely the tax loss carried forward will be realized based on estimates of future taxable income; therefore, a related valuation allowance has not been recognized.

2. A reconciliation between the normal effective statutory tax rates for the years ended March 31, 2020 and 2019, and the actual effective tax rates reflected in the accompanying consolidated statements of income is as follows:

	2020	2019
Normal effective statutory tax rate	30.6%	30.6%
Expenses not deductible for income tax purposes	2.5	4.6
Non-taxable income	(0.4)	(0.8)
Per capita levy of inhabitant taxes	1.5	2.7
Change in valuation allowance	(1.3)	(8.7)
Other-net	0.1	(1.9)
Actual effective tax rates	32.9%	26.4%

## 16. Business Combination

Transaction under Common Control

Based on the board resolution on November 22, 2018, Tsurumi Rinko Co., Ltd. and Toa Estate Co., Ltd., which were wholly-owned subsidiaries of the Company, were merged. Information on this combination is as follows.

### 1. Outline of transaction

#### (1) Name and business description of combined company

(Surviving company in absorption-type merger)

Name Tsurumi Rinko Co., Ltd

Business description Real estate purchase and sale, brokerage, management and leasing

(Dissolving company in absorption-type merger)

Name Toa Estate Co., Ltd

Business description Real estate purchase and sale, brokerage, management and leasing

#### (2) Date of business combination

April 1, 2019

#### (3) Legal form of the business combination

Absorption-type merger. Tsurumi Rinko Co., Ltd. is the surviving company. Toa Estate Co., Ltd. is the dissolving company.

#### (4) Company name after the combination

Toa Real Estate Corporation

#### (5) Matters regarding the outline of other transaction

The purpose of the business combination is as follows:

1. To enhance for rationalization and efficiency improvement of business through the merger of subsidiaries operating the real estate business.
2. To contribute continuously to TOA group management by creating the new system of real estate business strategy, specific plans and actions including the parent company.

Tsurumi Rinko Co., Ltd. changed its name into TOA Real Estate Corporation effective from April 1, 2019. In addition, since this is a merger with a wholly owned subsidiary, there will be no issuance of new shares or other provision of compensation.

### 2. Outline of accounting treatment

The merger was treated as a transaction under common control based on the "Accounting Standard for Business Combination" and "Guidance on Accounting Standard for Business Combination and Accounting Standard for Business Divestitures".

## 17. Asset Retirement Obligations

Because the amounts of asset retirement obligations are immaterial, the Companies have omitted a disclosure in the Notes to Consolidated Financial Statements for the years ended March 31, 2020 and 2019.

## 18. Investment and Rental Property

Because the amounts of investment and rental property are immaterial, the Companies have omitted a disclosure in the Notes to Consolidated Financial Statements for the year ended March 31, 2020 and 2019.

## 19. Information on Reportable Segments

### I. Outline of the reportable segments

The reportable segments of the Companies are components for which discrete financial information is available and prepared for the regular review, so that the board of directors can make decisions on the distribution of management resources and evaluate the operating performance. The Company comprises "Civil Engineering General Headquarters" and "Building Construction General Headquarters", which control domestic construction businesses, and "International Division" for overseas businesses. Those Headquarters and International Division develop strategies comprehensively in each line of business and expand business activities.

Accordingly, the Company's businesses consist of segments classified by products and services based on the headquarters. The reportable segments are composed of "Domestic Civil Engineering Businesses", "Domestic Architectural Businesses", "Overseas Businesses" and principal activities in each segment are the following:

- 1) Domestic Civil Engineering Businesses: domestic civil engineering contracts, contracts related to design and others
- 2) Domestic Architectural Building Businesses: domestic architectural contracts, contracts related to design and others
- 3) Overseas Businesses: general overseas contracts

### II. Computation for the amount of net sales, profits or losses and other items in each reportable segment

The accounting policies of the reportable segments are substantially equivalent to the description in Significant Respects for the Basis of Preparing Consolidated Financial Statements. Intersegment net sales and transfers are based on the current market price. Meanwhile, assets are not allocated to the business segments.

### III. Information on net sales, profits or losses and other items in the reportable segments

For the year ended March 31, 2020

Millions of Japanese Yen								
	Reportable Segments				Others (Note 1)	Total	Adjustments (Note 2)	Consolidated (Note 3)
	Domestic Civil Engineering	Domestic Architectural Building	Overseas	Total				
Net sales:								
External customers	¥101,454	¥49,439	¥29,012	¥179,906	¥10,372	¥190,278	¥ —	¥190,278
Inter-segment	—	66	—	66	28,987	29,053	(29,053)	—
Total	¥101,454	¥49,505	¥29,012	¥179,972	¥39,360	¥219,332	(¥29,053)	¥190,278
Segment profits or losses	7,172	2,605	248	10,026	1,832	11,859	(3,902)	7,957
Other items								
Depreciation and amortization	¥412	¥0	¥270	¥683	¥473	¥1,156	¥404	¥1,560

For the year ended March 31, 2020

Thousands of U.S. Dollars								
	Reportable Segments				Others (Note 1)	Total	Adjustments (Note 2)	Consolidated (Note 3)
	Domestic Civil Engineering	Domestic Architectural Building	Overseas	Total				
Net sales:								
External customers	\$939,393	\$457,771	\$268,632	\$1,665,796	\$96,043	\$1,761,840	\$ —	\$1,761,840
Inter-segment	—	614	—	614	268,402	269,017	(269,017)	—
Total	\$939,393	\$458,385	\$268,632	\$1,666,411	\$364,446	\$2,030,857	(\$269,017)	\$1,761,840
Segment profits or losses	66,415	24,122	2,302	92,840	16,966	109,806	(36,129)	73,676
Other items								
Depreciation and amortization	\$3,816	\$6	\$2,503	\$6,326	\$4,383	\$10,710	\$3,740	\$14,451

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

TOA CORPORATION and its consolidated subsidiaries

Notes :

- "Other" is excluded from the reportable segments and inclusive of Real Estate Business, Manufacture / Sale / Repairing of construction machineries.
- Adjustment of the segment profits amounting to ¥(3,902) million (US\$(36,129) thousand) is inclusive of inter-segment elimination amounting to ¥40 million (US\$371 thousand) and Selling, General and Administrative Expenses amounting to ¥(3,942) million (US\$(36,501) thousand) which are not attributed to any reportable segments.
- Segment profits or losses are adjusted to the operating income in the consolidated statements of income.
- Assets are not described due to no allocation to the business segments.

For the year ended March 31, 2019

Millions of Japanese Yen								
	Reportable Segments				Others (Note 1)	Total	Adjustments (Note 2)	Consolidated (Note 3)
	Domestic Civil Engineering	Domestic Architectural Building	Overseas	Total				
Net sales:								
External customers	¥93,980	¥51,907	¥19,564	¥165,452	¥8,239	¥173,692	¥ —	¥173,692
Inter-segment	—	72	—	72	31,108	31,181	(31,181)	—
<b>Total</b>	<b>¥93,980</b>	<b>¥51,980</b>	<b>¥19,564</b>	<b>¥165,525</b>	<b>¥39,348</b>	<b>¥204,873</b>	<b>(¥31,181)</b>	<b>¥173,692</b>
Segment profits or losses	5,203	2,042	(1,056)	6,189	1,079	7,268	(3,288)	3,980
Other items								
Depreciation and amortization	¥616	¥0	¥448	¥1,065	¥389	¥1,455	¥331	¥1,786

Notes :

- "Other" is excluded from the reportable segments and inclusive of Real Estate Business, Manufacture / Sale / Repairing of construction machineries.
- Adjustment of the segment profits amounting to ¥(3,288) million is inclusive of inter-segment elimination amounting to ¥265 million and Selling, General and Administrative Expenses amounting to ¥(3,554) million which are not attributed to any reportable segments.
- Segment profits or losses are adjusted to the operating income in the consolidated statements of income.
- Assets are not described due to no allocation to the business segments.

## 20.Related Information

### I .Information on products and services

Description is excluded since the similar information is disclosed in the segment information.

### II .Geographical information

1) Net sales

For the year ended March 31, 2020

	Millions of Japanese Yen	Thousands of U.S. Dollars
	2020	2020
Japan	¥161,284	\$1,493,376
South East Asia	19,590	181,389
Other	9,404	87,074
<b>Total</b>	<b>¥190,278</b>	<b>\$1,761,840</b>

For the year ended March 31, 2019

	Millions of Japanese Yen
	2019
Japan	¥154,140
South East Asia	12,639
Other	6,912
<b>Total</b>	<b>¥173,692</b>

Note) Net sales are based on the customers' location and categorized into the countries or areas.

2) Tangible fixed assets

Description is excluded since the amounts of the tangible fixed assets in Japan exceed 90% of those amounts in the consolidated balance sheets.

### III .Information on principal customers

For the year ended March 31, 2020

Name of Customer	Related segments	Net sales	
		Millions of Japanese Yen 2020	Thousands of U.S. Dollars 2020
Japanese Ministry of Land, Infrastructure, Transport and Tourism	Domestic Civil Engineering Businesses,others	¥33,509	\$310,277

For the year ended March 31, 2019

Name of Customer	Related segments	Net sales
		Millions of Japanese Yen 2019
Japanese Ministry of Land, Infrastructure, Transport and Tourism	Domestic Civil Engineering Businesses,others	¥32,025

### IV .Information on the loss on impairment of fixed assets in each reportable segment

The losses on impairment of fixed assets were not allocated to the reportable segments of the Companies. Description of the amounts and contents is excluded since the similar information is disclosed in the notes related to the consolidated statements of income for the years ended March 31, 2020 and 2019.

### V .Information on amortization and the unamortized balance of goodwill in each reportable segment

Amortization was not applicable for the years ended March 31, 2020 and 2019.

### VI .Information on gain on negative goodwill in each reportable segment

The Companies did not allocate the gain on negative goodwill to the reportable segments.

The gain was not applicable for the years ended March 31, 2020 and 2019.

## 21.Per Share Data

	Japanese Yen		U.S. Dollars
	2020	2019	2020
Net assets	¥3,492.34	¥3,263.98	\$32.336
Net income	244.65	147.00	2.265
Diluted net income	230.68	—	2.135

Note 1 Diluted net income per share was not disclosed because there were no dilutive shares for the year ended March 31, 2019.

Note) The basic information for calculation of per share data was as follows:

#### 1.Per share data on net assets

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2020	2019	2020
Net assets	¥69,166	¥68,845	\$640,425
Net assets amount for common stock	68,462	68,216	633,909
Significant breakdown of differences			
Non-controlling interests	¥703	¥628	\$6,516

	Thousands of shares	
	2020	2019
Numbers of issued shares of common stock	22,494	22,494
Numbers of shares of treasury stock	2,891	1,594
Numbers of shares of common stock which were used for calculation for per share data on net assets	19,603	20,899

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

TOA CORPORATION and its consolidated subsidiaries

## 2.Per share data on net income

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2020	2019	2020
Profit attributable to owners of parent	¥5,007	¥3,072	\$46,364
Profit attributable to owners of parent not attributable to common stockholders	—	—	—
Profit attributable to owners of parent for common stock	¥5,007	¥3,072	\$46,364

	Thousands of Shares	
	2020	2019
Average number of shares of common stock	20,467	20,900

	Thousands of Shares	
	2020	2019
Increase in the number of common stock	1,239	—

## 22.Significant Subsequent Events

Not applicable

## Supplementary Information

### Details on convertible corporate bonds with stock acquisition rights

Company name	Description	Issue date	Beginning balance (Millions of Japanese Yen)	Closing Balance (Millions of Japanese Yen)	Interest Rate	Collateral	Redemption due date
Toa Corporation	Yen-denominated convertible corporate bonds with stock acquisition rights maturing in 2024	December 13, 2019	—	7,000	—	Unsecured	December 13, 2024
Total			—	7,000			

Notes :

1.Details of convertible corporate bonds with stock acquisition rights are as follows.

Type of stock	: Common
Issue price of stock acquisition rights	: Free of charge
Exercise price	: ¥1,882Yen
Total exercise price	: ¥7,000 million Yen ( US\$64,814 thousand)
Total issue price of stock acquisition rights upon exercise	: -
Grant ratio of stock acquisition rights	: 100%
Exercise period of stock acquisition rights	: From December 27, 2019 to November 29, 2024

In case there is the request of the exercise of the stock acquisition rights, the Company treats such exercise as the payment by the bondholder of the full amount required to be paid upon exercise of the stock acquisition rights, in lieu of the full redemption of the convertible bond.

2.Details of the bond redemption schedule over five years subsequent to the closing date are as follows.

	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years
Millions of Japanese Yen					¥7,000
Thousands of US dollars					\$64,814

## Details of borrowings

	Millions of Japanese Yen		Thousands of U.S. Dollars		Average rates	Repayment deadline
	Beginning balance	Closing Balance	Beginning balance	Closing Balance	%	
Short-term borrowings	¥8,758	¥8,636	\$81,099	\$79,962	0.70%	
Current portion of Long-term debt	4,693	5,557	43,461	51,460	1.15%	
Current portion of Non-recourse debt	545	542	5,047	5,025	1.74%	
Current portion of lease obligations	151	71	1,401	665	—	
Long-term debt (excluding current portion)	13,053	12,076	120,868	111,815	1.12%	from 2021 to 2025
Non-recourse debt (excluding current portion)	1,201	658	11,121	6,096	2.10%	from 2021 to 2026
Lease obligation (excluding current portion)	274	122	2,541	1,134	—	from 2021 to 2025
Other debt	—	—	—	—	—	
<b>Total</b>	<b>¥28,678</b>	<b>¥27,665</b>	<b>\$265,542</b>	<b>\$256,160</b>		

Notes :

1.The "average rates" are balanced by the weighted average.

The average rates of lease obligations are not listed because interest is included in the lease obligation in the consolidated balance sheets.

2.The amount scheduled to be repaid of long-term debt, non-recourse debt and lease obligations (excluding current portions) within 5 years after the consolidated closing date were as follows:

	Millions of Japanese Yen				Thousands of U.S. Dollars			
	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years
Long-term debt	¥5,207	¥3,496	¥2,298	¥1,074	\$48,214	\$32,378	\$21,277	\$9,944
Non-recourse debt	455	183	6	6	4,215	1,695	55	57
Lease obligations	65	28	25	2	605	266	239	22

### Table for asset retirement obligation

The indication omitted due to the beginning balance and closing balance of asset retirement obligation were less than or equal to hundredth part of the beginning balance and closing balance of liabilities and net assets.