

Consolidated Financial Statements FY2020

For the year ended March 31, 2021

Energy and Environment in Harmony

CORPORATE PHILOSOPHY

Enhance our business in aiming for harmony between energy and the environment and contribute to the sustainable development of a society as an integrated engineering company through the use of our collective wisdom and painstakingly developed technology.

Every Chiyoda Group employee engages in our corporate activities with this philosophy in mind as we strive for corporate group management that earns the trust and empathy of all of our stakeholders, including shareholders, customers, business partners, employees, and local communities.

CONTENTS

02	Consolidated Balance Sheet
04	Consolidated Statement of Operations
06	Consolidated Statement of Comprehensive Income
08	Consolidated Statement of Changes in Equity
10	Consolidated Statement of Cash Flows
12	Notes to Consolidated Financial Statements
49	Independent Auditor's Report

Consolidated Balance Sheet

March 31, 2021

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)	LIABILITIES AND EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021		2021	2020	2021
CURRENT ASSETS:				CURRENT LIABILITIES:			
Cash and cash equivalents (Note 18)	¥ 98,738	¥ 115,932	\$ 889,533	Current portion of long-term debt (Notes 9, 10 and 18)	¥ 1,201	¥ 542	\$ 10,826
Short-term investments (Note 18)	8,250	8,471	74,330	Notes and accounts payable—trade (Note 18)	115,187	137,546	1,037,729
Notes and accounts receivable—trade (Note 18)	30,480	30,671	274,601	Advance receipts on construction contracts	74,784	119,911	673,734
Costs and estimated earnings on long-term construction contracts (Notes 5 and 18)	18,046	30,510	162,585	Income taxes payable (Note 18)	638	1,212	5,753
Costs of construction contracts in process	8,767	5,261	78,983	Deposits received	4,898	6,865	44,128
Accounts receivable—other (Note 18)	77,261	68,712	696,045	Allowance for warranty costs for completed works	823	860	7,416
Jointly controlled assets of joint venture (Note 18)	56,845	96,028	512,121	Allowance for losses on construction contracts	34,443	34,871	310,302
Prepaid expenses and other	8,906	6,041	80,239	Provision for business structure improvement (Note 20)	17	401	161
Allowance for doubtful accounts	(1,405)	(1,243)	(12,660)	Accrued expenses and other	12,661	17,667	114,065
Total current assets	305,891	360,387	2,755,778	Total current liabilities	244,657	319,878	2,204,117
PROPERTY, PLANT AND EQUIPMENT:				LONG-TERM LIABILITIES:			
Land (Notes 9 and 11)	4,853	5,085	43,722	Long-term debt (Notes 9, 10, 11 and 18)	45,612	36,458	410,922
Buildings and structures (Notes 9 and 11)	14,105	15,035	127,072	Liability for retirement benefits (Note 12)	761	1,986	6,856
Machinery and equipment	1,295	748	11,673	Provision for treatment of PCB waste	239	239	2,153
Tools, furniture and fixtures (Note 9)	5,948	6,073	53,593	Asset retirement obligations	1,523	1,502	13,720
Construction in progress	106	137	956	Other	43	42	390
Total	26,308	27,081	237,017	Total long-term liabilities	48,178	40,229	434,044
Accumulated depreciation	(14,882)	(14,627)	(134,080)	COMMITMENTS AND CONTINGENT LIABILITIES			
Net property, plant and equipment	11,426	12,454	102,937	(Notes 17 and 19)			
INVESTMENTS AND OTHER ASSETS:				EQUITY (Note 13):			
Investment securities (Notes 6, 11 and 18)	1,720	1,540	15,496	Common stock—authorized, 570,000 thousand shares; issued, 258,967 thousand shares in 2021 and 2020 and preferred stock—authorized, 175,000 thousand shares; issued, 175,000 thousand shares in 2021 and 2020	15,014	78,396	135,268
Investments in and advances to unconsolidated subsidiaries and associated companies (Note 8)	3,981	4,058	35,871	Capital surplus	142	72,128	1,284
Goodwill	285	319	2,573	Retained earnings (accumulated deficit)	15,708	(127,778)	141,517
Software	4,032	4,539	36,330	Treasury stock—at cost, 1,357 thousand shares in 2021 and 2020	(1,435)	(1,435)	(12,930)
Asset for retirement benefits (Note 12)	566		5,103	Accumulated other comprehensive income:			
Deferred tax assets (Note 14)	394	599	3,558	Unrealized gain on available-for-sale securities	203	58	1,833
Other assets	1,448	1,325	13,053	Deferred gain on derivatives under hedge accounting	30	6	278
Allowance for doubtful accounts	(164)	(172)	(1,481)	Foreign currency translation adjustments	5,300	3,033	47,749
Total investments and other assets	12,266	12,209	110,505	Defined retirement benefit plans	1,434	13	12,922
				Total	36,399	24,423	327,923
				Noncontrolling interests	348	519	3,135
				Total equity	36,747	24,943	331,059
TOTAL	¥ 329,583	¥ 385,051	\$ 2,969,221	TOTAL	¥ 329,583	¥ 385,051	\$ 2,969,221

See notes to consolidated financial statements.

Consolidated Statement of Operations

Year Ended March 31, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
REVENUE	¥ 315,393	¥ 385,925	\$ 2,841,384
COST OF REVENUE	<u>295,332</u>	<u>343,101</u>	<u>2,660,653</u>
Gross profit	20,061	42,823	180,730
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES (Note 15)	<u>13,046</u>	<u>16,033</u>	<u>117,531</u>
Operating income	<u>7,015</u>	<u>26,789</u>	<u>63,199</u>
OTHER INCOME (EXPENSES):			
Interest and dividend income	1,372	2,851	12,369
Equity in earnings of associated companies	33	361	302
Reversal of provision for business structure improvement (Note 20)		232	
Gain on sales of shares of subsidiaries and associated companies (Note 16)	413	363	3,725
Interest expense	(889)	(727)	(8,016)
Foreign exchange gain (loss)	820	(10,192)	7,388
Impairment loss (Note 7)		(67)	
Loss on valuation of investment securities (Note 6)		(122)	
Other—net	<u>110</u>	<u>(437)</u>	<u>995</u>
Other income (expenses)—net	<u>1,860</u>	<u>(7,739)</u>	<u>16,765</u>
INCOME BEFORE INCOME TAXES	<u>8,876</u>	<u>19,050</u>	<u>79,964</u>
INCOME TAXES (Note 14):			
Current	848	7,120	7,646
Deferred	<u>33</u>	<u>(105)</u>	<u>305</u>
Total income taxes	<u>882</u>	<u>7,015</u>	<u>7,951</u>
NET INCOME	7,993	12,034	72,012
NET LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS		<u>(142)</u>	<u>3</u>
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	<u>¥ 7,993</u>	<u>¥ 12,177</u>	<u>\$ 72,009</u>

	Yen		U.S. Dollars
	2021	2020	2021
PER SHARE OF COMMON STOCK (Notes 2.ab and 22):			
Basic net income	¥22.76	¥40.94	\$0.21
Diluted net income	8.20	15.51	0.07
Cash dividends applicable to the year			

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Year Ended March 31, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
NET INCOME	<u>¥ 7,993</u>	<u>¥ 12,034</u>	<u>\$ 72,012</u>
OTHER COMPREHENSIVE INCOME (LOSS) (Note 21):			
Unrealized gain on available-for-sale securities	144	64	1,301
Deferred gain on derivatives under hedge accounting	24	56	222
Foreign currency translation adjustments	2,324	3,197	20,938
Defined retirement benefit plans	1,420	(912)	12,799
Share of other comprehensive loss of associates	<u>(60)</u>	<u>(66)</u>	<u>(541)</u>
Total other comprehensive income	<u>3,854</u>	<u>2,339</u>	<u>34,721</u>
COMPREHENSIVE INCOME	<u>¥ 11,847</u>	<u>¥ 14,374</u>	<u>\$ 106,733</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥ 11,849	¥ 14,522	\$ 106,750
Noncontrolling interests	(1)	(148)	(16)

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity (Capital Deficiency)

Year Ended March 31, 2021

	Thousands						Millions of Yen						
	Outstanding Number of Shares of Common Stock	Outstanding Number of Shares of Preferred Stock	Common Stock and Preferred Stock	Capital Surplus	Retained Earnings (Accumulated Deficit)	Treasury Stock	Accumulated Other Comprehensive Income (Loss)				Noncontrolling Interests	Total Equity (Capital Deficiency)	
							Unrealized Gain (Loss) on Available-for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans			
BALANCE, APRIL 1, 2019	258,967		¥43,396	¥ 37,112	¥ (139,956)	¥(1,435)	¥ (5)	¥(50)	¥ (102)	¥ 926	¥(60,144)	¥960	¥(59,154)
Net income attributable to owners of the parent					12,177						12,177		12,177
Issuance of new shares (Note 13)		175,000	35,000	35,000							70,000		70,000
Purchase of treasury stock													
Purchase of shares of consolidated subsidiaries				15							15		15
Net change in the year							64	56	3,316	(912)	2,344	(440)	1,904
BALANCE, MARCH 31, 2020	258,967	175,000	78,396	72,128	(127,778)	(1,435)	58	6	3,033	13	24,423	519	24,943
Net income attributable to owners of the parent					7,993						7,993		7,993
Capital reduction			(63,381)	63,381									
Deficit disposition				(135,494)	135,494								
Purchase of treasury stock													
Purchase of shares of consolidated subsidiaries				126							126		126
Net change in the year							144	24	2,266	1,420	3,856	(171)	3,684
BALANCE, MARCH 31, 2021	<u>258,967</u>	<u>175,000</u>	<u>¥15,014</u>	<u>¥ 142</u>	<u>¥ 15,708</u>	<u>¥(1,435)</u>	<u>¥203</u>	<u>¥ 30</u>	<u>¥5,300</u>	<u>¥1,434</u>	<u>¥ 36,399</u>	<u>¥348</u>	<u>¥ 36,747</u>

	Thousands of U.S. Dollars (Note 1)				Accumulated Other Comprehensive Income (Loss)						
	Common Stock and Preferred Stock	Capital Surplus	Retained Earnings (Accumulated Deficit)	Treasury Stock	Unrealized Gain (Loss) on Available-for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling Interests	Total Equity
BALANCE, MARCH 31, 2020	\$ 706,273	\$ 649,807	\$ (1,151,160)	\$ (12,930)	\$ 531	\$ 56	\$27,332	\$ 122	\$ 220,033	\$4,681	\$ 224,715
Net income attributable to owners of the parent			72,009						72,009		72,009
Capital reduction	(571,005)	571,005									
Deficit disposition		(1,220,668)	1,220,668								
Purchase of treasury stock											
Purchase of shares of consolidated subsidiaries		1,140							1,140		1,140
Net change in the year					1,301	222	20,417	12,799	34,741	(1,546)	33,194
BALANCE, MARCH 31, 2021	<u>\$ 135,268</u>	<u>\$ 1,284</u>	<u>\$ 141,517</u>	<u>\$ (12,930)</u>	<u>\$ 1,833</u>	<u>\$ 278</u>	<u>\$47,749</u>	<u>\$ 12,922</u>	<u>\$ 327,923</u>	<u>\$ 3,135</u>	<u>\$ 331,059</u>

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Year Ended March 31, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)		Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021		2021	2020	2021
OPERATING ACTIVITIES:							
Income before income taxes	¥ 8,876	¥ 19,050	\$ 79,964	Net cash used in operating activities—(Forward)	¥ (20,806)	¥ (32,217)	\$ (187,443)
Adjustments for:				INVESTING ACTIVITIES:			
Income taxes paid	2,504	(3,841)	22,563	Net decrease (increase) in time deposits	348	(7,358)	3,137
Depreciation	3,281	3,174	29,559	Purchases of property, plant and equipment	(608)	(560)	(5,481)
Impairment loss		67		Proceeds from sales of property, plant and equipment	563	91	5,079
Amortization of goodwill	33	40	304	Purchases of intangible assets	(1,541)	(1,702)	(13,883)
Increase (decrease) in allowance for doubtful accounts	162	(10)	1,460	Proceeds from sales of intangible assets	746	17	6,726
(Decrease) increase in allowance for warranty costs for completed works	(15)	491	(137)	Payments for purchases of investment securities	(659)	(9)	(5,942)
Increase (decrease) in allowance for losses on construction contracts	902	(31,906)	8,132	Proceeds from sales of shares of subsidiaries and associated companies	14	1,116	132
Increase (decrease) in liability for retirement benefits	398	(146)	3,587	Purchase of investments in subsidiaries with changes in consolidation scope	(18)		(171)
Foreign exchange gain—net	(225)	(59)	(2,029)	Proceeds from sales of investment in subsidiaries with changes in consolidation scope (Note 23)	(236)		(2,130)
Decrease in provision for business structure improvement	(383)	(1,290)	(3,453)	Payments of loans receivable	(869)	(7)	(7,830)
Gain on sales of shares of subsidiaries and associated companies	(413)	(363)	(3,725)	Proceeds from collections of loans	13	604	119
Equity in earnings of associated companies	(33)	(361)	(302)	Other—net	(3)	(19)	(29)
Loss on valuation of investment securities		122		Net cash used in investing activities	(2,250)	(7,828)	(20,274)
Changes in operating assets and liabilities:				FINANCING ACTIVITIES:			
Decrease in trade notes and accounts receivable, and costs and estimated earnings on long-term construction contracts	12,377	7,291	111,511	Proceeds from long-term debt	10,000	20,000	90,090
(Increase) decrease in costs of construction contracts in process	(3,809)	2,194	(34,323)	Repayments of long-term debt	(122)	(118)	(1,104)
Decrease in trade notes and accounts payable	(19,115)	(34,702)	(172,212)	Proceeds from issuance of preferred stock		70,000	
Decrease in advance receipts on construction contracts	(40,465)	(1,285)	(364,553)	Payments of cash dividends			
Increase in accounts receivable—other	(11,670)	(3,960)	(105,136)	Other—net	(398)	(680)	(3,593)
Decrease in jointly controlled assets of joint venture	37,595	14,830	338,698	Net cash provided by financing activities	9,478	89,200	85,391
Increase (decrease) in interest and dividends receivable	77	(1,412)	697	FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(3,616)	(1,528)	(32,579)
Other—net	(10,883)	(139)	(98,047)	NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(17,194)	47,626	(154,906)
Total adjustments	(29,682)	(51,267)	(267,408)	CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	115,932	68,306	1,044,440
Net cash used in operating activities—(Forward)	¥ (20,806)	¥ (32,217)	\$ (187,443)	CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 98,738	¥ 115,932	\$ 889,533

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Year Ended March 31, 2021

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards ("IFRS").

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2020 consolidated financial statements to conform to the classifications used in 2021.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Chiyoda Corporation (the "Company" or "Chiyoda") is incorporated and principally operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥111 to \$1, the approximate rate of exchange at March 31, 2021. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

Japanese yen figures less than a million yen are rounded down to the nearest million, except for per share data.

U.S. dollar figures less than a thousand U.S. dollars are rounded down to the nearest thousand, except for per share data.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation—The consolidated financial statements as of March 31, 2021, include the accounts of the Company and its 19 (20 in 2020) significant subsidiaries (together, the "Group").

PT. Suluh Ardhi Engineering was excluded from the scope of consolidation due to the sale of its shares.

Arrowhead International Corporation was excluded from the scope of consolidation due to completion of liquidation.

Chiyoda France S.A.S. has been added to the scope of consolidation from the current consolidation fiscal year because it was newly established.

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in five (three in 2020) associated companies are accounted for by the equity method.

PlantStream Inc. was newly established and included in the application of the equity method in the current consolidated fiscal year.

The IT business of Chiyoda System Technologies Corporation, a consolidated subsidiary of the Company, was transferred to TIS Chiyoda Systems Inc., a newly established company through a corporate split, and the company was included in the application of the equity method in the current year.

Investments in the remaining unconsolidated subsidiaries and associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

Most of the consolidated foreign subsidiaries have a December 31 year-end, which is different from that of the Company. As a result, adjustments have been made for any significant transactions which took place during the period between the year-end of these subsidiaries and the year-end of the Company.

The excess of the cost of acquisition over the fair value of the net assets of an acquired subsidiary at the date of acquisition is amortized over a period of 20 years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is also eliminated.

b. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements—Under Accounting Standards Board of Japan ("ASBJ") Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements," the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either IFRS or generally accepted accounting principles in the United States of America (Financial Accounting Standards Board Accounting Standards Codification) tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; and (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting.

c. Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method—ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments," requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method unless it is impracticable to determine such adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either IFRS or generally accepted accounting principles in the United States of America tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; and (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting.

- d. Construction Contracts**—Under Japanese GAAP, construction revenue and construction costs are recognized by the percentage-of-completion method if the outcome of a construction contract can be estimated reliably. When total construction revenue, total construction costs and the stage of completion of the contract at the balance sheet date can be reliably measured, the outcome of a construction contract is deemed to be estimated reliably. If the outcome of a construction contract cannot be reliably estimated, the completed-contract method should be applied. When it is probable that the total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for a loss on such construction contracts.

Concerning the construction contracts, the Group applies the following accounting methods:

Unbilled costs on contracts, which are accounted for by the completed-contract method, are stated as costs of construction contracts in process.

Payments received in excess of costs and estimated earnings on contracts, which are accounted for by the percentage-of-completion method, and payments received on the other contracts, are presented as current liabilities.

Costs of preparation work for unsuccessful proposals and other projects that are not realized are charged to income, as incurred, and are included in cost of revenue.

- e. Cash Equivalents**—Cash equivalents are short-term investments that are readily convertible into cash and exposed to insignificant risk of changes in value. Cash equivalents include time deposits and certificates of deposit, all of which mature or become due within three months of the date of acquisition.
- f. Short-Term Investments**—Short-term investments are time deposits which will mature within three months after the date of acquisition. Short-term investments are exposed to insignificant risk of changes in value.
- g. Investment Securities**—All marketable securities are classified as available-for-sale securities and are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. The cost of securities sold is determined based on the moving-average method.
- Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method or at amortized cost. For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.
- h. Jointly Controlled Assets of Joint Venture**—The jointly controlled assets of the joint venture consist of jointly controlled cash pertaining to the contract work recognized based on the Company's share of the venture.
- i. Allowance for Doubtful Accounts**—The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Group's past credit loss experience and an evaluation of potential losses in the receivables outstanding.
- j. Property, Plant and Equipment**—Property, plant and equipment are stated at cost. Depreciation is computed by the declining-balance method, except for buildings owned by the Company and structures acquired on or after April 1, 2016, that are depreciated using the straight-line method, at rates based on the estimated useful lives of the assets. The range of useful lives is from 8 to 57 years for buildings and structures, from 4 to 17 years for machinery and equipment, and from 4 to 15 years for tools, furniture, and fixtures.

- k. Long-Lived Assets**—The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.
- l. Software**—Software for internal use is amortized on a straight-line basis over its estimated useful life (five years at the maximum).
- m. Other Assets**—Intangible assets and goodwill are carried at cost less accumulated amortization, which is calculated by the straight-line method over their estimated useful lives.
- n. Share Issuance Costs**—Deferred assets—share issuance costs are accounted for as the full amount at the time of the expenditure.
- o. Allowance for Warranty Costs for Completed Work**—The allowance for warranty costs for completed work is provided based on past rate experience.
- p. Allowance for Losses on Construction Contracts**—The allowance for losses on construction contracts is provided for an estimated amount of probable losses to be incurred in future years in respect of construction projects in progress. When there are losses on completed-contract method applied contracts, the allowance for losses on construction contracts is offset against the costs of construction contracts in process in the balance sheet.
- q. Provision for Business Structure Improvement**—To improve business structure, the provision for business structure improvement is provided based on anticipated loss reasonably estimated for the next and the subsequent consolidated fiscal years.
- r. Provision for Treatment of PCB Waste**—Provision for treatment of PCB (Poly Chlorinated Biphenyl) waste is provided based on estimated costs of the treatment for PCB products and equipment as well as their collection and transportation fees.
- s. Retirement and Pension Plans**—The Company and consolidated subsidiaries have funded or unfunded defined benefit pension plans and defined contribution pension plans for employees. Certain consolidated subsidiaries have defined benefit corporate pension plans or severance lump-sum payment plans, and calculate retirement benefit expenses by using the simplified method.

The Company and its consolidated domestic subsidiaries account for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a benefit formula basis. Actuarial gains and losses are amortized on a straight-line basis over 10 years within the average remaining service period.

Actuarial gains and losses that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, are recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees.

t. Asset Retirement Obligations—Under Japanese GAAP, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

u. Research and Development Costs—Research and development costs are charged to income as incurred.

v. Leases—Japanese GAAP require that all finance lease transactions be capitalized by recognizing lease assets and lease obligations in the balance sheet.

All other leases are accounted for as operating leases.

w. Income Taxes—The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

The Company and its wholly owned domestic subsidiaries file tax returns under the consolidated corporate-tax system, which allows companies to base tax payments on the combined profits or losses of the parent company and its wholly owned domestic subsidiaries.

Concerning items which transitioned to the group tax sharing system and those for which the nonconsolidated tax payment system was reviewed in line with the transition to the group tax sharing system, which has been established under the "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 8 of 2020), the Company and its consolidated domestic subsidiaries will not apply the provisions of Paragraph 44 of "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28 of February 16, 2018), in accordance with Paragraph 3 of "Treatment of Tax Effect Accounting for the Transition from the Consolidated Declaration System to the Group Tax Sharing System" (PITF No. 39 of March 31, 2020). As a result, the amounts of deferred tax assets and deferred tax liabilities are reported based on the provisions of the tax act before the amendment.

x. Foreign Currency Transactions—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. Foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by foreign currency forward contracts.

y. Foreign Currency Financial Statements—Balance sheet accounts of consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date.

z. Derivatives and Hedging Activities—The Group uses derivative financial instruments, including foreign currency forward contracts, as a means of hedging exposure to foreign currency risks. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments are classified and accounted for as follows:

- (1) All derivatives are recognized as either assets or liabilities and measured at fair value, with gains or losses recognized in the consolidated statement of income.
- (2) For derivatives used for hedging purposes, if such derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

Foreign currency forward contracts are utilized to hedge foreign exchange risks. Certain assets and liabilities on construction contracts denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.

Foreign currency deposits are held to hedge foreign exchange risks derived from forecasted purchases of fixed assets denominated in foreign currency.

Hedging activities that are included in the scope of the Practical Solution on the Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR (ASBJ PITF No. 40, September 29, 2020) are treated in a special manner. Information on activities that apply to the PITF are as follows:

- (1) Method of hedge accounting
 - Deferred hedge accounting is applied. Appropriation treatment is applied for forward exchange contracts that qualify for it.
- (2) Hedging instrument
 - Forward exchange contracts
- (3) Hedged item
 - Forecasted foreign currency transactions
- (4) Type of hedge transaction
 - Transactions that fix Japanese yen cash flows

aa. Accounting Principles and Procedures Adopted When Related Accounting Regulations Were Unclear (Consolidation Measures for Jointly Controlled Entities)—For jointly controlled entities that are not legal entities, the assets, liabilities, revenues and expenses are consolidated according to the amount of interest in the entity. This is conditional upon the fact that the contract specifies all assets and liabilities belong to the co-owners of the entity.

For incorporated jointly controlled entities, the assets, liabilities, revenues and expenses are consolidated according to the amount of interest in the entity. This is conditional upon the fact that in reality, the entity could be judged as an unincorporated entity. For example, if the contract specifies that all assets and liabilities belong to the co-owners, investment amounts are minimal, and liquidation is certain upon the completion of the project, the entity could be deemed as similar to unincorporated ones.

(Additional Information)

Starting from this fiscal year, the Company applies the Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections (ASBJ Statement No. 24, March 31, 2020). Therefore, additional disclosure is made on accounting principles and procedures adopted when related accounting regulations were unclear accounting policies and methods for jointly controlled entities.

ab. Per Share Information—Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if preferred stocks were exercised. Diluted net income per share of common stock assumes full exercise of preferred stocks.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective fiscal years, including dividends to be paid after the end of the year.

ac. New Accounting Pronouncements

Accounting standards for revenue for recognition

On March 30, 2018, the ASBJ issued ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition," and ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition," and ASBJ Guidance No. 19, "Implementation Guidance on Disclosures about Fair Value of Financial Instruments." The core principle of the standard and guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should recognize revenue in accordance with that core principle by applying the following steps:

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

The accounting standard and guidance are effective for annual periods beginning on or after April 1, 2021. Earlier application is permitted for annual periods beginning on or after April 1, 2018.

The Company expects to apply the accounting standard and guidance for annual periods beginning on or after April 1, 2021, and is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

Accounting standards for fair value measurement

On July 4, 2019, the ASBJ issued:

- ASBJ Statement No. 30, "Accounting Standard for Fair Value Measurement"
- ASBJ Guidance No. 31, "Implementation Guidance on Accounting Standard for Fair Value Measurement"
- ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories"
- ASBJ Statement No. 10, "Accounting Standard for Financial Instruments"

In addition, on March 31, 2020, the ASBJ issued:

- ASBJ Guidance No. 19, "Implementation Guidance on Disclosures about Fair Value of Financial Instruments"

In order to improve the comparability with international accounting standards, the "Accounting Standard for Fair Value Measurement" and the "Implementation Guidance on Accounting Standard for Fair Value Measurement" were established. These specify the measures for fair value measurement, and are applied to the following:

- Financial Instruments specified in the "Accounting Standard for Fair Value Measurement"
- Inventories held for trading purposes specified in the "Accounting Standard for Measurement of Inventories"

In addition, "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" was revised, which requires disclosures on the breakdown of financial instruments according to their level of input.

The Company expects to apply the accounting standard and guidance for annual periods beginning on or after April 1, 2021, and is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

3. SIGNIFICANT ACCOUNTING ESTIMATES

a. Revenue Recognition

(1) *The amount recorded in the fiscal year ended March 31, 2021*

Revenue ¥279,241 million (\$2,515,692 thousand)

(2) *Information on significant accounting estimates*

The Company, under the Accounting Standard for Construction Contracts (ASBJ Statement No. 15, December 27, 2007), applies the percentage of completion method if the progress outcome of a construction contract can be estimated reliably within a fiscal period. For other contracts, the completed-contract method is applied. For percentage-of-completion method contracts, the progress of the construction is reliably measured by applying the cost-to-cost method. Revenue is calculated by multiplying the total construction revenue by the progress rate.

In estimating the total construction revenue, future assumptions are used, such as incentive bonuses for significant milestones and liquidated damages for construction delays.

In addition, the total construction cost, which is the basis for calculating the percentage of completion under the Accounting Standard for Construction Contracts and the total construction cost to fully satisfy the performance obligations identified in IFRS 15 "Revenue from Contracts with Customers" and Accounting Standards Codification (ASC) 606 "Revenue from Contracts with Customers," includes significant estimation factors such as the estimated construction cost to be incurred in the future to meet the performance obligation and the estimated risks, including the effects of COVID-19. If unpredictable changes in assumptions occur, such as the rise in material prices or the unavailability of workers, the total construction cost may change. In such cases, the amount of progress for contracts may change, which could have a significant impact in the figures for the consolidated financial statements in the following consolidated fiscal year.

b. Allowance for Losses on Construction Contracts(1) *The amount recorded in the fiscal year ended March 31, 2021*

Allowance for losses on construction contracts ¥34,443 million (\$310,302 thousand)

(2) *Information on significant accounting estimates*

The allowance for losses on construction contracts is provided for an estimated amount of probable losses to be incurred in future years in respect of construction projects in progress which are expected to become onerous contracts.

In estimating the amount, certain estimates are used such as the prediction of future construction costs in response to performance obligations and the estimated amount of assumed risks, including the effects of COVID-19. When there are unexpected changes in assumptions, there is a possibility that additional allowance will be recorded in the following consolidated fiscal year.

4. BUSINESS DIVESTITURE

On October 1, 2020, the Company executed to spin off the IT business from Chiyoda System Technologies ("CST"), succeeding it with a newly combined company of CST IT business and TIS Inc. and to transfer part of the new company shares to TIS Inc.

a. Overview of the business divestiture

(1) Name of the counterparty of the business divestiture and the share transfer

(a) Name of the counterparty of the business divestiture

TIS Chiyoda Systems Corporation

(b) Name of the counterparty of the share transfer

TIS Inc.

(2) Name and description of the business subject to the business divestiture

(a) Name of the business

IT business operated by CST

(b) Contents of the business

Providing IT system consulting, development, integration and operational support, etc.

(3) Purpose of the business divestiture

CST provides clients with IT solutions covering project management, project control and operational control of industrial plants to resolve challenges. In order to promote value creation through internal and external digitalization, the Group believes that it is necessary to further strengthen the management infrastructures and to develop the abilities of the human resources working in the IT business who play a core role in the delivery of IT services. The Company is pursuing improved performance as an IT solution provider via enhancement of CST's IT capability in collaboration with TIS Inc., a first class integrated IT enterprise in Japan.

(4) Date of the business divestiture

October 1, 2020

(5) Summary of other transactions including legal forms

(a) Business divestiture

Incorporation-type split of CST with succession of CST's IT business by the new company

(b) Share transfer

Transfer of stocks, with cash, etc. as the only compensatory assets

b. Overview of accounting treatment

(1) Gain on business divestiture

¥27 million (\$243 thousand)

(2) The book value of assets and liabilities pertaining to the divested business was as follows:

	Millions of Yen	Thousands of U.S. Dollars
Current assets	¥897	\$8,081
Noncurrent assets	<u>26</u>	<u>237</u>
Total assets	<u>¥923</u>	<u>\$8,318</u>
Current liabilities	¥372	\$3,356
Noncurrent liabilities	<u>—</u>	<u>—</u>
Total liabilities	<u>¥372</u>	<u>\$3,356</u>

(3) Accounting treatment

The "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013) and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, January 16, 2019) have been applied.

c. Reportable segment in which the divested business is included

Engineering

d. Approximate amounts of gain or loss of the divested business included in the consolidated statement of income for the year ended March 31, 2021, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Revenue	¥585	\$5,271
Operating income	166	1,496

5. CONSTRUCTION CONTRACTS

Costs and estimated earnings recognized with respect to construction contracts which are accounted for by the percentage-of-completion method at March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2021</u>	<u>2020</u>	<u>2021</u>
Costs and estimated earnings	¥ 279,241	¥ 332,157	\$ 2,515,692
Amounts billed	(261,194)	(301,647)	(2,353,107)
Net	<u>¥ 18,046</u>	<u>¥ 30,510</u>	<u>\$ 162,585</u>

6. INVESTMENT SECURITIES

Investment securities at March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2021</u>	<u>2020</u>	<u>2021</u>
Non-current—Equity securities	¥1,720	¥1,540	\$ 15,496

The costs and aggregate fair values of investment securities at March 31, 2021 and 2020, were as follows:

March 31, 2021

	Millions of Yen			Fair Value
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	
Securities classified as— Available-for-sale—equity securities	¥307	¥286	¥25	¥569

March 31, 2020

	Millions of Yen			Fair Value
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	
Securities classified as— Available-for-sale—equity securities	¥297	¥112	¥19	¥390

March 31, 2021

	Thousands of U.S. Dollars			Fair Value
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	
Securities classified as— Available-for-sale—equity securities	\$2,769	\$2,584	\$226	\$5,128

Information on the available-for-sale securities sold during the years ended March 31, 2021 and 2020, was as follows:

March 31, 2021

None

March 31, 2020

None

The impairment loss on available-for-sale securities for the year ended March 31, 2020, was ¥122 million.

7. IMPAIRMENT LOSS OF LONG-LIVED ASSETS

Impairment loss on long-lived assets for the fiscal year ended March 31, 2021, was as follows:

March 31, 2021

None

March 31, 2020

<u>Location</u>	<u>Used Status</u>	<u>Category of Assets</u>	<u>Impairment Loss</u>
			<u>Millions of Yen</u>
Japan	—	Goodwill	¥67

Regarding the goodwill recorded on the acquisition of the shares of subsidiary in Japan, the Group concluded that it was required impairment, as its recoverable amount at the time of transfer from the Company to the new company whose stock is to be owned by the non-Group company was lower than its book value. The recoverable amount for goodwill is measured at its net realizable values at the transfer date.

8. INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED SUBSIDIARIES AND ASSOCIATED COMPANIES

Investments in and advances to unconsolidated subsidiaries and associated companies at March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2021</u>	<u>2020</u>	<u>2021</u>
Investments	¥3,981	¥4,058	\$35,871
Total	<u>¥3,981</u>	<u>¥4,058</u>	<u>\$35,871</u>

9. ASSETS AND LIABILITIES ACCOUNTED FOR AS FINANCIAL TRANSACTIONS

Assets and liabilities accounted for as financial transactions at March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of
	2021	2020	U.S. Dollars 2021
Land	¥381	¥381	\$3,433
Buildings and structures	311	341	2,808
Tools, furniture and fixtures			
Current portion of long-term debt	747	122	6,738
Long-term debt		747	

10. LONG-TERM DEBT

Long-term debt at March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of
	2021	2020	U.S. Dollars 2021
Long-term loans from banks, with interest rates at 2.5% (2021)—Unsecured	¥20,000	¥20,000	\$ 180,180
Long-term loans from banks, with interest rates at 1.9% (2021) and 1.9% (2020)—Unsecured	10,000	10,000	90,090
Long-term loans from banks, with interest rate at 0.8% (2021) and 0.8% (2020)—Unsecured	4,000	4,000	36,036
Long-term loans from banks, with interest rate at 0.7% (2021) and 0.7% (2020)—Unsecured	1,000	1,000	9,009
Long-term loans accounted as financial transactions, with interest rate at 3.4% (2021) and 3.4% (2020)—Collateralized	747	870	6,738
Long-term loans accounted as financial transactions, with interest rate at 1.1% (2021)—Collateralized	10,000		90,090
Obligations under finance leases	1,066	1,129	9,605
Total	46,814	37,000	421,749
Less current portion	(1,201)	(542)	(10,826)
Long-term debt, less current portion	¥45,612	¥36,458	\$410,922

Annual maturities of long-term debt, excluding finance leases, at March 31, 2021, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2021	¥ 747	\$ 6,738
2022	10,000	90,090
2023	15,000	135,135
2024	20,000	180,180
Total	¥45,747	\$412,143

11. PLEDGED ASSETS AND SECURED LIABILITIES

Assets that are pledged as collateral were as follows:

	Millions of Yen		Thousands of
	2021	2020	U.S. Dollars 2021
Buildings and fixtures	¥2,029		\$ 18,284
Land	4,013		36,156
Investment securities	37		334
Total	¥6,080		\$54,775

Secured liabilities were as follows:

	Millions of Yen		Thousands of
	2021	2020	U.S. Dollars 2021
Long-term loans	¥10,000		\$90,090

Other than the assets mentioned above, an investment in a Special Purpose Company ("SPC") of ¥55,881 million (\$503,432 thousand) is also pledged as collateral. The investment amount is eliminated against the SPC's equity account.

12. RETIREMENT AND PENSION PLANS

The Company and consolidated subsidiaries have funded or unfunded defined benefit pension plans and defined contribution pension plans for employees.

Under defined benefit corporate pension plans, all of which are funded, employees are entitled to certain lump-sum payments or pension payments based on cumulated points which are granted in accordance with years of continuous employment, occupational classification and performance evaluation. Under severance lump-sum payment plans, employees are entitled to certain lump-sum payments based on salary and service period.

Certain consolidated subsidiaries have defined benefit corporate pension plans or severance lump-sum payment plans, and calculate retirement benefit expenses by using the simplified method.

(1) The changes in defined benefit obligation for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of
	2021	2020	U.S. Dollars 2021
Balance at beginning of year	¥19,809	¥20,896	\$ 178,463
Current service cost	995	1,087	8,968
Interest cost	175	151	1,584
Actuarial gains	(427)	(212)	(3,848)
Benefits paid	(1,663)	(2,116)	(14,985)
Others	(42)	3	(380)
Balance at end of year	¥18,847	¥19,809	\$ 169,801

(2) The changes in plan assets for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of
	2021	2020	U.S. Dollars
Balance at beginning of year	¥18,204	¥19,669	\$ 164,002
Expected return on plan assets	351	354	3,164
Actuarial gains	1,198	(868)	10,795
Contributions from the employer	759	712	6,840
Benefits paid	(1,661)	(1,669)	(14,968)
Others	41	6	373
Balance at end of year	<u>¥18,893</u>	<u>¥18,204</u>	<u>\$ 170,208</u>

(3) The changes in the liability recorded in the consolidated balance sheet by using the simplified method for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of
	2021	2020	U.S. Dollars
Balance at beginning of year	¥381	¥313	\$3,437
Benefit costs	(14)	206	(127)
Benefits paid	(36)	(66)	(327)
Contribution to the plans	(92)	(68)	(833)
Others	1	(2)	12
Balance at end of year	<u>¥239</u>	<u>¥381</u>	<u>\$2,160</u>

(4) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligations and plan assets:

	Millions of Yen		Thousands of
	2021	2020	U.S. Dollars
Funded defined benefit obligations	¥20,021	¥20,948	\$ 180,373
Plan assets	(20,175)	(19,293)	(181,760)
Total	(153)	1,654	(1,387)
Unfunded defined benefit obligations	348	332	3,140
Net liability arising from defined benefit obligations	<u>¥ 194</u>	<u>¥ 1,986</u>	<u>\$ 1,753</u>

	Millions of Yen		Thousands of
	2021	2020	U.S. Dollars
Liability for retirement benefits	¥761	¥1,986	\$6,856
Asset for retirement benefits	(566)		(5,103)
Net liability arising from defined benefit obligations	<u>¥194</u>	<u>¥1,986</u>	<u>\$1,753</u>

(5) The components of net periodic benefit costs for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of
	2021	2020	U.S. Dollars
Service cost	¥995	¥1,087	\$8,968
Interest cost	175	151	1,584
Expected return on plan assets	(351)	(354)	(3,164)
Recognized actuarial gains	(100)	(338)	(907)
Benefit costs in simplified method	(14)	206	(127)
Others	3		31
Net periodic benefit costs	<u>¥708</u>	<u>¥ 752</u>	<u>\$6,384</u>

(6) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of
	2021	2020	U.S. Dollars
Actuarial (gains) losses	¥(1,576)	¥914	\$ (14,204)
Total	<u>¥(1,576)</u>	<u>¥914</u>	<u>\$ (14,204)</u>

(7) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of
	2021	2020	U.S. Dollars
Unrecognized actuarial gains	¥(1,579)	¥(2)	\$ (14,229)
Total	<u>¥(1,579)</u>	<u>¥(2)</u>	<u>\$ (14,229)</u>

(8) Plan assets

a. Components of plan assets

Plan assets as of March 31, 2021 and 2020, consisted of the following:

	2021	2020
Debt investments	34%	36%
Equity investments	27	23
General accounts	24	26
Others	15	15
Total	<u>100%</u>	<u>100%</u>

b. Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(9) Assumptions used for the years ended March 31, 2021 and 2020, were set forth as follows:

	<u>2021</u>	<u>2020</u>
Discount rate	Mainly 0.7%	Mainly 0.7%
Expected rate of return on plan assets	Mainly 1.8%	Mainly 1.8%

(10) Payables to defined contribution plans of the Company and consolidated subsidiaries for the years ended March 31, 2021 and 2020, were ¥337 million (\$3,036 thousand) and ¥400 million, respectively.

13. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally, for companies that meet certain criteria, an Audit & Supervisory Board may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Board of Directors of a company with an audit and supervisory committee (as implemented under the Companies Act effective May 1, 2015) may also declare dividends at any time because such company, by its nature, meets the criteria under the Companies Act. The Company became organized as a company with an audit and supervisory committee effective June 23, 2016. However, the Company does not meet all the above criteria.

The Companies Act permits companies to distribute dividends in kind (noncash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

The preferred dividend annual rate for the Class A Preferred Shares is set at 3%. If there is a shortfall in dividend on the shareholders of Class A Preferred Shares during a fiscal year, such shortfall will be carried over into the following fiscal year or into subsequent fiscal years. The shareholders of Class A Preferred Shares may not receive dividends from surplus in excess of the amount of such preferred dividends. The order of preference on payment of dividends from surplus between the Class A Preferred Shares and common shares is as follows: the amount equal to the unpaid dividends carried over on the Class A Preferred Shares is paid first; preferred dividends on the Class A Preferred Shares are paid next; and dividends on common shares are paid last.

b. Increases/Decreases and Transfer of Common Stock, Reserve, and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon the payment of such dividends, until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

The Board of Directors met on May 8, 2020, and resolved to reduce capital and capital reserves and appropriate these funds as compensation for deficit. This was carried out to offset the loss in retained surplus carried forward and improve its financial condition. Capital and capital reserves are transferred to other capital surplus, and other capital surplus is transferred to retained earnings carried forward.

(a) Outline of capital reduction

(1) Amount of capital reduced

The capital amount of ¥78,396 million as of March 31, 2020, was reduced by ¥63,381 million (\$571,005 thousand) to ¥15,014 million (\$135,268 thousand).

(2) Method of capital reduction

In accordance with Article 447, Paragraph 1 of the Companies Act, the Company reduced its capital without compensation and transferred the total amount of reduced capital to other capital surplus. This reduction did not affect the number of shares held by shareholders.

(b) Outline of reserve capital reduction

(1) Amount of capital reserve reduced

The capital reserve amount of ¥72,112 million as of March 31, 2020, was reduced by ¥72,112 million (\$649,663 thousand) to ¥0.

(2) Method of capital reduction

In accordance with Article 448, Paragraph 1 of the Companies Act, the Company reduced its capital reserve and transferred the total amount of the reduced capital reserve to other capital surplus.

(c) Outline of appropriation of surplus

Based on Article 452 of the Companies Act, the Company made up for deficits by transferring to retained earnings a carried forward a total of ¥135,494 million, which is equivalent to the increase of other capital surplus due to the aforementioned capital reduction. As a result, the amount of retained earnings carried forward after the transfer is ¥0.

(1) Items and amount of reduced surplus

Other capital surplus ¥135,494 million (\$1,220,668 thousand)

(2) Items and amount of increased surplus

Retained earnings carried forward of ¥135,494 million (\$1,220,668 thousand)

c. Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula.

Under the Companies Act, stock acquisition rights are presented as a separate component of equity.

The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

14. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 31% for the years ended March 31, 2021 and 2020.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of
	2021	2020	U.S. Dollars
			2021
Deferred tax assets:			
Tax loss carryforwards* ³	¥48,753	¥49,172	\$ 439,224
Cost of revenue	6,057	3,815	54,573
Allowance for losses on construction contracts	5,952	3,579	53,627
Loss on valuation of investment securities	4,809	4,809	43,325
Adjustment of percentage of completion for foreign construction	2,424	5,218	21,839
Accounts receivable from completed construction contracts	2,290	895	20,631
Long-term accounts receivable	1,824	1,824	16,433
Advances receipts on construction contracts	1,695	2,471	15,271
Long-term loans receivable	1,643	1,643	14,803
Allowance for employees' bonus	1,150	1,247	10,368
Deposits received	844		7,610
Costs of construction contracts in process	547	822	4,933
Liability for retirement benefits	520	581	4,685
Other	2,323	3,896	20,928
Subtotal of deferred tax assets	80,836	79,977	728,259
Valuation allowance for tax loss carryforwards* ³	(48,719)	(49,138)	(438,910)
Valuation allowance for temporary differences	(30,992)	(29,725)	(279,212)
Subtotal valuation allowance* ²	(79,711)	(78,864)	(718,122)
Total	1,125	1,112	10,136
Deferred tax liabilities:			
Fixed assets as asset retirement obligations	250	291	2,252
Profit/loss in joint venture	202	161	1,821
Other	277	65	2,503
Total	730	518	6,578
Net deferred tax assets* ¹	¥ 394	¥ 594	\$ 3,558

*¹ Net deferred tax assets as of March 31, 2021 and 2020, were recorded in the accompanying consolidated balance sheet as follows:

	Millions of Yen		Thousands of
	2021	2020	U.S. Dollars
			2021
Investments and other assets—Deferred tax assets	¥394	¥599	\$3,558
Long-term liabilities—Other		(5)	

*² The main reason for the fluctuation of the valuation allowance is the decrease of the valuation allowance for the allowance for losses on construction contracts.

*³ Amounts of tax loss carryforwards and related deferred tax assets by tax loss carryforwards for the year ended March 31, 2021 and 2020, were as follows:

	Millions of Yen						
	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	Total
March 31, 2021							
Tax loss carryforwards*	¥376	¥13	¥3,640	¥236	¥2,242	¥42,244	¥48,753
Valuation allowance for tax loss carryforwards	(376)	(13)	(3,605)	(236)	(2,242)	(42,244)	(48,719)
Deferred tax assets			34				34

	Millions of Yen						
	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	Total
March 31, 2020							
Tax loss carryforwards*	¥653	¥291	¥161	¥3,482	¥65	¥44,518	¥49,172
Valuation allowance for tax loss carryforwards	(653)	(291)	(161)	(3,448)	(65)	(44,518)	(49,138)
Deferred tax assets				33			33

	Thousands of U.S. Dollars						
	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	Total
March 31, 2021							
Tax loss carryforwards*	\$3,391	\$ 117	\$32,797	\$2,133	\$20,201	\$380,583	\$439,224
Valuation allowance for tax loss carryforwards	(3,391)	(117)	(32,483)	(2,133)	(20,201)	(380,583)	(438,910)
Deferred tax assets			313				313

* Figures for tax loss carryforwards were the amounts multiplied by the effective statutory tax rate.

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the years ended March 31, 2021 and 2020, is as follows:

	<u>2021</u>	<u>2020</u>
Normal effective statutory tax rate	31%	31%
Expenses not deductible for income tax purposes	8	1
Nontaxable dividend income	(2)	(2)
Profit/loss in joint venture	(16)	14
Tax rate differences with foreign subsidiaries	6	(7)
Income taxes for prior periods	(18)	5
Other	<u>3</u>	<u>(5)</u>
Actual effective tax rate	<u>10%</u>	<u>37%</u>

15. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥1,582 million (\$14,252 thousand) and ¥1,620 million for the years ended March 31, 2021 and 2020, respectively.

16. GAIN ON SALES OF SHARES OF SUBSIDIARY AND ASSOCIATED COMPANY

As a result of the sale of all shares of PT. Suluh Ardhi Engineering, held by the Southeast Asian subsidiary of the Company, and the partial sale of shares of TIS Chiyoda Systems Inc., held by the Company, a gain of ¥413 million (\$3,725 thousand) on the sale of shares of subsidiary and associated company was recorded.

17. LEASES

The Group leases certain machinery, computer equipment, and other assets.

Future minimum payments under non-cancelable operating leases were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2021</u>	<u>2020</u>	<u>2021</u>
Due within one year	¥ (84)	¥ (139)	\$ (765)
Due after one year	<u>(39)</u>	<u>(116)</u>	<u>(358)</u>
Total	<u>¥ (124)</u>	<u>¥ (256)</u>	<u>\$ (1,124)</u>

Effective from the current fiscal year, the consolidated foreign subsidiaries excluding the ones in the U.S., applied "Leases" (IFRS 16). The effect of these changes on consolidated financial statements was immaterial.

18. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group Policy for Financial Instruments

The Group uses financial instruments for cash surpluses, if any, invested in low-risk financial assets, such as deposits at notice. For operating capital, the Group uses bank loans. Derivatives are used, not for speculative purposes, but to manage exposure to the market risk of fluctuation in foreign currency exchange rates and interest rates.

(2) Nature and Extent of Risks Arising from Financial Instruments

Receivables, such as trade notes and trade accounts, are exposed to customer credit risk. Although receivables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, the position, net of payables in foreign currencies, is hedged by using foreign currency forward contracts.

Investment securities are equity securities related to the business which the Group operates. Marketable securities are exposed to the risk of fluctuations in stock prices.

Payment terms of payables, such as trade notes and trade accounts, are generally less than one year. Although payables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, the position, net of receivables in foreign currencies, is hedged by using foreign currency forward contracts.

Derivatives are foreign currency forward contracts, which are used to manage exposure to market risks from changes in foreign currency exchange rates of receivables and payables. Please see Notes 2.z and 19 for more details about derivatives.

(3) Risk Management for Financial Instruments

Credit risk management

The Group manages its credit risk from receivables based on internal guidelines, which include monitoring of payment terms and balances of major customers to identify the default risk of customers at an early stage.

With respect to foreign currency forward contracts, the Group limits the counterparties to those derivatives to major financial institutions that can bear losses arising from credit risk.

Market risk management (risk of foreign exchange and interest rates)

Foreign currency trade receivables and payables are exposed to market risk resulting from fluctuations in foreign currency exchange rates. Such foreign exchange risk grasped by currency and month is hedged principally with foreign currency forward contracts.

Foreign currency forward contracts are controlled under the internal guidelines. The position related to particular construction contracts is identified and is reviewed. For setting and cancelling foreign currency contracts, reconciliation of the transaction and balances with customers' confirmation replies is made, and the transactions related to foreign currency forward contracts are executed and accounted for under internal guidelines.

Marketable and investment securities are managed by monitoring the market values and financial position of issuers on a regular basis. The Group assesses the stock price risk quantitatively so as to account for significant declines in market value as impairment losses.

Liquidity risk management

Liquidity risk comprises the risk that the Group cannot meet its contractual obligations in full on their maturity dates. The Group manages its liquidity risk by holding an adequate volume of liquid assets along with timely, adequate financial planning.

(4) Fair Values of Financial Instruments

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, another rational valuation technique is used instead. Also, please see Note 19 for fair values for derivatives.

(a) Fair values of financial instruments

March 31, 2021

	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gain (Loss)
Cash and cash equivalents	¥ 98,738	¥ 98,738	
Short-term investments	8,250	8,250	
Notes and accounts receivable—trade	30,480	30,480	
Allowance for doubtful accounts*	(1,222)	(1,222)	
Costs and estimated earnings on long-term construction contracts	18,046	18,046	
Accounts receivable—other	77,261	77,261	
Allowance for doubtful accounts*	(21)	(21)	
Jointly controlled assets of joint venture	56,845	56,845	
Investment securities	569	569	
Total	¥ 288,948	¥ 288,948	
Current portion of long-term debt	¥ 747	¥ 747	
Notes and accounts payable—trade	115,187	115,187	
Income taxes payable	638	638	
Long-term debt	45,000	44,942	¥(57)
Total	¥ 161,574	¥ 161,516	¥(57)

March 31, 2020

	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gain (Loss)
Cash and cash equivalents	¥ 115,932	¥ 115,932	
Short-term investments	8,471	8,471	
Notes and accounts receivable—trade	30,671	30,671	
Allowance for doubtful accounts*	(1,222)	(1,222)	
Costs and estimated earnings on long-term construction contracts	30,510	30,510	
Accounts receivable—other	68,712	68,712	
Allowance for doubtful accounts*	(20)	(20)	
Jointly controlled assets of joint venture	96,028	96,028	
Investment securities	390	390	
Total	¥ 349,475	¥ 349,475	
Current portion of long-term debt	¥ 122	¥ 122	
Notes and accounts payable—trade	137,546	137,546	
Income taxes payable	1,212	1,212	
Long-term debt	35,747	35,692	¥(55)
Total	¥ 174,629	¥ 174,573	¥(55)

March 31, 2021

	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Unrealized Gain (Loss)
Cash and cash equivalents	\$ 889,533	\$ 889,533	
Short-term investments	74,330	74,330	
Notes and accounts receivable—trade	274,601	274,601	
Allowance for doubtful accounts*	(11,012)	(11,012)	
Costs and estimated earnings on long-term construction contracts	162,585	162,585	
Accounts receivable—other	696,045	696,045	
Allowance for doubtful accounts*	(190)	(190)	
Jointly controlled assets of joint venture	512,121	512,121	
Investment securities	5,128	5,128	
Total	\$ 2,603,142	\$ 2,603,142	
Current portion of long-term debt	\$ 6,738	\$ 6,738	
Notes and accounts payable—trade	1,037,729	1,037,729	
Income taxes payable	5,753	5,753	
Long-term debt	405,405	404,883	¥(521)
Total	\$ 1,455,626	\$ 1,455,104	¥(521)

* Allowance for doubtful accounts corresponding to trade receivable is deducted.

Cash and Cash Equivalents, Short-Term Investments, Notes and Accounts Receivable—Trade, Costs and Estimated Earnings on Long-Term Construction Contracts, and Accounts Receivable—Other

The carrying values of the accounts mentioned above approximate fair value because of their short maturities.

Jointly Controlled Assets of Joint Venture

The jointly controlled assets of the joint venture consists of cash recognized based on the Company's share of the venture. The carrying values of jointly controlled assets of the joint venture approximate fair value because of their short maturities.

Investment Securities

The fair values of investment securities are measured at the quoted market price of the stock exchange for the equity instruments. Fair value information for investment securities by classification is included in Note 6.

The above schedules do not include investment securities with fair values that cannot be reliably determined.

Notes and Accounts Payable—Trade and Income Taxes Payable

The carrying values of the accounts mentioned above approximate fair value because of their short maturities.

Current Portion of Long-Term Debt and Long-Term Debt

The fair value of long-term debt is calculated by discounting total principal and interest payments to present value using a discount rate equal to the rate that would be charged if the loan was newly borrowed.

Derivatives

Fair value information for derivatives is included in Note 19.

(b) Carrying amount of financial instruments with fair values that cannot be reliably determined

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Investment securities that do not have a quoted market price in an active market	¥1,148	¥1,146	\$ 10,344
Investments in equity instruments that do not have a quoted market price in an active market	2	2	23
Investments in unconsolidated subsidiaries and associated companies that do not have a quoted market price in an active market	3,981	4,058	35,871

(5) Maturity Analysis for Financial Assets and Securities with Contractual Maturities

March 31, 2021

	Millions of Yen		
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years
Cash and cash equivalents	¥ 98,709		
Short-term investments	8,250		
Notes and accounts receivable, and costs and estimated earnings on long-term construction contracts*	46,586	¥718	
Accounts receivable—other*	77,239		
Jointly controlled assets of joint venture	56,845		
Total	¥ 287,632	¥718	

March 31, 2020

	Millions of Yen		
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years
Cash and cash equivalents	¥ 115,904		
Short-term investments	8,471		
Notes and accounts receivable, and costs and estimated earnings on long-term construction contracts*	56,309	¥3,650	
Accounts receivable—other*	68,691		
Jointly controlled assets of joint venture	96,028		
Total	¥ 345,405	¥3,650	

March 31, 2021

	Thousands of U.S. Dollars		
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years
Cash and cash equivalents	\$ 889,278		
Short-term investments	74,330		
Notes and accounts receivable, and costs and estimated earnings on long-term construction contracts*	419,697	\$6,477	
Accounts receivable—other*	695,854		
Jointly controlled assets of joint venture	512,121		
Total	\$ 2,591,281	\$6,477	

* Allowance for doubtful accounts is deducted.

Please see Note 10 for annual maturities of long-term debt.

19. DERIVATIVES**Derivative Transactions to Which Hedge Accounting Is Not Applied**

March 31, 2021

	Millions of Yen			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Foreign currency forward contracts:				
Selling USD/buying JPY	¥30,379		¥(24)	¥(24)
Selling EUR/buying JPY	8,784		(6)	(6)
Selling AUD/buying JPY	53,633		(25)	(25)
Total	¥92,797		¥(57)	¥(57)

March 31, 2020

	Millions of Yen			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Foreign currency forward contracts:				
Selling USD/buying JPY	¥32,165		¥ (28)	¥ (28)
Selling EUR/buying JPY	5,685		(13)	(13)
Selling AUD/buying JPY	43,251		(341)	(341)
Total	¥81,102		¥(383)	¥(383)

March 31, 2021

	Thousands of U.S. Dollars			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Foreign currency forward contracts:				
Selling USD/buying JPY	\$ 273,690		\$ (221)	\$ (221)
Selling EUR/buying JPY	79,136		(61)	(61)
Selling AUD/buying JPY	483,188		(233)	(233)
Total	\$ 836,015		\$ (516)	\$ (516)

Derivative Transactions to Which Hedge Accounting Is Applied

March 31, 2021

	Hedged Item	Millions of Yen	
		Contract Amount	Fair Value (Loss)*1
Foreign currency forward contracts—Accounted for under deferred hedge accounting method:			
Selling USD/buying JPY	Foreign currency	¥ 196	¥ (3)
Buying USD/selling JPY	forecasted transaction	824	41
Buying EUR/selling JPY		70	1
Total		¥1,091	¥38
Other*2:			
Buying USD/selling JPY	Payables	¥ 447	
Total		¥ 447	

March 31, 2020

	Hedged Item	Millions of Yen	
		Contract Amount	Fair Value (Loss)*1
Foreign currency forward contracts—Accounted for under deferred hedge accounting method:			
Selling USD/buying JPY	Foreign currency	¥ 138	¥ (6)
Buying USD/selling JPY	forecasted transaction	1,076	489
Total		¥1,215	¥13
Other*2:			
Selling USD/buying JPY	Payables	¥ 141	
Buying USD/selling JPY		376	
Total		¥ 518	

March 31, 2021

	Hedged Item	Thousands of U.S. Dollars	
		Contract Amount	Fair Value (Loss)*1
Foreign currency forward contracts—Accounted for under deferred hedge accounting method:			
Selling USD/buying JPY	Foreign currency	\$1,771	\$ (31)
Buying USD/selling JPY	forecasted transaction	7,431	371
Buying EUR/selling JPY		634	9
Total		\$9,837	\$349
Other*2:			
Buying USD/selling JPY	Payables	\$4,029	
Total		\$4,029	

*1 Fair value is based on prices obtained from financial institutions.

*2 Fair value of the foreign currency forward contract assigned for payables is included in the fair value of payables disclosed in Note 18.

20. PROVISION FOR BUSINESS STRUCTURE IMPROVEMENT

The Company recognized "provision for business structure improvement" in the year ended March 31, 2019. As part of the Company's medium-term management plan, it has been striving to implement structural reform including restructuring of the group companies.

Along with the cost being spent, the Company recognized ¥232 million as "reversal of provision for business structure improvement" in the year ended March 31, 2020.

21. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Unrealized gain on available-for-sale securities:			
Losses arising during the year	¥ 170	¥ (66)	\$ 1,538
Reclassification adjustments to profit or loss		115	
Amount before income tax effect	170	49	1,538
Income tax effect	(26)	14	(236)
Total	¥ 144	¥ 64	\$ 1,301
Deferred gain on derivatives under hedge accounting:			
Gains arising during the year	¥ 28	¥ 43	\$ 260
Reclassification adjustments to profit or loss	7	13	70
Adjustment to acquisition cost of assets	(1)	1	(10)
Amount before income tax effect	35	59	320
Income tax effect	(10)	(2)	(97)
Total	¥ 24	¥ 56	\$ 222
Foreign currency translation adjustments:			
Adjustments arising during the year	¥2,634	¥3,197	\$23,734
Reclassification adjustments to profit or loss	(310)		(2,795)
Total	¥2,324	¥3,197	\$20,938
Defined retirement benefit plans:			
Adjustments arising during the year	¥1,624	¥ (576)	\$ 14,633
Reclassification adjustments to profit or loss	(47)	(338)	(429)
Amount before income tax effect	1,576	(914)	14,204
Income tax effect	(155)	1	(1,404)
Total	¥1,420	¥ (912)	\$ 12,799
Share of other comprehensive loss of associates:			
Loss arising during the year	¥ (60)	¥ (66)	\$ (541)
Total	¥ (60)	¥ (66)	\$ (541)
Total other comprehensive income	¥3,854	¥2,339	\$ 34,721

22. NET INCOME PER SHARE

A reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2021 and 2020, was as follows:

Year Ended March 31, 2021

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
	Net Income Attributable to Owners of the Parent	Weighted-Average Shares	EPS	
Basic EPS—Net income available to common shareholders	¥5,893	258,966	¥22.76	\$0.21
Effect of dilutive securities—Preferred stock	2,100	715,750		
Diluted EPS—Net income for computation	¥7,993	974,716	¥ 8.20	\$0.07

Year Ended March 31, 2020

	Millions of Yen	Thousands of Shares	Yen	EPS
	Net Income Attributable to Owners of the Parent	Weighted-Average Shares	EPS	
Basic EPS—Net income available to common shareholders	¥10,602	258,967	¥40.94	

There is no dilutive effect for the year ended March 31, 2021.

23. SUPPLEMENTAL CASH FLOW INFORMATION

The IT business of Chiyoda System Technologies Corporation, a consolidated subsidiary of the Company, was transferred to a newly established company. In addition, the main breakdown of assets and liabilities at the time of the transfer of the majority of the shares of the newly established company was as follows:

	Millions of Yen	Thousands of U.S. Dollars
Current assets	¥ 897	\$ 8,081
Noncurrent assets	26	237
Current liabilities	(372)	(3,356)
Noncurrent liabilities		
Investment accounts after the sales of shares	(187)	(1,687)
Gain on sales of shares	27	248
Selling price of the stock	391	3,524
Cash and cash equivalents	(619)	(5,576)
Proceeds from sales of investment in subsidiaries	¥(227)	\$ (2,052)

24. SUBSEQUENT EVENTS

(Dividends)

The following appropriation of retained earnings related to preferred stock at March 31, 2021, was approved at the Company's shareholders' meeting held on June 23, 2021:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Year-end cash dividends, ¥20.78 (\$0.19) per share	¥3,636	\$ 32,756

(Introduction of Performance-Based Stock Compensation Plan)

The Board of Directors met on May 7, 2021, and resolved to introduce a "Performance-Based Stock Compensation Plan" (the "Plan") for our directors and executive officers (excluding non-executive directors and non-residents of Japan) (the "Directors & Officers"). This proposal is to be submitted at the ordinary general meeting of shareholders of the Company on June 23, 2021.

a. Purpose of the Plan

The Plan is introduced to improve medium-to-long term business performance and to heighten the mindset of contributing to the enhancement of corporate value.

b. Outline of the Plan

Under this Plan, the Company will grant to the Directors & Officers for three fiscal years (starting with the fiscal year ending on March 31, 2022, and ending with the fiscal year ending on March 31, 2024) certain points that are predetermined depending on their positions and goal achievement, and will deliver to them Chiyoda shares and cash equivalent to the proceeds of the sales of Chiyoda shares ("Chiyoda Shares & Benefits") corresponding to such points.

The Chiyoda Shares & Benefits will be delivered upon the retirement of Directors & Officers, and are conditional on the satisfaction of certain requirements. Details of the Plan are listed as below.

Description of the Board Incentive Plan trust agreement

(1) Type of trust

Money trust other than a specified cash trust for separate investment (third party benefit trust)

(2) Purpose of trust

To grant incentives to the Directors & Officers

(3) Settlor

Chiyoda Corporation

(4) Trustee

Mitsubishi UFJ Trust and Banking Corporation (planned)

(Co-trustee: The Master Trust Bank of Japan, Ltd. (planned))

(5) Beneficiaries

Directors & Officers who satisfy the beneficiary requirements

(6) Trust administrator

A third party who has no interest in Chiyoda (certified public accountant)

(7) Date of trust agreement

September 2021 (planned)

(8) Trust period

From September 2021 to September 2024 (planned)

(9) Date of start of the Plan

September 1, 2021 (planned)

(10) Exercise of voting rights

No voting rights will be exercised.

(11) Type of shares to be acquired

Chiyoda common stock

(12) Maximum trust amount

¥615 million (including trust fees and trust expenses)

This represents the amount of the sum of trust monies for the Directors & Officers.

(13) Method of share acquisition

On the market or directly from Chiyoda (disposition of treasury shares)

(14) Holder of vested rights

Chiyoda Corporation

(15) Residual property

The residual property that we, as the holder of vested rights, can receive will be limited to the amount of the trust expense fund that consists of the trust money after deducting the stock acquisition fund.

(Lawsuit Filed against a Joint Venture Partner)

A lawsuit was filed against JGC Holdings Corporation ("JGC"), a joint venture partner, in the Yokohama District Court. In early June 2021, JGC sent a notice of the lawsuit to Chiyoda. Depending on the outcome of the lawsuit, Chiyoda has a possibility of being held liable in accordance with its share of the liability under the joint venture agreement with JGC and KBR Inc. ("KBR"). Therefore, in response to this notice, Chiyoda will participate in the lawsuit as an auxiliary intervener.

a. Date of the Lawsuit Filed

April 16, 2021

b. Plaintiff

- (1) Name: ICHTHYS LNG PTY Ltd.
- (2) Address: 22nd Floor, St George's Terrace 100, Perth, Western Australia, Australia
- (3) Name and title of representative: Mr. Tetsuhiro Murayama, Representative Director

c. Background of the Lawsuit

Chiyoda formed a joint venture company, JKC AUSTRALIA LNG PTY Ltd. ("JV") with JGC and KBR and was awarded the design, procurement and construction for an onshore gas liquefaction plant to produce liquefied natural gas and other products (the "Project") from ICHTHYS LNG PTY Ltd (the "Plaintiff"), an equity-method affiliated company of INPEX Corporation, in 2012. All plant facilities have been completed and delivered.

During Project execution, subcontractors requested additional payments to cover increased costs. A funding deed (the "Deed") for the sum of A\$ 757,727,884.46 was agreed and paid by the Plaintiff to the JV for the additional costs. Subsequently, a dispute concerning the settlement of the additional costs arose, and an arbitration is being conducted in Singapore. During the course of the arbitration, the Plaintiff demanded that the JV return the full amount by the end of December 2020, but the JV refused on the grounds that the correct settlement procedures under the Deed had not been followed and the arbitration award to determine this had not been made.

Having considered this, the Plaintiff delivered a letter dated January 15, 2021, to the parent companies of the JV, namely Chiyoda, JGC and KBR (the "Parent Companies"), requesting the Parent Companies pay the identical amount to the Plaintiff based on the parent company guarantee deeds. However, the Parent Companies declined the request for the reasons identified above.

d. Outline of the Lawsuit and Amount Claimed

The Plaintiff seeks subrogation against JGC, by way of performance of the parent company guarantee deed, for the full amount of the funds (A\$ 757,727,884.46) provided by the Plaintiff to the JV under the Deed. Under the JV agreement, Chiyoda is responsible at a ratio of 30%.

e. Future Outlook

Chiyoda will examine the details of the lawsuit in collaboration with JGC and KBR and take appropriate action taking the JV's position into consideration.

(Significant Borrowings)

In a Board of Directors' meeting on May 21, 2021, Chiyoda resolved to renew the Borrowing Agreement between Chiyoda and Mitsubishi Corporation Financial & Management Services (Japan) Ltd. ("MCFJ"), a wholly owned subsidiary of Mitsubishi Corporation. The contract is already renewed as of May 21, 2021.

Details of the Renewal

- (1) Lender
MCFJ for both (i) and (ii) below
- (2) Amount of borrowing
(i) ¥30 billion
(ii) ¥50 billion
- (3) Interest rate on borrowing
(i) The level of 1.15% (including the guarantee fees)
(ii) The level of 1.50% (including the guarantee fees)
- (4) Drawdown date
By March 31, 2024 for both (i) and (ii) above
- (5) Borrowing period
Up to March 31, 2024 for both (i) and (ii) above
- (6) Collateral
(i) Applicable
(ii) Not applicable
- (7) Subordination
Not applicable for both (i) and (ii) above

25. SEGMENT INFORMATION

Under Japanese accounting standards, an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and for which such information is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

(1) Description of Reportable Segments

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is performed in order to decide how resources are allocated within the Group. The Group provides "Engineering" services globally, including planning, engineering, construction, procurement, commissioning, and maintenance, adapting the most appropriate functions of each related company.

(2) Methods of Measurement for the Amounts of Sales, Profit (Loss), Assets, Liabilities, and Other Items for Each Reportable Segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies."

The profit in reporting segments is based on the operating income. Intersegment income and transfers are measured at the quoted market price.

(3) Information about Sales, Profit, Assets, Liabilities, and Other ItemsYear Ended March 31, 2021

Since the reportable segment of the Group consists of only the "Engineering" segment, and other segments have become immaterial, the Group has omitted reporting of segment information.

Year Ended March 31, 2020

The reportable segment of the Group consists of only the "Engineering" segment. Since the travel services of Arrowhead International Corporation were transferred to another company in the year ended March 31, 2020, and other segments have become immaterial, the Group has omitted reporting of segment information.

Related Information**(1) Information about Products and Services**

The engineering business represents more than 90% of the total sales of the Group. Accordingly, the presentation of the information about each service is not required under Japanese GAAP.

(2) Information about Geographical Areas**(a) Revenue**Year Ended March 31, 2021

	Millions of Yen	Thousands of U.S. Dollars
Japan	¥ 146,084	\$ 1,316,079
U.S.A.	120,001	1,081,098
Indonesia	38,296	345,009
Others	11,010	99,197
Total	<u>¥ 315,393</u>	<u>\$ 2,841,384</u>

Year Ended March 31, 2020

	Millions of Yen
U.S.A.	¥ 192,057
Japan	133,080
Others	60,787
Total	<u>¥ 385,925</u>

Note: Revenue is classified by country or region based on the location of construction sites.

(b) Property, plant and equipmentYear Ended March 31, 2021

	Millions of Yen	Thousands of U.S. Dollars
Japan	¥ 9,955	\$ 89,690
Asia	1,364	12,293
Others	105	953
Total	<u>¥ 11,426</u>	<u>\$ 102,937</u>

Year Ended March 31, 2020

	Millions of Yen
Japan	¥ 10,160
Asia	1,974
Others	319
Total	<u>¥ 12,454</u>

(3) Information about Major CustomersYear Ended March 31, 2021

Name	Related Segment	Millions of Yen Revenue	Thousands of U.S. Dollars Revenue
Gulf Coast Growth Ventures, LLC	Engineering	¥ 55,076	\$ 496,180
BP Berau Ltd.	Engineering	34,058	306,828

Year Ended March 31, 2020

Name	Related Segment	Millions of Yen Revenue
Cameron LNG LLC	Engineering	¥ 79,612
Gulf Coast Growth Ventures, LLC	Engineering	57,378

(4) Information about Goodwill by Reportable Segment

The reportable segment of the Group consists of only the engineering segment, and the other segment is immaterial. Accordingly, the Group has omitted reporting of segment information. Regarding the goodwill, which is not included in the reportable segment, its amortization in the year was ¥29 million (\$270 thousand) and its unamortized balance was ¥254 million (\$2,297 thousand).

26. RELATED PARTY DISCLOSURES

The material transactions of the Group with the parent company and major shareholders for the years ended March 31, 2021 and 2020, were as follows:

Year Ended March 31, 2021

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Guaranteed liabilities* ¹	¥ 10,000	\$ 90,090
Borrowings* ²	10,000	90,090

*¹ The guaranteed liabilities are related to the borrowings from Mitsubishi Corporation Financial & Management Services (Japan) Ltd. Regarding these guaranteed liabilities, guarantee fees have been paid and buildings, structures, land, investment securities and other assets have been collateralized. The transaction amount represents the balance of liabilities corresponding to the collateral assets as of the end of the fiscal year.

*² This was due to the transaction Mitsubishi Corporation Financial & Management Services (Japan) Ltd. Regarding the borrowings, applicable interest rates are rationally determined upon taking into account the market rate of interest.

Year Ended March 31, 2020

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Subscribe for shares* ¹	¥ 70,000	\$ 642,201
Loan of funds* ²	35,000	321,100
Borrowings* ³	30,000	275,229

*¹ Mitsubishi Corporation subscribed to a third-party allotment.

*² This was due to the transaction Mitsubishi Corporation Financial & Management Services (Japan) Ltd. Regarding the loan of funds, applicable interest rates are rationally determined upon taking into account the market rate of interest.

*³ This was due to the transaction Mitsubishi Corporation Financial & Management Services (Japan) Ltd. Regarding the borrowings, applicable interest rates are rationally determined upon taking into account the market rate of interest.

There are no material balances with these unconsolidated subsidiaries and associated companies as of March 31, 2021.

There are no material transactions of the Group with unconsolidated subsidiaries and associated companies for the year ended March 31, 2021.

There are no material balances with unconsolidated subsidiaries and associated companies as of March 31, 2021.

* * * * *



Deloitte Touche Tohmatsu LLC
Marunouchi Nijubashi Building
3-2-3 Marunouchi
Chiyoda-ku, Tokyo 100-8360
Japan

Tel: +81 (3) 6213 1000
Fax: +81 (3) 6213 1005
www2.deloitte.com/jp/en

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Chiyoda Corporation:

Opinion

We have audited the consolidated financial statements of Chiyoda Corporation and its consolidated subsidiaries (the "Group"), which comprise the consolidated balance sheet as of March 31, 2021, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 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.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside 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 provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. The matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.

Estimate of total construction revenue and total construction cost in applying the percentage-of-completion method

Key Audit Matter Description

Construction revenue and construction cost are recognized using the percentage-of-completion method if the outcome of the construction contract at year-end can be estimated reliably. The percentage-of-completion of each construction contract is estimated by dividing the incurred cost at year-end against the estimated total construction cost. For those construction contracts where the percentage-of-completion method cannot be used, construction revenue and construction cost are recognized using the completed-contract method. For the year ended March 31, 2021, ¥279,241 million (\$2,515,692 thousand) of the total revenue of ¥315,393 million (\$2,841,384 thousand) was recognized using the percentage-of-completion method.

When applying the percentage-of-completion method, construction revenue is calculated by multiplying the estimated total construction revenue by the percentage-of-completion. The percentage-of-completion is calculated by dividing the cost incurred at year-end against estimated total construction cost. Estimated total construction revenue and estimated total construction cost involve significant judgments and assumptions made by management depending on the business environment and include the following factors of uncertainty:

- (1) Estimated total construction revenue includes significant judgments related to future uncertain income or payment such as incentive bonuses for achieving milestones or potential liquidated damages for delays in construction completion, all of which may occur depending on different circumstances. There can also be construction projects in progress where, as a result of negotiations with the customer, the method of construction or the scope of work changes, but no changes are made in the contract price in a timely and explicit manner. This causes management to make assumptions on the status of the construction project, which involves significant uncertainty in the estimated total construction revenue depending on the size and nature of the construction project.
- (2) Estimated total construction cost may need to be adjusted to include additional costs that become necessary to secure construction workers, infrastructure or equipment in order to compensate for schedule delays. In addition, there are cases for lump-sum contracts where equipment prices or labor costs inflate in comparison to the prices included in the estimated total construction cost because of the time lag between when estimated total construction cost is calculated and when construction begins. Furthermore, estimating the inflation involves significant uncertainty depending on the size and nature of the construction project.

Large-scale and long-term plant construction projects in foreign countries also involve uncertainty and have significant impact on the construction revenue included in the consolidated financial statements as a whole. Given the above understanding, we have determined estimated total construction revenue and estimated total construction cost used in the percentage-of-completion method to calculate construction revenue for large-scale and long-term plant construction projects in foreign countries to be a key audit matter.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures to determine the appropriateness of the estimated total construction revenue and estimated total construction cost for large-scale and long-term plant construction projects in foreign countries are as follows, among others:

- (1) We obtained an understanding of the business environment surrounding the Company and the industry. We then tested the design and operating effectiveness of the internal controls over the calculation of estimated total construction revenue and estimated total construction cost used in the percentage-of-completion method, including the Strategy & Risk Integration Division's cost review where the profit-and-losses and progress of construction projects are monitored, analyzed and evaluated, and the Project Profitability Review Meetings where the progress and profitability of current construction projects are reported and discussed.

- (2) For the cost review performed by the Strategy & Risk Integration Division, we tested the appropriateness of the estimated total construction costs by investigating whether each project's estimated total construction costs were quantitatively and comprehensively analyzed and evaluated.
- (3) For the Project Profitability Review Meetings, we inspected the documentation prepared by project managers to evaluate whether estimated total construction costs were reviewed in a timely and appropriate manner in accordance with the progress of the construction, and compared the initial or revised estimated total construction costs with actual total construction costs to evaluate the appropriateness of the estimated total construction costs.
- (4) We evaluated the appropriateness of the estimated total construction costs by:
 - inquiring of project managers and inspecting supporting evidence to obtain an understanding of the status of negotiations with customers and the progress of the constructions;
 - identifying key assumptions such as the risk of incurring liquidated damages due to delays in the construction project and the risk of incurring additional construction costs to be paid to subcontractors, and;
 - evaluating the reasonableness and feasibility of the assumptions of the estimates with the assistance of the component auditor's valuation specialists.
- (5) We compared the estimated total construction revenue and estimated total construction cost with supporting evidence such as contracts, relating memoranda agreed on with customers, quotes and invoices from subcontractors or equipment vendors.

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

Management is responsible for the preparation and fair presentation of the 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, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit and Supervisory Committee is responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. 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. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of 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 whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as 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.
- 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 relevant ethical requirements regarding independence, and communicate with it all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit and Supervisory Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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.

Deloitte Touche Tohmatsu LLC

June 23, 2021



Chiyoda Global Headquarters

Minatomirai Grand Central Tower, 4-6-2, Minatomirai, Nishi-ku,
Yokohama 220-8765, Japan

<https://www.chiyodacorp.com/en/>

