

## **Notes to the Consolidated Financial Statements**

*For the years ended March 31, 2019 and 2018*

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### **1. Basis of Presenting the Consolidated Financial Statements**

The accompanying consolidated financial statements of THE NIPPON ROAD CO., LTD. (the “Company”) and its consolidated subsidiaries (hereinafter referred to collectively as the “Companies”) are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

Certain items presented in the consolidated financial statements submitted to the Director of Kanto Finance Bureau in Japan have been reclassified for the convenience of readers outside Japan.

The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

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### **2. Summary of Significant Accounting Policies**

#### **(1) Principles of Consolidation**

At March 31, 2019, the consolidated financial statements included the accounts of the Company and its 43 (43 at March 31, 2018) subsidiaries (40 domestic subsidiaries and 3 overseas subsidiaries). During the year ended March 31, 2019, one subsidiary was excluded from consolidation due to sale and one subsidiary was included in consolidation due to establishment of a new subsidiary. All assets and liabilities of consolidated subsidiaries were revalued to fair market value as of the date of establishment of control. Any difference between the cost of an investment in a subsidiary and the amount of underlying equity in the net assets of the subsidiary, if any at the date of establishment of control, were expensed when incurred, as any such difference was insignificant. All significant intercompany accounts and transactions have been eliminated in consolidation.

The unconsolidated subsidiaries and affiliates did not have a material effect on the consolidated financial statements of the Companies and therefore they were excluded from consolidation. They were not accounted for using the equity method for the reason described above.

Overseas consolidated subsidiaries adopted accounting principles generally accepted in their respective countries and no adjustments were made to their financial statements in consolidation, as allowed under accounting principles and practices generally accepted in Japan. In addition, the financial statements of three overseas subsidiaries (Nippon Road (M) Sdn. Bhd., Thai Nippon Road Co., Ltd. and Thai Nippon Holding Ltd.) were prepared on a calendar-year basis. Significant transactions that occurred between January 1 and March 31 were reflected in the accompanying consolidated financial statements.

#### **(2) Valuation of Securities**

Securities held by the Companies are classified into two categories:

- a) Held-to-maturity debt securities that the Companies intend to hold to maturity are stated at cost after accounting for any premium or discount on acquisition, which is amortized over the period to maturity.
- b) Marketable equity securities for which market quotations are available are stated at fair value. Net unrealized gains and losses, net of the related tax effect, on these securities are reported as a separate component of "Shareholders' Equity".

Non-marketable equity securities for which it is not practicable to estimate the fair value because of a lack of market prices and difficulty in estimating fair value without incurring excessive cost are valued at cost, cost being determined by the moving average method.

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### **(3) Inventory Valuation**

Inventories are classified into three categories:

- a) Merchandise and b) the cost of uncompleted construction contracts, are valued at cost as determined by the job order costing method. (The balance sheet amounts of the inventories are calculated at the reduced book values reflecting potential decline in profitability.)
- c) Raw materials are valued at cost as determined by the moving average method. (The balance sheet amounts of the inventories are calculated at the reduced book values reflecting potential decline in profitability.)

### **(4) Tangible Fixed Assets**

Tangible fixed assets of the Company and its domestic subsidiaries, excluding leased assets, are principally depreciated using the declining-balance method over the estimated useful lives of the assets. However, the straight-line method has been applied to buildings, excluding building fixtures, acquired after April 1, 1998, and building fixtures and structures acquired after April 1, 2016, over the estimated useful lives of the assets.

Leased assets are depreciated using the straight-line method over the lease term.

Tangible fixed assets of overseas subsidiaries are principally depreciated using the straight-line method over the estimated useful lives of the assets.

Normal repairs and maintenance, including minor renewals and improvements, are charged to expense as incurred.

Estimated useful lives range from 3 to 50 years for buildings and structures, and from 2 to 20 years for machinery, equipment, and leased assets.

### **(5) Intangible Assets**

Amortization of intangible assets and long-term prepaid expenses included in "Other investments" are computed using the straight-line method, over the estimated useful lives.

Software for internal use is amortized over the expected useful life of the software (5 years) on a straight-line basis.

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### **(6) Reserves and Allowances**

#### **(i) Allowance for doubtful accounts**

The Company and its domestic subsidiaries provide an allowance for doubtful accounts based on a historical default ratio, in addition to the amount of potential losses from uncollectible receivables based on management's estimate.

The foreign consolidated subsidiaries provide for potential losses from uncollectible receivables based on management's estimate.

#### **(ii) Warranty provision for completed construction contracts**

A warranty reserve for completed construction contracts is provided at an estimated amount, based on the actual level of defects and the related warranty costs specified in the completed construction contracts.

#### **(iii) Provision for loss on construction contracts**

The Company provides a reasonable estimated amount for future loss on construction contracts outstanding at the year-end.

#### **(iv) Accrued bonus to directors and statutory auditors**

To prepare for payment of bonuses to directors and statutory auditors, a reserve for bonus is provided based on the estimated amount of bonus to be paid.

#### **(v) Allowance for loss related to Anti-Monopoly Act**

To prepare for payments related to the Anti-Monopoly Act for items such as surcharges and breach of contract, the Company provides for possible loss to be incurred in the future based on facts and circumstances known as of the balance sheet date.

### **(7) Method for Accounting for Retirement Benefits**

#### **(i) Method of attributing expected retirement benefits to periods**

When calculating retirement benefit obligations, the benefit formula method was used for attributing expected retirement benefits for the periods through March 31, 2018.

#### **(ii) Method of expenses for actuarial differences and prior service costs**

Unrecognized prior service costs are amortized on a straight-line basis over 12 years from the year in which they occur.

Unrecognized actuarial differences are amortized on a straight-line basis over 12 years from the next year in which they occur.

### **(8) Translation of Foreign Currency**

All monetary assets and liabilities denominated in foreign currencies, whether long-term or short-term, are translated into Japanese yen at the exchange rate prevailing at the balance sheet date. Resulting gains and losses are included in net income or loss for the period.

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Assets and liabilities of the foreign subsidiaries and affiliates are translated into Japanese yen at the exchange rate prevailing at the balance sheet date, except for shareholder's equity which is translated into Japanese yen at the historical rate. Profit and loss accounts for the year are translated into Japanese yen using the average exchange rate prevailing for the year. Differences in yen amounts arising from the use of different rates are presented as "foreign currency translation adjustments" in the shareholders' equity.

### **(9) Revenue Recognition**

#### **(i) Construction Contracts**

The Company and its domestic consolidated subsidiaries recognize construction contract revenue using the percentage-of-completion method if the outcome of the construction activity is certain during the course of activity, otherwise using the completed contract method.

#### **(ii) Revenue from finance lease transactions**

Lease fees are recognized in sales and cost of sales at time of receipt.

### **(10) Hedge Accounting**

The derivatives designated as hedging instruments by the Companies are principally interest rate swaps.

The Companies have a policy to utilize hedging instruments in order to reduce the Companies' risk of fluctuations in interest rates. Therefore, the Companies' purchases of hedging instruments are limited to, at maximum, the amounts of the hedged items.

Unrealized gains or losses from changes in the fair value of the derivatives designated as "hedging instruments" are deferred as an asset or liability until gains or losses relating to the hedge items are recognized. However, interest rate swaps, if they meet the conditions for hedge accounting and their nominal amount, terms of interest and contract period are substantially the same as those of hedged items, are not valued at fair value, but are accrued net of the swap interest paid and received.

The Companies evaluate the effectiveness of their hedging activities, except for interest rate swaps which meet the conditions described above, with reference to the correlation between fluctuation in the market value of hedged items and hedging instruments accumulated from the commencement of the hedges.

### **(11) Cash and Cash Equivalents**

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash on hand, bank deposits capable of being withdrawn on demand and short-term investments with an original maturity of three months or less and which represent a minor risk of fluctuations in value.

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### **(12) Accounting for Consumption Tax**

Consumption tax is imposed at the flat rate of 8% on all domestic consumption of goods and services (with certain exemptions).

The consumption tax withheld upon sale and consumption tax paid by the Companies on their purchases of goods and services are not included in the amounts of respective revenue and cost or expense items in the accompanying consolidated statements of income. The consumption tax withheld and consumption tax paid is recorded as assets or liabilities and the net balance is included in "Accounts payable - other" in the consolidated balance sheets.

### **(13) Income Taxes**

Income taxes of the Company and its domestic subsidiaries consist of corporate income taxes, local inhabitant taxes and enterprise taxes.

The Company and its subsidiaries adopt deferred tax accounting in accordance with the amended regulations for the preparation of consolidated financial statements. Deferred income taxes are determined using the asset and liability approach, whereby deferred tax assets and liabilities are recognized in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the consolidated financial statements.

### **(14) Appropriation of Retained Earnings**

Until the year ended March 31, 2006, under the Japanese Commercial Code and the Articles of Incorporation of the Company, the appropriation of retained earnings proposed by the Board of Directors was subject to approval by the shareholders at a meeting, which must be held within three months of the end of each financial year. The appropriations of retained earnings reflected in the accompanying consolidated financial statements included the results of such appropriations applicable to the immediately preceding financial year as approved at the shareholders' meeting and effected during the relevant year. Dividends were paid to shareholders on the shareholders' register as of the end of each financial year. As was customary practice in Japan, the payment of bonuses to directors and corporate auditors was made out of retained earnings through an appropriation, instead of being charged to the expense of the year.

The Japanese Commercial Code provided that interim cash dividends may be paid as a part of the annual dividend upon approval by the Board of Directors. The Company did not pay such interim dividends to its shareholders.

Effective from May 1, 2007, under the Japanese Corporate Law, such cash dividends are able to be made at any time by resolution of the shareholders or by the Board of Directors if certain conditions are met.

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### **(15) Legal Reserves**

Under the Japanese Corporate Law, the entire amount of the issue price of shares is required to be accounted for as common stock, although a company may, by resolution of its Board of Directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital.

The Japanese Corporate Law requires that an amount equal to at least 10% of cash dividends and other cash appropriations are appropriated and set aside as legal reserve until the total amount of legal reserve and additional paid-in capital equals 25% of common stock. The legal reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of Directors. If the total amount of the legal reserve and additional paid-in capital remains equal to or exceeds 25% of common stock, the legal reserve and additional paid-in capital are available for dividends by resolution of the shareholders' meeting. In the accompanying financial statements, the legal reserve is included in retained earnings and additional paid-in capital is included in capital surplus.

The maximum amount the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with the Japanese Corporate Law.

### **3. United States Dollar Amounts**

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥111.01=U.S. \$1, the approximate rate of exchange prevailing at March 31, 2019 has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at this rate or any other rates.

### **4. Changes in Accounting Policies, Presentation of Financial Statements and Additional Information**

(Changes in presentation of account items due to application of "Partial Amendments to Accounting Standard for Tax Effect Accounting "and relevant Guidance.)

The Company has applied the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No.28, February 16, 2018) and relevant Guidance effective from the beginning of the fiscal year ended March 31, 2019. Accordingly, deferred tax assets are presented under investments and other assets and deferred tax liabilities are presented under non-current liabilities. As a result of these changes, in the consolidated balance sheet as of March 31, 2018, "Deferred tax assets", under non-current assets decreased by ¥936 million, and "Deferred tax assets" under investments and other assets increased by ¥94 million. "Deferred tax liabilities", which was included in other current liabilities decreased by ¥1 million, and "Deferred tax liabilities", which was included in other current liabilities decreased by ¥840 million.

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In addition “Deferred tax assets” and “Deferred tax liabilities” of the same taxable entity are offset, and total assets decreased by ¥841 million before this change of presentation.

(Accounting Standard and Implementation Guidance on Revenue Recognition)

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

(i) Overview

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

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

(ii) Scheduled date of adoption

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

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

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



## Notes to the Consolidated Financial Statements

For the years ended March 31, 2019 and 2018

### 5. Notes to the Consolidated Balance Sheets

#### (1) Investments of the Company in equity securities issued by unconsolidated subsidiaries and affiliates

March 31	Millions of yen		Thousands of U.S. dollars (Note 3)
	2019	2018	2019
Investment securities (corporate stock) .....	<b>¥129</b>	¥129	<b>\$1,160</b>

#### (2) Pledged Assets

For the loans payable of the business company of the PFI business that we finance, the Company provided collateral.

The assets pledged as collateral are as follows:

March 31	Millions of yen		Thousands of U.S. dollars (Note 3)
	2019	2018	2019
Short-term Loans			
(Current Assets "Other") .....	<b>¥25</b>	¥24	<b>\$221</b>
Investment securities .....	<b>50</b>	49	<b>446</b>
Long-term Loans			
(Investments and Other Assets "Other") .....	<b>137</b>	162	<b>1,237</b>
	<b>¥212</b>	¥235	<b>\$1,904</b>

The business securities deposits pledged as collateral under the Building Lots and Buildings Transaction Business Act Laws are as follows:

March 31	Millions of yen		Thousands of U.S. dollars (Note 3)
	2019	2018	2019
Long Term Guarantee Deposit (Investment and Other Assets "Other") .....	<b>¥40</b>	¥40	<b>\$360</b>

#### (3) Commitments

The Company had a total of ¥4,300 million (\$38,735 thousand) of overdraft contracts and credit lines from two banks to facilitate the availability of efficient funds as of March 31, 2019 and 2018, respectively. The unutilized portion was ¥4,300 million (\$38,735 thousand) as of March 31, 2019 and 2018, respectively.

#### (4) Notes due at the fiscal year end

The accounting treatment for the settlement of notes is at the date of clearance. As March 31, 2019 and 2018 was a holiday for financial institutions, the following matured notes due at the fiscal year

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end are included in the balance as of March 31, 2019 and 2018 and these were settled on the next business day.

March 31	Millions of yen		Thousands of U.S. dollars (Note 3)
	2019	2018	2019
Notes receivable .....	<b>¥239</b>	¥363	<b>\$2,150</b>
Electronically recorded monetary claims.....	<b>9</b>	-	<b>85</b>
Notes payable .....	<b>237</b>	135	<b>2,139</b>

### (5) Provision for loss on construction contracts

Provision for loss on construction contracts is provided for the amount equivalent to cover future loss by evaluating individual construction from which loss is expected and reasonably estimated.

Cost of contracts in progress and provision account in relation to the construction works, which the expected loss becomes probable are represented in current assets and liabilities, respectively without netting.

Among cost of contracts in progress, the aggregate amount corresponding to provision for loss on construction contracts is ¥0 million (\$1 thousand) and ¥3 million at March 31, 2019 and 2018, respectively.

Provision for loss on construction contracts, which was included in cost of sales for completed construction contracts, amounted to ¥46 million (\$412 thousand) and ¥36 million for the years ended March 31, 2019 and 2018, respectively.

## Notes to the Consolidated Financial Statements

For the years ended March 31, 2019 and 2018

### 6. Notes to the Consolidated Statements of Income

(1) The major components of “Selling, General and Administrative Expenses”

	Millions of yen		Thousands of U.S. dollars (Note 3)
For the year ended March 31	2019	2018	2019
Employees’ salaries and allowances .....	<b>¥3,788</b>	¥4,426	<b>\$34,123</b>
Net periodic pension expense .....	<b>164</b>	166	<b>1,474</b>
Accrued bonus to directors .....	<b>53</b>	19	<b>475</b>
Provision of allowance for doubtful accounts ...	<b>12</b>	10	<b>110</b>

(2) Research and Development Expenses

Research and development expenses, which were included in general and administrative expenses, amounted to ¥435 million (\$3,915 thousand) for the year ended March 31, 2019 and ¥452 million for the year ended March 31, 2018.

(3) Components of gain on sale of tangible fixed assets

	Millions of yen		Thousands of U.S. dollars (Note 3)
For the year ended March 31	2019	2018	2019
Machinery and equipment .....	<b>¥17</b>	¥18	<b>\$151</b>
Land... ..	<b>31</b>	153	<b>284</b>
Others.....	<b>4</b>	17	<b>36</b>
	<b>¥52</b>	¥188	<b>\$471</b>

(4) Components of loss on disposal of tangible fixed assets

	Millions of yen		Thousands of U.S. dollars (Note 3)
For the year ended March 31	2019	2018	2019
Buildings.....	<b>¥52</b>	¥154	<b>\$473</b>
Machinery and equipment .....	<b>39</b>	46	<b>353</b>
Others .....	<b>11</b>	16	<b>98</b>
	<b>¥102</b>	¥216	<b>\$924</b>

## Notes to the Consolidated Financial Statements

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### (5) Impairment loss on tangible fixed assets

For the year ended March 31, 2019, the Companies recognized an impairment loss for the following group of assets:

Location	Use	Category	Millions of yen	Thousands of U.S. dollars (Note 3)
Niigata Prefecture	Assets used for business	Land	¥69	<b>\$624</b>
Total			¥69	<b>\$624</b>

The Companies assessed impairment for each group of assets, which were grouped on the basis of managerial accounting, branch and segment, and for idle assets, individually.

As a result of a worsening operating profitability, the Companies reduced the book value of the above assets to the recoverable value for assets used for business. The total impairment loss was ¥69 million (\$624 thousand) under extraordinary losses.

The recoverable value was measured by its fair value less costs of disposal. The fair value of land was based on valuation of property tax or appraisal value of the land less estimated disposal costs.

For the year ended March 31, 2018, the Companies recognized an impairment loss for the following group of assets:

Location	Use	Category	Millions of yen
Mie Prefecture	Idle assets	Land	¥15
Hiroshima Prefecture	Assets used for business	Land	155
Tottori Prefecture	Assets used for business	Structures	4
Total			¥174

The Companies assessed impairment for each group of assets, which were grouped on the basis of managerial accounting, branch and segment, and for idle assets, individually.

As a result of a worsening operating profitability, the Companies reduced the book value of the above assets to the recoverable value for assets used for business and estimated sale value for the idle assets. The total impairment loss was ¥174 million under extraordinary losses.

The recoverable value was measured by its fair value less costs of disposal. The fair value of land was based on the estimated sale value or appraisal value of the land less estimated disposal costs.

## Notes to the Consolidated Financial Statements

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### 7. Other Comprehensive Income

The following table presents reclassification adjustments and tax effects allocated to each component of other comprehensive income for the years ended March 31, 2019 and 2018.

For the year ended March 31	Millions of yen		Thousands of U.S. dollars (Note 3)
	2019	2018	2019
Valuation difference on available-for-sale securities:			
Amount recognized in the period .....	¥(73)	¥78	\$(653)
Amount of recycling .....	-	(753)	-
Before income tax effect adjustment .....	¥(73)	¥(675)	\$(653)
Amount of income tax effect.. .....	22	206	198
Valuation difference on available-for-sale securities.....	¥(51)	¥(469)	\$(455)
Foreign currency translation adjustments:			
Amount recognized in the period.... ..	(94)	4	(849)
Retirement benefits liability adjustments:			
Amount arising during the year.....	137	222	1,233
Reclassification adjustments for gains and losses included in net income.....	175	80	1,576
Amount before tax effect.. .....	312	302	2,809
Tax effect .....	(95)	(93)	(860)
Retirement benefits liability adjustments.....	217	210	1,949
Total other comprehensive income .....	¥72	¥(255)	\$645

### 8. Notes to the Consolidated Statements of Changes in Net Assets

For the year ended March 31, 2019

#### (1) Type and number of outstanding shares

Type of shares	Thousands of shares			Balance at March 31, 2019
	Balance at March 31, 2018	Increase in shares during the year	Decrease in shares during the year	
Issued stock:				
Common stock .....	9,762	-	-	9,762
Treasury stock:				
Common stock .....				
(note 1)	971	0	-	971

#### Notes

1. Increase in numbers of treasury stock by 0 thousand is due to purchasing shares constituting less than one unit.

# Notes to the Consolidated Financial Statements

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## (2) Dividends

### (i) Dividends paid to shareholders

Resolution	Type of shares	Amount (Millions of yen)	Amount (Thousands of U.S. dollars)	Source	Amount per share (Yen)	Amount per share (U.S. dollars)	Shareholders' cut-off date	Effective date
Board of directors (May 15, 2018)	Common stock	¥1,319	\$11,878	Retained earnings	¥150	\$1.4	March 31, 2018	June 7, 2018

### (ii) Dividends with a shareholders' cut-off date during the current fiscal year but an effective date subsequent to the current fiscal year

Resolution	Type of shares	Amount (Millions of yen)	Amount (Thousands of U.S. dollars)	Source	Amount per share (Yen)	Amount per share (U.S. dollars)	Shareholders' cut-off date	Effective date
Board of directors (May 14, 2019)	Common stock	¥1,758	\$15,837	Retained earnings	¥200	\$1.8	March 31, 2019	June 6, 2019

For the year ended March 31, 2018

### (1) Type and number of outstanding shares

Type of shares	Thousands of shares			
	Balance at March 31, 2017	Increase in shares during the year	Decrease in shares during the year	Balance at March 31, 2018
Issued stock:				
Common stock .....	97,616	-	(87,854)	9,762
Treasury stock:				
Common stock .....	9,701	3	(8,733)	971

## (2) Dividends

### (i) Dividends paid to shareholders

Resolution	Type of shares	Amount (Millions of yen)	Source	Amount per share (Yen)	Shareholders' cut-off date	Effective date
Board of directors (May 15, 2017)	Common stock	¥1,319	Retained earnings	¥15	March 31, 2017	June 8, 2017

### (ii) Dividends with a shareholders' cut-off date during the current fiscal year but an effective date subsequent to the current fiscal year

Resolution	Type of shares	Amount (Millions of yen)	Source	Amount per share (Yen)	Shareholders' cut-off date	Effective date
Board of directors (May 15, 2018)	Common stock	¥1,319	Retained earnings	¥150	March 31, 2018	June 7, 2018

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## 9. Notes to the Consolidated Statements of Cash Flows

Cash and Cash Equivalents at March 31, 2019 and 2018 consisted of:

March 31	Millions of yen		Thousands of U.S. dollars (Note 3)
	2019	2018	2019
Cash and deposits .....	<b>¥26,062</b>	¥26,632	<b>\$234,768</b>
Certificates of deposit (Short-term investment securities) .....	<b>11,000</b>	12,000	<b>99,090</b>
Cash and cash equivalents .....	<b>¥37,062</b>	¥38,632	<b>\$333,858</b>

## 10. Leases

Information regarding finance leases as lessor for the years ended March 31, 2019 and 2018 was as follows:

### (1) Details of lease investment assets

#### Current assets

March 31	Millions of yen		Thousands of U.S. dollars (Note 3)
	2019	2018	2019
Lease receivables .....	<b>¥6,893</b>	¥6,879	<b>\$62,094</b>
Estimated salvage value .....	<b>1,099</b>	1,077	<b>9,895</b>
Receipt interest equivalent value .....	<b>(518)</b>	(549)	<b>(4,662)</b>
Lease investment assets .....	<b>¥7,474</b>	¥7,407	<b>\$67,327</b>

### (2) The collection schedule after the balance sheet date of lease receivables and lease investment assets was as follows:

#### Lease receivables (Current assets)

March 31	Millions of yen		Thousands of U.S. dollars (Note 3)
	2019	2018	2019
Due within one year.....	<b>¥-</b>	¥0	<b>\$-</b>
Due after one to two years .....	-	-	-
Due after two to three years .....	-	-	-
Due after three to four years .....	-	-	-
Due after four to five years .....	-	-	-
Due after five years .....	-	-	-

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## Lease investment assets (Current assets)

	Millions of yen		Thousands of U.S. dollars (Note 3)
March 31	2019	2018	2019
Due within one year .....	<b>¥2,399</b>	¥2,424	<b>\$21,607</b>
Due after one to two years .....	<b>1,874</b>	1,885	<b>16,885</b>
Due after two to three years .....	<b>1,350</b>	1,347	<b>12,165</b>
Due after three to four years .....	<b>803</b>	837	<b>7,236</b>
Due after four to five years .....	<b>346</b>	323	<b>3,116</b>
Due after five years .....	<b>121</b>	63	<b>1,086</b>

Information regarding operating lease transactions for the years ended March 31, 2019 and 2018 was as follows:

### Future minimum lease payments on noncancellable leases

	Millions of yen		Thousands of U.S. dollars (Note 3)
March 31	2019	2018	2019
Due within one year .....	<b>¥824</b>	¥787	<b>\$7,421</b>
Due over one year .....	<b>824</b>	801	<b>7,419</b>
	<b>¥1,648</b>	¥1,588	<b>\$14,840</b>

## 11. Financial Instruments

### (1) Status of Financial Instruments

#### (i) Policy regarding financial instruments

The Companies limit the scope of their cash and fund management activities to short-term deposits, and have a policy of relying principally on bank borrowings.

The Companies utilize hedging instruments in order to reduce the companies' risk of fluctuations in interest rates, and have a policy of not engaging in derivative transactions for speculative purposes.

#### (ii) Type of financial instruments and related risk

In the course of their business activities, the Companies are exposed to credit risk arising from notes receivable, accounts receivable from construction contracts, electronically recorded monetary claims and other that are outstanding from their customers.

The Companies are exposed to market price risk for short-term investment securities and investment securities because of short-term maturities, commercial papers, held-to-maturity debt securities and stocks of other companies with which the Companies have business relationship.

In the course of their business activities, the Companies notes payable, accounts payable for construction contracts, electrically recorded obligations and others are mostly payable within four months.

The Companies have loans payable up to five years from the date of the closing of accounts. Although the Companies are exposed to liquidity risk from the portion of the loans payable, the Companies use



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interest rate swap transactions in order to minimize the risk of fluctuation in interest rates on such borrowings.

Please note that further information regarding the method of hedge accounting, hedging instruments and hedged items, hedging policy, and the assessment of the effectiveness of hedging activities may be found in the section “2. Summary of Significant Accounting Policies, (10) Hedge Accounting”.

(iii) System for management of financial instruments

a. Credit risk management (the risk that counterparties may default on their obligations to the Companies)

The Companies have prepared an official policy for managing credit exposures. The Companies establish a payment term and credit limit for each customer in every branch and every business office. Credit risk management section of head office monitors the outstanding balances of customers on a regular basis and changes collection terms or credit limits in case based on the financial performance of each customer. These procedures are also performed by the consolidated subsidiaries to reduce credit risk.

Credit risk related to held-to-maturity debt securities and derivative transactions, the Companies believe the credit risk is minimal as they hold government bonds only as well as the fact that they only have derivative transactions with highly rated financial institutions.

b. Market risk management (the risks arising from fluctuations in interest rates, prices and other indicators)

The Companies use interest rate swap transactions in order to minimize the risk of fluctuation in interest rates on borrowings.

For marketable securities and investment securities, the Companies periodically confirm the market value of such financial instruments and the financial position of the issuers. The Companies review the status of these investments on a continuing basis in order to take into consideration of the market conditions and relationship with the client.

The execution and management of the derivative transactions follow the official rules that determine authority and the ceiling of the transactions, and the approval of the director in charge.

c. Liquidity risk management (the risk that the Companies may not be able to meet their payment obligations on the scheduled date)

The Companies plan capital requirements based on reviewing each branch's section report and manage liquidity risk by maintaining fluidity of their capital. These procedures are also performed by the consolidated subsidiaries to manage liquidity risk. When a group company faces shortage of operating funds, the Companies use group financing.

## **Notes to the Consolidated Financial Statements**

*For the years ended March 31, 2019 and 2018*

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(iv) Supplementary explanation of the estimated fair value of financial instruments and related matters

The estimated fair value of financial instruments is based on their market prices and other indicators. When there is no market price available, the Companies use reasonable assumptions to estimate the fair value. Since factors that may result in fluctuations in value are taken into account in estimating the price, this price may fluctuate when different assumptions are used.

The contract (notional) amount of derivatives in the section “Estimated Fair Value and Other Matters Related to Financial Instruments” is not an indicator of the actual risk involved in derivative transactions.

## Notes to the Consolidated Financial Statements

For the years ended March 31, 2019 and 2018

### (2) Estimated Fair Value and Other Matters Related to Financial Instruments

Carrying value on the consolidated balance sheet as of March 31, 2019 and unrealized gains (losses) are shown in the following table. Please note that for those items of which obtaining an estimated fair value is deemed to be extremely difficult, such differences are not stated (Please refer to note 2).

	Millions of yen					
	2019			2018		
	Book value	Fair market value	Difference	Book value	Fair market value	Difference
(1) Cash and deposits .....	<b>¥26,062</b>	<b>¥26,062</b>	<b>¥ -</b>	¥26,632	¥26,632	¥ -
(2) Notes receivable, accounts receivable from completed construction contracts and other .....	<b>58,840</b>	<b>58,840</b>	-	52,408	52,408	-
(3) Electronically recorded monetary claims.....	<b>3,027</b>	<b>3,027</b>	-	4,369	4,369	-
(4) Short-term investment securities .....	<b>11,000</b>	<b>11,000</b>	-	12,000	12,000	-
(5) Investment securities ...	<b>6,501</b>	<b>6,501</b>	-	6,570	6,570	-
<b>Total assets</b>	<b>¥105,430</b>	<b>¥105,430</b>	<b>¥ -</b>	<b>¥101,979</b>	<b>¥101,979</b>	<b>¥ -</b>
(6) Notes payable, accounts payable for construction contracts and other .....	<b>¥32,287</b>	<b>¥32,287</b>	<b>¥ -</b>	¥33,919	¥33,919	¥ -
(7) Electronically recorded obligations .....	<b>12,101</b>	<b>12,101</b>	-	10,609	10,609	-
(8) Accounts payable-other ...	<b>1,464</b>	<b>1,464</b>		1,866	1,866	
(9) Long-term loans payable(*) .....	<b>9,700</b>	<b>9,726</b>	<b>26</b>	9,700	9,693	(7)
<b>Total liabilities</b>	<b>¥55,552</b>	<b>¥55,578</b>	<b>¥26</b>	<b>¥56,094</b>	<b>¥56,087</b>	<b>¥(7)</b>
<b>Derivatives transactions</b>	-	-	-	-	-	-

# Notes to the Consolidated Financial Statements

For the years ended March 31, 2019 and 2018

	Thousands of U.S. dollars (Note 3)		
	2019		
	Book value	Fair market value	Difference
(1) Cash and deposits .....	\$234,768	\$234,768	\$ -
(2) Notes receivable, accounts receivable from completed construction contracts and other .....	530,042	530,042	-
(3) Electronically recorded monetary claims .....	27,267	27,267	-
(4) Short-term investment securities .....	99,089	99,090	-
(5) Investment securities ...	58,560	58,560	-
<b>Total assets</b>	<b>\$949,726</b>	<b>\$949,727</b>	<b>\$ -</b>
(6) Notes payable, accounts payable for construction contracts and other .....	\$290,845	\$290,845	\$ -
(7) Electronically recorded obligations	109,012	109,012	-
(8) Accounts payable-other ...	13,187	13,187	
(9) Long-term loans payable(*) .....	87,379	87,609	230
<b>Total liabilities</b>	<b>\$500,423</b>	<b>\$500,653</b>	<b>\$230</b>
<b>Derivatives transactions</b>	<b>-</b>	<b>-</b>	<b>-</b>

(\*) Current portion of long-term loans payable were included in Long-term loans payable

# Notes to the Consolidated Financial Statements

For the years ended March 31, 2019 and 2018

## Note

### 1. Valuation method of fair value of financial instruments

#### Assets

- (1) Cash and deposits, and (2) Notes receivable, accounts receivable from completed construction contracts and other, (3) Electronically recorded monetary claims.

Since these items are settled in a short period of time and have estimated fair values that are virtually the same as the carrying value on the Company's book, the book value has been used.

- (4) Short-term investment securities

Since these items are the certificates of deposits and commercial papers that are settled in a short period of time and have estimated fair values that are virtually the same as the carrying value on the Company's book, the book value has been used.

- (5) Investment securities

The estimated fair values of these items are as follows. Stocks are valued at quoted price in active markets. Bonds are valued at the price provided by the financial institutions.

#### Liabilities

- (6) Notes payable, accounts payable for construction contracts and other, (7) Electronically recorded obligations, (8) accounts payable-other

Since these items are settled in a short period of time and have estimated fair values that are virtually the same as the carrying value on the Company's book, the book value has been used.

- (9) Long-term loans payable

Fair values of long-term loans payable are calculated by discounting the total amount of the principal and interest of such borrowed money at the interest rates considered to be applicable to new borrowings.

The long-term loans payable with variable interest rates hedged by interest rate swaps, subject to the special treatment are calculated by discounting the total amount of the principal and interest of such borrowed money processed the same as the interest swap rate at the rational estimate interest rates to be applicable to similar borrowings.

#### Derivative transactions

The fair value of interest rate swaps subject to special treatment embedded in long-term loans subject to hedging is included in the fair value of the corresponding long-term loan. (Note 1 (8))

### 2. Items for which obtaining an estimated fair value is deemed to be extremely difficult

Items	Book value Millions of yen		Thousands of U.S. dollars (Note 3)
	2019	2018	2019
Unlisted shares	<b>¥760</b>	¥746	<b>\$6,842</b>

The items were not included in "(5) Investment securities" at March 31, 2019 and 2018, because they were not publicly traded, and obtaining an estimated fair value is deemed to be extremely difficult.

# Notes to the Consolidated Financial Statements

For the years ended March 31, 2019 and 2018

## 3.Redemption schedule after the balance sheet date for monetary claims and securities with maturity dates

	Millions of yen							
	March 31, 2019				March 31, 2018			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash and deposits .....	¥26,026	¥ -	¥ -	¥ -	¥26,606	¥ -	¥ -	¥ -
Notes receivable, accounts receivable from completed construction contracts and other .....	58,840	-	-	-	52,408	-	-	-
Electronically recorded monetary claims .....	3,027	-	-	-	4,369	-	-	-
Short-term investment securities .....	11,000	-	-	-	12,000	-	-	-
Asset total	¥98,893	¥ -	¥ -	¥ -	¥95,383	¥ -	¥ -	¥ -

Thousands of U.S. dollars (Note 3)				
	March 31, 2019			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash and deposits .....	\$234,451	\$ -	\$ -	\$ -
Notes receivable, accounts receivable from completed construction contracts and other .....	530,042	-	-	-
Electronically recorded monetary claims .....	27,267	-	-	-
Short-term investment securities .....	99,090	-	-	-
<b>Asset total</b>	<b>\$890,850</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

## 4. Repayment schedule after the balance sheet date for long-term loans and short-term loans.

Millions of yen					
	March 31, 2019		March 31, 2018		
	Short-term loans	Long-term loans	Short-term loans	Long-term loans	
Due within one year .....	-	¥ 1,000	-	¥ -	
Due after one to two years .....	-	200	-	1,000	
Due after two to three years .....	-	5,500	-	200	
Due after three to four years .....	-	3,000	-	5,500	
Due after four to five years .....	-	-	-	3,000	
Due after five years .....	-	-	-	-	

## **Notes to the Consolidated Financial Statements**

*For the years ended March 31, 2019 and 2018*

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	Thousands of U.S. dollars (Note 3)	
	<b>March 31, 2019</b>	
	Short-term loans	Long-term loans
Due within one year .....	-	<b>\$9,008</b>
Due after one to two years .....	-	<b>1,802</b>
Due after two to three years .....	-	<b>49,545</b>
Due after three to four years .....	-	<b>27,025</b>
Due after four to five years .....	-	-
Due after five years .....	-	-

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# Notes to the Consolidated Financial Statements

For the years ended March 31, 2019 and 2018

## 12. Investment Securities

Investment securities as of March 31, 2019 and 2018 were as follows:

(1) Held-to-maturity debt securities with market quotations are not applicable for the year ended March 31, 2019.

(2) Marketable securities

	Millions of yen					
	2019			2018		
	Acquisition cost	Fair market value	Difference	Acquisition cost	Fair market value	Difference
<b>Marketable securities with unrealized gains</b>						
Equity securities .....	¥2,329	¥6,342	¥4,013	¥2,325	¥6,418	¥4,093
Debt securities:						
Convertible bonds ...	-	-	-	-	-	-
Others .....	-	-	-	-	-	-
<b>Sub total</b>	<b>¥2,329</b>	<b>¥6,342</b>	<b>¥4,013</b>	<b>¥2,325</b>	<b>¥6,418</b>	<b>¥4,093</b>
<b>Marketable securities with unrealized losses</b>						
Equity securities .....	¥204	¥159	¥(45)	¥204	¥152	¥(52)
Debt securities:						
Convertible bonds ...	-	-	-	-	-	-
Others .....	-	-	-	-	-	-
<b>Sub total</b>	<b>¥204</b>	<b>¥159</b>	<b>¥(45)</b>	<b>¥204</b>	<b>¥152</b>	<b>¥(52)</b>
<b>Total</b>	<b>¥2,533</b>	<b>¥6,501</b>	<b>¥3,968</b>	<b>¥2,529</b>	<b>¥6,570</b>	<b>¥4,041</b>

	Thousands of U.S. dollars (Note 3)		
	2019		
	Acquisition cost	Fair market value	Difference
<b>Marketable securities with unrealized gains</b>			
Equity securities .....	\$20,977	\$57,132	\$36,155
Debt securities:			
Convertible bonds ...	-	-	-
Others .....	-	-	-
<b>Sub total</b>	<b>\$20,977</b>	<b>\$57,132</b>	<b>\$36,155</b>
<b>Marketable securities with unrealized losses</b>			
Equity securities .....	\$1,837	\$1,428	\$(409)
Debt securities:			
Convertible bonds ...	-	-	-
Others .....	-	-	-
<b>Sub total</b>	<b>\$1,837</b>	<b>\$1,428</b>	<b>\$(409)</b>
<b>Total</b>	<b>\$22,814</b>	<b>\$58,560</b>	<b>\$35,746</b>



# Notes to the Consolidated Financial Statements

For the years ended March 31, 2019 and 2018

Non-marketable securities book value ¥631 million (\$5,682 thousand) were not included in “Marketable securities” at March 31, 2019, because it is not practicable to estimate the fair value because of a lack of market prices and difficulty in estimating fair value without incurring excessive cost.

(3) Marketable securities sold for the years ended March 31, 2019 and 2018.

Millions of yen						
	2019			2018		
	Proceeds from sales	Total gain	Total loss	Proceeds from sales	Total gain	Total loss
Equity securities .....	¥-	¥-	¥-	¥1,045	¥754	¥-
Debt securities:						
Convertible bonds ...	-	-	-	-	-	-
Others .....	-	-	-	-	-	-
<b>Total</b>	<b>¥-</b>	<b>¥-</b>	<b>¥-</b>	<b>¥1,045</b>	<b>¥754</b>	<b>¥-</b>

  

Thousands of U.S. dollars (Note 3)						
	2019			2018		
	Proceeds from sales	Total gain	Total loss	Proceeds from sales	Total gain	Total loss
Equity securities .....	\$-	\$-	\$-	\$-	\$-	\$-
Debt securities:						
Convertible bonds ...	-	-	-	-	-	-
Others .....	-	-	-	-	-	-
<b>Total</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>

## 13. Derivative and Hedging Activities

For the years ended March 31, 2019 and 2018

1. Derivatives transactions for which hedge accounting does not apply

None

2. Derivatives transactions for which hedge accounting applies

Millions of yen								
Method of hedge accounting:	Type of transaction	Hedged item	March 31, 2019			March 31, 2018		
			Contract amount	Portion over 1 year	Fair value	Contract amount	Portion over 1 year	Fair value
Special treatment of interest-rate swaps	Interest rate swap transaction Floating receiving, fixed payment	Long-term loans payable	¥1,000	¥-	Note	¥1,000	¥1,000	Note

# Notes to the Consolidated Financial Statements

For the years ended March 31, 2019 and 2018

Method of hedge accounting:	Type of transaction	Hedged item	Thousands of U.S. dollars (Note 3)		
			March 31, 2019		
			Contract amount	Portion over 1 year	Fair value
Special treatment of interest-rate swaps	Interest rate swap transaction Floating receiving, fixed payment	Long-term loans payable	\$9,008	\$-	Note

Note) The fair value of interest rate swaps subject to special treatment embedded in long-term loans subject to hedging is included in the fair value of the corresponding long-term loan.

## 14. Retirement Benefits

### (1) Summary of a retirement benefit scheme

The Company and its domestic consolidated subsidiaries operate funded and unfunded defined retirement benefit plans covering substantially all employees. On October 1, 2008, the Company and its domestic consolidated subsidiaries have transferred from the qualified pension plan to the defined benefit pension plan.

All defined retirement benefit pension plan provide a lump sum or pension based on salaries and terms. The lump sum payment plans provide a lump sum based on salaries, years of service and rank as retirement benefit.

There are 38 domestic consolidated subsidiaries that participate in another type of retirement benefit plan, which is operated by two independent pension plans.

### (2) Defined benefit plan

- 1) The changes in the retirement benefit obligation during the years ended March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2019	2018	2019
Balance at the beginning of the year.....	¥10,541	¥10,751	\$94,949
Service costs .....	515	510	4,640
Interest costs .....	115	117	1,036
Actuarial gain or loss .....	(271)	(145)	(2,439)
Payment of retirement benefits .....	(674)	(693)	(6,071)
Balance at the end of the year.....	¥10,226	¥10,540	\$92,115

Note) Domestic consolidated subsidiaries calculate the projected benefit obligation by the simple method permitted under the Japanese accounting standard.

## Notes to the Consolidated Financial Statements

For the years ended March 31, 2019 and 2018

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

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2019	2018	2019
Balance at the beginning of the year .....	<b>¥9,519</b>	¥9,460	<b>\$85,747</b>
Expected return on plan assets .....	<b>238</b>	237	<b>2,144</b>
Actuarial gain or loss .....	<b>(134)</b>	78	<b>(1,207)</b>
Contributions by the Company .....	<b>409</b>	419	<b>3,680</b>
Payment of retirement benefits .....	<b>(653)</b>	(675)	<b>(5,879)</b>
Balance at the end of the year .....	<b>¥9,379</b>	¥9,519	<b>\$84,485</b>

3) The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2019 and 2018 for the Company's and consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars (Note 3)
March 31	2019	2018	2019
Funded retirement benefit obligations .....	<b>¥10,125</b>	¥10,453	<b>\$91,205</b>
Plan assets at fair value.....	<b>(9,379)</b>	(9,519)	<b>(84,485)</b>
	<b>746</b>	934	<b>6,720</b>
Unfunded retirement benefit obligations .....	<b>101</b>	88	<b>910</b>
Net liability in the consolidated balance sheet.....	<b>847</b>	1,022	<b>7,630</b>
Liability for retirement benefits.....	<b>847</b>	1,022	<b>7,630</b>
Net defined benefit liability in the consolidated balance sheet .....	<b>¥847</b>	¥1,022	<b>\$7,630</b>

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

	Millions of yen		Thousands of U.S. dollars (Note 3)
March 31	2019	2018	2019
Service costs .....	<b>¥515</b>	¥510	<b>\$4,641</b>
Interest costs .....	<b>115</b>	117	<b>1,036</b>
Expected return on plan assets .....	<b>(238)</b>	(236)	<b>(2,144)</b>
Amortization of actuarial gain (loss).....	<b>177</b>	82	<b>1,591</b>
Amortization of prior service costs .....	<b>(2)</b>	(2)	<b>(15)</b>
Retirement benefit expense .....	<b>567</b>	471	<b>5,109</b>

Note) Domestic consolidated subsidiaries calculate the projected benefit obligation by the simple method permitted under the Japanese accounting standard.

## Notes to the Consolidated Financial Statements

For the years ended March 31, 2019 and 2018

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

March 31	Millions of yen		Thousands of U.S. dollars (Note 3)
	2019	2018	2019
Prior service cost .....	¥2	¥2	\$15
Actuarial gain and loss .....	(314)	(304)	(2,824)
Total	¥(312)	¥(302)	\$(2,809)

6) The components of retirement benefits liability adjustments included in accumulated other comprehensive income (before the tax effect) as of March 31, 2019 and 2018 are as follows;

March 31	Millions of yen		Thousands of U.S. dollars (Note 3)
	2019	2018	2019
Unrecognized prior service costs .....	¥(3)	¥(5)	\$ (30)
Unrecognized actuarial differences .....	154	468	1,391
Total	¥151	¥463	\$1,361

### 7) Plan assets

#### i) The breakdown of plan assets

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2019 and 2018 are as follows:

March 31	2019	2018
Bonds .....	57%	54%
Stocks .....	25	27
General accounts.....	11	11
Cash and deposits.....	1	2
Others .....	6	6
Total	100	100

#### ii) Estimation method of the long-term expected rate of return

The expected long-term return rate on plan assets is determined based on the current and expected future distribution of plan assets and the current and expected future long-term return rate on various assets of which plan assets are composed.

## Notes to the Consolidated Financial Statements

For the years ended March 31, 2019 and 2018

8) The assumptions used in the actuarial computation (weighted average);

March 31	2019	2018
Discount rate .....	<b>1.1%</b>	1.1%
Long-term expected rate of return.....	<b>2.5</b>	2.5
Expected rates of salary increase .....	<b>6.0</b>	6.7

(3) Defined contribution plans

Annual contributions to the defined contribution plans for the years ended March 31, 2019 and 2018 are as follows;

March 31	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
	<b>¥38</b>	¥56	<b>\$341</b>

# Notes to the Consolidated Financial Statements

For the years ended March 31, 2019 and 2018

## 15. Accounting for Income Taxes

### (1) Significant components of deferred tax assets and liabilities

At March 31, 2019 and 2018, significant components of deferred tax assets and liabilities were as follows:

March 31,	Millions of yen		Thousands of U.S. dollars (Note 3)
	2019	2018	2019
Deferred tax assets:			
Accrued expenses .....	<b>¥606</b>	¥517	<b>\$5,462</b>
Impairment loss on fixed assets .....	<b>507</b>	552	<b>4,568</b>
Valuation loss on merchandise .....	<b>198</b>	211	<b>1,781</b>
Net defined benefit liability.....	<b>261</b>	308	<b>2,354</b>
Allowance for loss related to Anti-Monopoly Act ..	<b>1,581</b>	1,464	<b>14,240</b>
Reserve for corporate tax.....	<b>152</b>	135	<b>1,369</b>
Others .....	<b>296</b>	290	<b>2,666</b>
Sub total of deferred tax assets .....	<b>3,601</b>	3,477	<b>32,440</b>
Less valuation allowance .....	<b>(2,295)</b>	(2,078)	<b>(20,672)</b>
Total of deferred tax assets .....	<b>1,306</b>	1,399	<b>11,768</b>
Deferred tax liabilities			
Accelerated depreciation of fixed assets .....	<b>(322)</b>	(323)	<b>(2,899)</b>
Valuation difference on available-for-sale securities .....	<b>(1,214)</b>	(1,236)	<b>(10,939)</b>
Others .....	<b>(5)</b>	(6)	<b>(43)</b>
Total of deferred tax liabilities .....	<b>(1,541)</b>	(1,565)	<b>(13,881)</b>
Net deferred tax assets (liabilities).....	<b>¥(235)</b>	¥(166)	<b>\$(2,112)</b>

For the years ended March 31, 2019 and 2018, the reconciliation of the statutory tax rate to the effective income tax rate was as follows:

For the year ended March 31	2019	2018
Statutory tax rate .....	<b>30.62%</b>	30.62%
Adjustments		
Permanent non-deductible differences such as entertainment expenses etc. ....	<b>1.68</b>	1.18
Inhabitant tax per capita .....	<b>1.73</b>	3.03
Valuation allowance for deferred tax assets .....	<b>3.74</b>	32.00
Others .....	<b>(1.28)</b>	(2.58)
Effective income tax rate .....	<b>36.49</b>	64.25

## **Notes to the Consolidated Financial Statements**

*For the years ended March 31, 2019 and 2018*

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### **16. Segment Information**

#### **(1) Outline of Reporting Segments**

The Company has defined its reporting segments to be units composing the Company, for which financial information can be separately obtained. The Company's Board of Directors periodically monitors these business segments in order to determine the allocation of management resources and evaluate business results.

The Companies draw up a comprehensive strategy about construction work and a product and service by each management section of the Companies and the main consolidated subsidiary, and develop operation.

Accordingly, the Companies have categorized its operations by products and services that based on each management section of the Companies and the main consolidated subsidiary. The Reporting Segments are Construction, Material sales and Leasing business.

The Construction segment manufactures pavement and engages in engineering, building and business about the overall other construction. The Material sales segment manufactures asphalt and emulsion and engages in the overall other production and sales business for pavement and materials. The Leasing business segment engages in the leasing business of vehicles and apparatuses for office work.

#### **(2) Calculation Method of Sales, Income (Loss), Assets, Liabilities and Other Items by Reporting Segments**

The accounting methods used in the accounting for reporting segments are basically the same as the "Summary of Significant Accounting Policies". Please note that the income (loss) figures of the reporting segments are operating income-based figures.

Inter-segment sales and transfers are based on market prices.

# Notes to the Consolidated Financial Statements

For the years ended March 31, 2019 and 2018

## (3) Sales, Income (Loss), Assets, Liabilities and Other Items by Reporting Segments

For the year ended March 31, 2019	Millions of yen					Consolidated total
	Construction	Material sales	Leasing business	Other	Adjustment	
Sales						
Sales to external customers ...	¥118,307	¥20,720	¥5,428	¥1,840	¥ -	¥146,295
Inter-segment sales .....	17	7,771	1,016	480	(9,284)	-
Total .....	118,324	28,491	6,444	2,320	(9,284)	146,295
Segment income .....	¥6,333	¥3,677	¥351	¥352	¥(2,948)	¥7,765
Segment assets .....	¥74,577	¥27,445	¥11,874	¥2,120	¥35,326	¥151,342
Depreciation .....	¥1,323	¥1,767	¥533	¥24	¥92	¥3,739
Increase of tangible fixed assets and intangible assets .....	¥1,863	¥1,868	¥563	¥22	¥60	¥4,376

For the year ended March 31, 2018	Millions of yen					Consolidated total
	Construction	Material sales	Leasing business	Other	Adjustment	
Sales						
Sales to external customers ...	¥111,255	¥22,014	¥5,835	¥1,586	¥ -	¥140,690
Inter-segment sales .....	34	7,122	996	494	(8,646)	-
Total .....	111,289	29,136	6,831	2,080	(8,646)	140,690
Segment income .....	¥4,785	¥4,459	¥282	¥254	¥(3,038)	¥6,742
Segment assets .....	¥68,848	¥27,378	¥11,975	¥2,206	¥38,218	¥148,625
Depreciation .....	¥1,417	¥1,696	¥551	¥26	¥80	¥3,770
Increase of tangible fixed assets and intangible assets .....	¥1,331	¥4,565	¥404	¥26	¥113	¥6,439

For the year ended March 31, 2019	Thousands of U.S. dollars (Note 3)					Consolidated total
	Construction	Material sales	Leasing business	Other	Adjustment	
Sales						
Sales to external customers ...	\$1,065,735	\$186,649	\$48,893	\$16,577	\$ -	\$1,317,854
Inter-segment sales .....	152	70,006	9,148	4,321	(83,627)	-
Total .....	1,065,887	256,655	58,041	20,898	(83,627)	1,317,854
Segment income .....	\$57,048	\$33,121	\$3,165	\$3,167	\$(26,558)	\$69,943
Segment assets .....	\$671,803	\$247,231	\$106,966	\$19,099	\$318,219	\$1,363,318
Depreciation .....	\$11,915	\$15,919	\$4,801	\$217	\$831	\$33,683
Increase of tangible fixed assets and intangible assets .....	\$16,777	\$16,829	\$5,068	\$200	\$542	\$39,416

Note) 1. "Others" includes the real estate, development and sales of the software, sales of the apparatus for office work, non-life insurance agency, and administration of sports facilities.

2. "Adjustment" is as follows:



# Notes to the Consolidated Financial Statements

For the years ended March 31, 2019 and 2018

Segment income	Millions of yen		Thousands of U.S. dollars (Note 3)
	2019	2018	2019
Elimination of inter segment transactions .....	¥16	¥16	\$147
Corporate expense (*).....	¥(2,964)	¥(3,054)	\$(26,705)
Total .....	¥(2,948)	¥(3,038)	\$(26,558)

\*Corporate expenses mainly comprise headquarters' general and administrative expenses that are not allocable to any reporting segment.

Segment assets	Millions of yen		Thousands of U.S. dollars (Note 3)
	2019	2018	2019
Elimination of inter segment transactions.....	¥(680)	¥(807)	\$(6,128)
Corporate assets (*).....	¥36,006	¥39,026	\$324,348
Total .....	¥35,326	¥38,219	\$318,220

\*Corporate assets mainly comprise operative fund (cash and deposits) long-term investment capital and general and administrative assets that are not allocable to any reporting segment.

Depreciation and Increase of tangible fixed assets and intangible assets adjustment of the "Other" category are not allocable to any reporting segment, and represent expenses of the Company's headquarter reporting.

3. Segment profit is reconciled with operating income on the consolidated financial statements.

## Related information

### (a) Information about products and services

Information about products and services is omitted as the Company classifies such segments in the same way as it does its reporting segments.

### (b) Information about geographic areas

#### (i) Operating revenues

Information about geographic areas is omitted as operating revenues attributable to the third-party customers in Japan exceed 90% of the operating revenues reported in the Consolidated Statements of Income.

#### (ii) Tangible fixed assets

Information about geographic areas is omitted as Tangible fixed assets located in Japan exceed 90% of the Tangible fixed assets reported in the Consolidated Balance Sheets.

### (c) Information about major customers

For the year ended March 31, 2019

Information about major customers is omitted as there are no third-party customers that account is more than 10% of the operating revenues reported in the Consolidated Statements of Income.

# Notes to the Consolidated Financial Statements

For the years ended March 31, 2019 and 2018

For the year ended March 31, 2018

Customers	Net sales Millions of yen	Relevant segment
Shimizu Corporation	<b>¥ 17,100</b>	Construction , Material sales, Leasing business

Information on Impairment Loss on Tangible Fixed Assets by reporting segment

For the year ended March 31, 2019

	Millions of yen					
March 31, 2019	Construction	Material sales	Leasing business	Other	Adjustment	Total
Impairment loss	<b>¥69</b>	¥ -	¥ -	¥ -	¥ -	<b>¥69</b>

Note) 1. "Others" includes the real estate, development and sales of the software, sales of the apparatus for office work, non-life insurance agency, and administration of sports facilities.

For the year ended March 31, 2018

	Millions of yen					
March 31, 2018	Construction	Material sales	Leasing business	Other	Adjustment	Total
Impairment loss	¥155	¥ 4	¥ -	¥ -	¥15	¥174

Note) "Others" includes the real estate, development and sales of the software, sales of the apparatus for office work, non-life insurance agency, and administration of sports facilities.

Information on Amortization on Goodwill and Unamortized Balance by reporting segment

Information on Amortization on Goodwill and Unamortized Balance by reporting segments is omitted, as the amount was insignificant as of and for the year ended March 31, 2018, and not applicable for the year ended March 31, 2019.

Information on Gain on Negative Goodwill by reporting segment

Information on gain on negative goodwill by reporting segments is not applicable for the years ended March 31, 2019 and 2018.

## Geographic Segment Information

Segment information classified by geographic area was omitted because the majority of the Companies' operations were performed in Japan.

## Notes to the Consolidated Financial Statements

For the years ended March 31, 2019 and 2018

### Export Sales and Sales by overseas subsidiaries

Segment information for export sales and sales by overseas subsidiaries was omitted since such sales make up less than 10% of consolidated sales and are, thus, immaterial.

### 17. Related Party Transactions

The material transactions of the Company with related companies and individuals, excluding transactions with consolidated subsidiaries which were eliminated in the consolidated financial statements and other than those disclosed elsewhere in these financial statements, for the years ended March 31, 2019 and 2018 were as follows:

				Millions of yen / Thousands of U.S. dollars (Note 3)					
				Transaction		Resulting accounting balance			
Name of related company	Paid-in capital	Principal Business	Equity ownership percentage by the company	Description of the company's transactions	For the year ended March 31		Account	At March 31	
					2019	2018		2019	2018
Shimizu Corporation	¥74,365 million	Construction & Development	24.95%				Accounts receivable from completed construction contracts	¥5,116	¥4,892
								\$(46,084)	
				Construction contracts	¥13,132	¥15,866	Electronically recorded monetary claims	¥1,149	¥3,044
					\$(118,295)			\$(10,347)	
							Advances received on uncompleted construction contracts	¥616	¥457
								\$(5,551)	
				Material sales	¥17	¥17	Accounts receivable -trade	¥5	¥3
				\$(157)					
							Accounts receivable -other	¥5	¥7
								\$(42)	
				Construction order	¥391	¥10	Electronically recorded obligations	¥-	¥6
					\$(3,521)			\$(-)	

The terms and conditions of the above transactions are on an arm's-length basis.

# Notes to the Consolidated Financial Statements

For the years ended March 31, 2019 and 2018

## 18. Per Share Data

Per Share	Yen		U.S. dollars (Note 3)
	2019	2018	2019
Net assets .....	<b>¥9,200.63</b>	¥8,824.68	<b>\$82.88</b>
Profit attributable to owners of parent :			
Basic .....	<b>¥517.72</b>	¥164.88	<b>\$4.66</b>
Diluted .....	-	-	-
Cash dividends			
Common shares .....	<b>¥200.00</b>	¥150.00	<b>\$1.80</b>

Note) Diluted per share amounts are not shown because no convertible bonds have been issued.

10 common shares were consolidated into 1 share on October 1, 2017. Net assets and profit attributable to owners of parent for the period ended March 31, 2017 were calculated on the assumption that the share consolidation was executed at the beginning of said fiscal year.

Calculation bases for net assets per share as of March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2019	2018	2019
Net assets .....	<b>¥81,003</b>	¥77,758	<b>\$729,692</b>
Deduction amount .....	<b>¥127</b>	¥185	<b>\$1,146</b>
(Non-controlling interests) .....	<b>¥(127)</b>	¥(185)	<b>\$(1,146)</b>
Net assets available to common stockholders ....	<b>¥80,876</b>	¥77,573	<b>\$728,547</b>
Common stock outstanding except for treasury stock (in thousands of shares) .....	<b>8,790</b>	8,791	

Calculation bases for profit per share for the years ended March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2019	2018	2019
Profit attributable to owners of parent .....	<b>¥4,551</b>	¥1,450	<b>\$40,996</b>
Profit not available to common stockholders ....	-	-	-
(Net income appropriated as bonuses to directors) .....	-	-	-
Profit attributable to owners of parent available to common stockholders .....	<b>¥4,551</b>	¥1,450	<b>\$40,996</b>
Average common stock outstanding (in thousands of shares). ....	<b>8,790</b>	8,791	

## Notes to the Consolidated Financial Statements

For the years ended March 31, 2019 and 2018

### 19. Short-term Loans Payable and Long-term Loans Payable

	Millions of yen		Thousands of U.S. dollars (Note 3)	Average interest rate (%)	Repayment period
March 31	2019	2018	2019		
Short-term loans payable ...	¥-	¥-	\$-	-	-
Current portion of long-term loans payable .....	1,000	-	-	-	-
Long-term loans payable (excluding current portion) ...	8,700	9,700	87,380	0.83	2020~ 2023
Total	¥9,700	¥9,700	\$87,380		

Annual maturities of long-term loans payable are as follows:

March 31, 2019	Millions of yen	Thousands of U.S. dollars (Note 3)
Due after one to two years .....	¥ 200	\$ 1,802
Due after two to three years .....	5,500	49,545
Due after three to four years .....	3,000	27,024
Due after four to five years .....	-	-
	¥8,700	\$78,371

### 20. Asset Retirement Obligations

In accordance with Article 92, Paragraph 2 of “Regulation for Consolidated Financial Statements” the amount of asset retirement obligations as at April 1, 2018 and March 31, 2019 has not been presented because it represented less than 1% of total liabilities and net assets on the consolidated balance sheets.

## Notes to the Consolidated Financial Statements

For the years ended March 31, 2019 and 2018

### 21. Quarterly Information (Unaudited)

	Millions of yen			
	The first quarter Apr. 1 – Jun. 30, 2018	The second quarter Jul. 1 – Sep. 30, 2018	The third quarter Oct. 1 – Dec. 31, 2018	The fourth quarter Jan. 1 – Mar. 31, 2019
Net Sales .....	¥31,093	¥63,340	¥103,509	¥146,295
Profit before income taxes.	¥685	¥1,810	¥4,596	¥7,174
Profit attributable to owners of parent .....	¥375	¥1,129	¥2,978	¥4,551
Profit attributable to owners of parent of per share (Yen) .....	¥42.68	¥128.49	¥338.75	¥517.72
	Thousands of U.S. dollars (Note 3)			
	The first quarter Apr. 1 – Jun. 30, 2018	The second quarter Jul. 1 – Sep. 30, 2018	The third quarter Oct. 1 – Dec. 31, 2018	The fourth quarter Jan. 1 – Mar. 31, 2019
Net Sales .....	\$280,093	\$570,581	\$932,429	\$1,317,854
Profit before income taxes.	\$6,174	\$16,304	\$41,401	\$64,620
Profit attributable to owners of parent .....	\$3,380	\$10,175	\$26,824	\$40,996
Profit attributable to owners of parent of per share (U.S. dollars) .....	\$0.38	\$1.16	\$3.05	\$4.66

Note) Diluted per share amounts are not shown because no convertible bonds have been issued.