

## Independent Auditor's Report

The Board of Directors  
TOA CORPORATION.

### Opinion

We have audited the accompanying consolidated financial statements of TOA CORPORATION and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2021, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

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

Use of the percentage-of-completion method to record net sales for construction contracts	
Description of Key Audit Matter	Auditor's response
Toa Corporation Group is engaged in the construction business and other businesses related to construction. As described in "(5) Recognition of contract revenue and cost" under "II. Basis of accounting treatment" in "1. Significant Items that Form the Basis of Preparing Consolidated Financial Statements" in recording net sales and cost of sales of completed construction work for orders	<p>We mainly performed the following audit procedures in evaluating the reasonableness of estimates of total construction costs when applying the percentage-of-completion method.</p> <p>(1) Evaluation of internal controls</p> <p>We evaluated the design and operating effectiveness of the following internal controls relating to estimates of total</p>

received under construction contracts, the Company and its consolidated subsidiaries apply the percentage-of-completion method for the portion of work for which completion by the end of the fiscal year ended March 31, 2021 is deemed to be certain (the cost-to-cost method is used in estimating progress toward completion of construction), and apply the completed contract method for all other construction contracts.

Revenue for which the percentage-of-completion method is applied is measured by reasonably estimating total construction revenue, total construction costs, and progress toward completion of construction as of the closing date based on substantive transaction units agreed upon between counterparties

As described in “1 Percentage-of-completion method” in “Significant accounting estimates,” for the fiscal year ended March 31, 2021, the Company and its consolidated subsidiaries recorded net sales for completed construction work of 172,265 million yen based on the percentage-of-completion method, accounting for 90.8% of total consolidated net sales. Total construction costs, which serve as the basis for revenue recognition under the percentage-of-completion method, are estimated using the operating budget for each construction contract and, when estimates of total construction costs are revised according to changes in the construction environment after construction begins, percentage-of-completion is calculated based on the latest revised budget following such revision of estimates.

Operating budgets are individual in nature since specifications and construction periods differ by construction contract, and estimates of total costs for such operating budgets are calculated based not only on objective figures and indicators such as quotations provided by vendors, but also on subjective determinations by management made in light of the Company's past construction experience and specialized construction

construction costs.

- Controls to ensure reliability by requiring that operating budgets on which estimates of total construction costs are based are prepared in a timely manner by construction managers and approved by decision makers in accordance with decision-making standards
  - Controls to ensure that each of the elements of total construction costs are calculated based on detailed aggregations for which appropriate unit prices and quantities were used, and that the necessary expenses arising throughout the construction period are appropriately calculated
  - Controls to ensure that estimates of total construction costs are appropriately revised in a timely manner by requiring that construction managers prepare monthly construction management reports and revise operating budgets as necessary based on an understanding of the actual costs that have arisen, the progress of construction work, and other changes in the construction environment, and requiring that managers in construction departments monitor whether revised budgets have been prepared to reflect changes in circumstances after construction begins within estimates of total construction costs
- (2) Evaluation of the significant assumptions underlying estimates of total construction costs

In order to evaluate the significant assumptions underlying estimates of total construction costs based on operating budgets and revised budgets formulated for each construction contract, we identified construction work for which uncertainty associated with estimates of total construction costs has a material impact on financial reporting in consideration of the existence of changes in construction contract amounts, profit (loss) on construction, and the construction environment, and performed the following audit procedures.

knowledge. Further, given that construction work generally spans long periods of time, there may be fluctuations in construction material prices and labor prices and changes in the construction period, construction method, or scope of work, thus affecting significant assumptions underlying estimates of total construction costs such as material expenses, outsourcing expenses, and overhead. Accordingly, it is necessary in such cases to modify initial operating budgets according to changes in the construction environment after construction begins and the status of discussions with counterparties. However, since it is difficult to accurately predict such circumstances, estimates are subject to uncertainty.

Based on the above, we have determined that estimates of total construction costs, which are an assumption underlying the measurement of progress related to revenue recognition for construction contracts, are of particular significance for the fiscal year ended March 31, 2021 and, accordingly, that this is a key audit matter.

- We obtained monthly construction management reports and considered whether the types of work making up construction projects are consistent with overviews of projects, whether there are any irregularities in the percentage of progress for each type of work, and whether there are any unreasonable declines in costs.
- We analyzed changes in indicators such as profit margin for each quarter, inquired about the factors causing fluctuations that were above a certain threshold, and considered the impact of events causing fluctuations on the significant assumptions and whether such fluctuations were reflected in the latest revised budgets as of the end of the fiscal year ended March 31, 2021.
- We inspected construction sites or made inquiries of construction managers about the status of construction work, and then considered whether the actual status of construction is consistent with work schedules and progress percentages. Additionally, with regards to cases where construction managers considered whether revisions to operating budgets were necessary and determined that operating budgets needed to be revised, we made inquiries of construction managers about the details thereof and whether such revisions were reflected in total construction costs.
- We evaluated the process for estimating total construction costs by comparing initial operating budgets with the latest revised budgets or finalized amounts and considering the details of any differences.
- Regarding items sampled from itemized breakdowns of total construction costs in operating budgets and revised budgets, we compared such items to source documents such as quotations and considered whether such items are consistent with information such as contract periods and workforce plans.

## **Responsibilities of Management, the Audit and Supervisory Committee for the Consolidated Financial Statements**

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Audit and Supervisory Committee is responsible for overseeing the Group's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit and Supervisory Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit and Supervisory Committee with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

#### **Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan**

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

#### **Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2021 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.




Ernst & Young ShinNihon LLC  
Tokyo, Japan

June 29, 2021

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