

Financial Report

Year ended June 30, 2020

Company Profile

Nippon Koei Co., Ltd. is Japan's leading engineering consultant. In terms of human resources, we have the largest number of engineers and specialists in the industry capable of solving the most sophisticated and complex issues which nations face. Our business activities cover five market areas: namely, domestic infrastructure market, international infrastructure market, electric power engineering market, urban & spatial development market, and participant in energy business.

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Financial Highlights

Consolidated

Years Ended June 30	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Net sales	¥112,214	¥108,589	\$1,043,123
Net income attributable to owner of the parent ...	2,727	3,319	25,350
	Yen		U.S. Dollars
Net income per share	¥180.30	¥212.50	\$1.68
	Millions of Yen		Thousands of U.S. Dollars
As of June 30	2020	2019	2020
Total assets	¥130,216	¥113,175	\$1,210,467
Equity	59,471	60,206	552,833

Nonconsolidated

Years Ended June 30	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Net sales	¥69,432	¥68,014	\$645,429
Net income	2,527	2,329	23,491
	Yen		U.S. Dollars
Net income per share	¥167.07	¥149.16	\$1.55
	Millions of Yen		Thousands of U.S. Dollars
As of June 30	2020	2019	2020
Total assets	¥106,240	¥95,339	\$987,590
Equity	53,445	53,867	496,816

Notes: 1. In Japan, a company can establish its fiscal year in accordance with the Companies Act and other related laws and regulations. By resolution of the 68th General Shareholders' Meeting held on June 27, 2013, the fiscal year of Nippon Koei Co., Ltd., has been established as July 1 to June 30.

2. Per share amounts are based on the weighted average number of shares outstanding during each year.

3. The dollar amounts in this report represent translations of yen, for convenience only, at the rate of ¥107.575 to \$1, the approximate rate of exchange at June 30, 2020.

Consolidated Balance Sheet

Nippon Koei Co., Ltd. and Consolidated Subsidiaries
June 30, 2020

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
CURRENT ASSETS:			
Cash and deposits	¥16,003	¥13,147	\$148,761
Notes and accounts receivable - trade	39,048	29,938	362,984
Work in process (Note 12)	1,725	5,709	16,035
Other	4,948	3,855	45,996
Allowance for doubtful accounts	(308)	(203)	(2,863)
Total current assets	61,416	52,446	570,913
NON-CURRENT ASSETS:			
PROPERTY, PLANT AND EQUIPMENT			
Buildings and structures (Note 8)	24,574	14,831	228,436
Accumulated depreciation	(9,009)	(9,409)	(83,746)
Buildings and structures, net	15,565	5,422	144,690
Machinery and equipment (Note 8)	4,313	3,956	40,093
Accumulated depreciation	(2,811)	(2,704)	(26,131)
Machinery and equipment, net	1,502	1,252	13,962
Furniture and fixtures	5,267	4,872	48,961
Accumulated depreciation	(4,015)	(3,955)	(37,323)
Furniture and fixtures, net	1,252	917	11,638
Land	16,108	16,035	149,737
Lease assets	4,555	185	42,343
Accumulated depreciation	(831)	(70)	(7,725)
Lease assets, net	3,724	115	34,618
Construction in progress	2,605	6,142	24,216
Total property, plant and equipment	40,756	29,883	378,861
INTANGIBLE ASSETS			
Goodwill	7,398	8,193	68,771
Other	4,735	5,308	44,016
Total intangible assets	12,133	13,501	112,787
INVESTMENTS AND OTHER ASSETS			
Investment securities (Note 9)	6,501	7,229	60,432
Long-term borrowings	981	2,276	9,119
Deferred tax assets	1,542	1,503	14,334
Asset for retirement benefits	4,080	3,943	37,927
Other (Note 18)	2,965	2,563	27,562
Allowance for doubtful accounts	(158)	(169)	(1,468)
Total investments and other assets	15,911	17,345	147,906
Total non-current assets	68,800	60,729	639,554
TOTAL	¥130,216	¥113,175	\$1,210,467

LIABILITIES AND EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
CURRENT LIABILITIES:			
Notes and accounts payable - trade	¥5,724	¥5,037	\$53,209
Short-term borrowings (Note 10)	13,000	—	120,846
Current portion of long-term borrowings	2,781	2,083	25,852
Income taxes payable	1,266	1,137	11,769
Advances received	8,009	6,688	74,450
Provision for bonuses	2,201	1,973	20,460
Provision for directors' bonuses	52	91	483
Allowance for anticipated project loss (Note 12) ...	497	120	4,620
Provision for business structure improvement ...	93	—	865
Other	11,877	10,954	110,407
Total current liabilities	45,500	28,083	422,961
NON-CURRENT LIABILITIES:			
Long-term borrowings	14,922	17,639	138,713
Deferred tax liabilities	2,586	2,819	24,039
Lease obligations	3,079	74	28,622
Provision for directors' retirement benefits	18	30	167
Allowance for environmental measures	34	34	316
Liability for retirement benefits	3,814	3,818	35,454
Other	792	472	7,362
Total non-current liabilities	25,245	24,886	234,673
Total liabilities	70,745	52,969	657,634
EQUITY:			
Common stock, authorized, 38,000,000 shares in 2020 and 38,000,000 shares in 2019; issued, 15,933,058 shares in 2020 and 15,919,544 shares in 2019	7,459	7,438	69,338
Capital surplus	6,510	6,489	60,517
Retained earnings	49,208	47,864	457,430
Treasury stock-at cost 861,023 shares in 2020 and 235,268 shares in 2019	(2,416)	(787)	(22,460)
Total shareholders' equity	60,761	61,004	564,825
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	298	456	2,770
Foreign currency translation adjustments	(3,486)	(3,064)	(32,405)
Defined retirement benefit plans	673	694	6,256
Total Accumulated other comprehensive income ...	(2,515)	(1,914)	(23,379)
Noncontrolling interests	1,225	1,116	11,387
Total equity	59,471	60,206	552,833
TOTAL	¥130,216	¥113,175	\$1,210,467

See notes to consolidated financial statements.

Consolidated Statement of Income and Comprehensive Income

Nippon Koei Co., Ltd. and Consolidated Subsidiaries
Year ended June 30, 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
NET SALES	¥112,214	¥108,589	\$1,043,123
COST OF SALES (Note 12)	78,762	75,627	732,159
Gross profit	33,452	32,962	310,964
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 14) ...	28,861	27,851	268,287
Operating income	4,591	5,111	42,677
OTHER INCOME:			
Interest income	197	223	1,831
Dividend income	143	114	1,329
Gain on sales of investment securities	187	—	1,738
Equity in earnings of associated companies	63	—	586
Gain on valuation of derivatives	118	4	1,097
Other	243	1,080	2,259
Total other income	951	1,421	8,840
OTHER EXPENSES:			
Interest expense	433	277	4,025
Loss on valuation of investment securities	149	311	1,385
Equity in losses of associated companies	—	129	—
Foreign currency exchange loss	234	164	2,175
Other	122	66	1,134
Total other expenses	938	947	8,719
INCOME BEFORE INCOME TAXES	4,604	5,585	42,798
INCOME TAXES:			
Current	1,940	1,992	18,034
Deferred	(163)	189	(1,515)
Total income taxes	1,777	2,181	16,519
NET INCOME	2,827	3,404	26,279
NET INCOME ATTRIBUTABLE TO:			
Owners of the parent	2,727	3,319	25,350
Noncontrolling interests	100	85	929
OTHER COMPREHENSIVE INCOME (LOSS) (Note 19) :			
Unrealized loss on available-for-sale securities	(159)	(740)	(1,478)
Foreign currency translation adjustment	(439)	(933)	(4,081)
Defined retirement benefit plans	(21)	(290)	(195)
Share of other comprehensive income (loss) of associates accounted for using equity method ...	59	(91)	549
Total other comprehensive loss	(560)	(2,054)	(5,205)
COMPREHENSIVE INCOME	¥2,267	¥1,350	\$21,074
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥2,143	¥1,264	\$19,921
Noncontrolling interests	¥124	¥86	\$1,153
	Yen		U.S. Dollars (Note 1)
PER SHARE OF COMMON STOCK (Note 2 u.):			
Basic net income	¥180.30	¥212.50	\$1.68
Cash dividends applicable to the year	75.00	75.00	0.70

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Nippon Koei Co., Ltd. and Consolidated Subsidiaries
Year ended June 30, 2020

	Thousands		Millions of Yen									
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity	Accumulated Other Comprehensive Income				Noncontrolling Interests	Total Equity
							Unrealized Gain on Available-for- Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total Accumulated Other Comprehensive Income		
BALANCE, JULY 1, 2018	15,541	¥7,415	¥6,466	¥45,529	¥(1,180)	¥58,230	¥1,196	¥(2,045)	¥983	¥134	¥1,086	¥59,450
Issuance of new shares	14	23	23	—	—	46	—	—	—	—	—	46
Adjustment for change in scope of consolidation	—	—	—	209	—	209	—	(17)	—	(17)	—	192
Cash dividends, ¥75.00 per share	—	—	—	(1,193)	—	(1,193)	—	—	—	—	—	(1,193)
Net income attributable to owners of the parent	—	—	—	3,319	—	3,319	—	—	—	—	—	3,319
Purchase of treasury stock	(3)	—	—	—	(8)	(8)	—	—	—	—	—	(8)
Disposal of treasury stock	132	—	—	—	401	401	—	—	—	—	—	401
Net change in the year	—	—	—	—	—	—	(740)	(1,002)	(289)	(2,031)	30	(2,001)
BALANCE, JUNE 30, 2019	15,684	7,438	6,489	47,864	(787)	61,004	456	(3,064)	694	(1,914)	1,116	60,206
Issuance of new shares	14	21	21	—	—	42	—	—	—	—	—	42
Adjustment for change in scope of consolidation	—	—	—	(190)	—	(190)	—	(19)	—	(19)	11	(198)
Cash dividends, ¥75.00 per share	—	—	—	(1,193)	—	(1,193)	—	—	—	—	—	(1,193)
Net income attributable to owners of the parent	—	—	—	2,727	—	2,727	—	—	—	—	—	2,727
Purchase of treasury stock	(749)	—	—	—	(2,002)	(2,002)	—	—	—	—	—	(2,002)
Disposal of treasury stock	123	—	—	—	373	373	—	—	—	—	—	373
Net change in the year	—	—	—	—	—	—	(158)	(403)	(21)	(582)	98	(484)
BALANCE, JUNE 30, 2020	15,072	¥7,459	¥6,510	¥49,208	¥(2,416)	¥60,761	¥298	¥(3,486)	¥673	¥(2,515)	¥1,225	¥59,471

	Thousands of U.S. Dollars (Note 1)										
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity	Accumulated Other Comprehensive Income				Noncontrolling Interests	Total Equity
						Unrealized Gain on Available-for- Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total Accumulated Other Comprehensive Income		
BALANCE, JUNE 30, 2019	\$69,142	\$60,321	\$444,936	\$(7,316)	\$567,083	\$4,239	\$(28,482)	\$6,451	\$(17,792)	\$10,374	\$559,665
Issuance of new shares	196	196	—	—	392	—	—	—	—	—	392
Adjustment for change in scope of consolidation	—	—	(1,766)	—	(1,766)	—	(177)	—	(177)	102	(1,841)
Cash dividends, \$0.70 per share	—	—	(11,090)	—	(11,090)	—	—	—	—	—	(11,090)
Net income attributable to owners of the parent	—	—	25,350	—	25,350	—	—	—	—	—	25,350
Purchase of treasury stock	—	—	—	(18,611)	(18,611)	—	—	—	—	—	(18,611)
Disposal of treasury stock	—	—	—	3,467	3,467	—	—	—	—	—	3,467
Net change in the year	—	—	—	—	—	(1,469)	(3,746)	(195)	(5,410)	911	(4,499)
BALANCE, JUNE 30, 2020	\$69,338	\$60,517	\$457,430	\$(22,460)	\$564,825	\$2,770	\$(32,405)	\$6,256	\$(23,379)	\$11,387	\$552,833

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Nippon Koei Co., Ltd. and Consolidated Subsidiaries
Year ended June 30, 2020

	Millions of Yen		Thousands of
	2020	2019	U.S. Dollars (Note 1)
OPERATING ACTIVITIES:			2020
Income before income taxes	¥4,604	¥5,585	\$42,798
Adjustments for:			
Depreciation and amortization	2,508	1,710	23,314
Amortization of goodwill	538	482	5,001
(Gain) Loss on sales of investment securities ...	(187)	13	(1,738)
Loss on valuation of investment securities	149	311	1,385
Equity in (earnings) losses of associated companies ...	(63)	129	(586)
Gain on sales of property, plant and equipment ...	(2)	(781)	(19)
Increase in allowance for doubtful accounts	94	114	874
Increase in provision for bonuses	287	131	2,668
Increase (Decrease) in allowance for anticipated project loss ...	377	(57)	3,505
Interest and dividend income	(340)	(337)	(3,161)
Interest expenses	433	277	4,025
Gain on derivatives	(115)	(4)	(1,069)
Increase in trade accounts receivable	(9,323)	(2,917)	(86,665)
Decrease in inventories	3,918	2,282	36,421
Increase in trade accounts payable	735	588	6,832
Decrease in accounts payable-other	(273)	(181)	(2,538)
Increase (Decrease) in advanced received	1,318	(2,016)	12,252
(Decrease) Increase in accrued consumption taxes ...	(664)	478	(6,172)
Other - net	747	(786)	6,945
Subtotal	4,741	5,021	44,072
Interest and dividend income received	322	186	2,993
Interest expenses paid	(428)	(266)	(3,978)
Income taxes paid	(1,814)	(1,832)	(16,863)
Net cash provided by operating activities	2,821	3,109	26,224

	Millions of Yen		Thousands of
	2020	2019	U.S. Dollars (Note 1)
INVESTING ACTIVITIES:			2020
Net decrease (increase) in time deposits	¥(793)	¥680	\$(7,372)
Purchase of property, plant and equipment	(6,677)	(3,686)	(62,068)
Proceeds from sales of property, plant and equipment	35	1,846	325
Purchase of intangible assets	(288)	(159)	(2,677)
Proceeds from sales of investment securities	725	559	6,739
Payment for purchase of a newly consolidated subsidiary, net of cash acquired	—	(2,686)	—
Purchase of shares of subsidiaries and associates ...	(358)		(3,328)
Payments of loans receivable	(100)	(600)	(930)
Other - net	(8)	542	(73)
Net cash used in investing activities	(7,464)	(3,504)	(69,384)
FINANCING ACTIVITIES:			
Net increase in short-term borrowings	¥13,000	¥—	\$120,846
Repayments of long-term borrowings	(2,475)	(2,393)	(23,007)
Repayments of lease obligations	(736)	(32)	(6,842)
Disposal of treasury stock	374	401	3,477
Purchase of treasury stock	(2,002)	(8)	(18,610)
Dividends paid	(1,191)	(1,188)	(11,071)
Other - net	(32)	1,283	(298)
Net cash provided by (used in) financing activities	6,938	(1,937)	64,495
EFFECT OF EXCHANGE RATE CHANGE ON CASH AND CASH EQUIVALENTS	(268)	(310)	(2,492)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,027	(2,642)	18,843
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	12,663	15,233	117,713
INCREASE IN CASH AND CASH EQUIVALENTS FROM NEWLY CONSOLIDATED SUBSIDIARIES	81	72	753
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 5)	¥14,771	¥12,663	\$137,309

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Nippon Koei Co., Ltd. and Consolidated Subsidiaries
Year ended June 30, 2020

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 conformity with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications have been made in the 2019 consolidated financial statements to conform to the classifications used in 2020.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Nippon Koei Co., Ltd. (the “Company”) is incorporated and 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 ¥107.575 to \$1, the approximate rate of exchange at June 30, 2020. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation — The consolidated financial statements as of June 30, 2020, include the accounts of the Company and its 69 significant (68 in 2019) subsidiaries (collectively, the “Group”).

PT. Cikaengan Tirta Energi was added in the scope of consolidation from the current fiscal year due to their increased materiality.

Under the control and influence concept, 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 5 (5 in 2019) associated companies are accounted for by the equity method. 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 impact on the accompanying consolidated financial statements would not be significant.

Goodwill represents the excess of cost of an acquisition over the fair value of the net assets of the acquired subsidiaries at the date of acquisition.

Goodwill is amortized using the straight-line method over its useful life, which is estimated as a reasonable period (mainly 10 or 20 years) for which goodwill is expected to have an effect.

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

b. 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 investment trusts, both of which mature or become due within three months of the date of acquisition.

c. Investment Securities — Investment securities are classified and accounted for, depending on management’s intent, as follows:

(1) Held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, are reported at amortized cost; and (2) available-for-sale securities, which are not classified as the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, in a separate component of equity.

Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method. For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

- d. Inventories** — Work in process is stated at the lower of cost, mainly determined by the specific identification cost method, or net selling value.
- e. Property, Plant, and Equipment** —Property, plant, and equipment are stated at cost. Depreciation of property, plant, and equipment of the Company and its consolidated subsidiaries is computed principally by the straight-line method based on the estimated useful lives of the assets. The range of useful lives is principally from 2 to 50 years for buildings and structures, from 2 to 20 years for machinery and equipment, and from 2 to 20 years for furniture and fixtures. The useful lives for lease assets are the terms of the respective leases.
- f. Long-Lived Assets** — The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be 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.
- g. 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.
- h. Retirement and Pension Plans** — The Group has contributory defined benefit pension plans and unfunded retirement benefit plans for the benefit of its employees.

The Group accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the consolidated balance sheet date. The projected benefit obligations are attributed to periods on a straight-line basis. Actual gains and losses and past service costs are amortized and recognized in profit or loss over 13 years.

Hitherto, retirement benefits for directors were provided at the amount that would be required if all directors retired at the consolidated balance sheet date. However, the Group terminated benefit pension plans for directors. The balance in the consolidated balance sheet is the estimated amount for directors who have belonged to the Group since the plans were effective.

- i. Allowance for Anticipated Project Loss** — The Group has made a provision for anticipated losses on uncompleted project contracts.
- j. Provision for business structure improvement** —The Group has made a provision for anticipated expenses or losses relating to business structure improvement implemented at some consolidated subsidiaries.
- k. Asset Retirement Obligations** — An asset retirement obligation is recorded for 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 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.

- l. Employee Stock Ownership Plan** — In accordance with Practical Issues Task Force (“PITF”) No. 30, “Practical Solution on Transactions of Delivering the Company’s Own Stock to Employees etc. through Trusts,” upon transfer of treasury stock to the employee stockownership trust (the “Trust”) by the entity, any difference between the book value and fair value of the treasury stock is recorded in capital surplus. At year-end, the Company records (1) the Company stock held by the Trust as treasury stock in equity, (2) all other assets and liabilities of the Trust on a line-by-line basis, and (3) a liability/asset for the net of (i) any gain or loss on delivery of the stock by the Trust to the employee shareholding association, (ii) dividends received from the entity for the stock held by the Trust, and (iii) any expenses relating to the Trust.
- m. Research and Development Costs** — Research and development costs are charged to income as incurred.
- n. Leases** — Finance lease transactions are capitalized to recognize lease assets and lease obligations in the consolidated balance sheet. All other leases are accounted for as operating leases. Subsidiaries adopting International Financial Reporting Standards (IFRS) have applied International Financial Reporting Standard 16 “Leases” from the current fiscal year. (See Changes in Accounting Policies)
- o. Accrued Bonuses** — Bonuses to employees, directors, and Audit & Supervisory Board members are accrued at the end of the year to which such bonuses are attributable.
- p. Allowance for Environmental Measures** — The Group has made a provision for the treatment of Polychlorinated Biphenyl (“PCB”) Wastes based on the Act on Special Measures concerning Promotion of Proper Treatment of PCB Wastes.
- q. Income Taxes** — The provision for income taxes is computed based on pretax income included in the consolidated statement of income and comprehensive 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.
- r. 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 consolidated balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income and comprehensive income.
- s. Revenue Recognition** — During the progress of operation, the percentage-of-completion method is applied when the extent of progress toward completion, total costs on and total revenue from the contract are reliably estimated. The stage of completion is determined using the cost-to-cost method.
- t. Derivatives and Hedging Activities** — The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rates. Interest rate and currency swaps are utilized by the Group to reduce the risks of foreign currency exchange and interest rate. 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; and gains or losses on derivative transactions are recognized in the consolidated statement of income and comprehensive 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.

Interest rate and currency swaps that qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income.

u. Per Share Information — Basic net income per share is computed by dividing net income attributable to shareholders of common stock by the weighted-average number of shares of common stock outstanding for the period.

Diluted net income per share of common stock is not disclosed because the Group had no securities outstanding that might dilute the per share information for the years ended June 30, 2020 and 2019.

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

v. Accounting Changes and Error Corrections — Under ASBJ Statement No. 24, “Accounting Standard for Accounting Changes and Error Corrections,” and ASBJ Guidance No. 24, “Guidance on Accounting Standard for Accounting Changes and Error Corrections,” accounting treatments are required as follows:

(1) Changes in Accounting Policies:

When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions.

(2) Changes in Presentation:

When the presentation of consolidated financial statements is changed, prior-period consolidated financial statements are reclassified in accordance with the new presentation.

(3) Changes in Accounting Estimates:

A change in an accounting estimate is accounted for in the period of the change if the change affects that period only and is accounted for prospectively if the change affects both the period of the change and future periods.

(4) Corrections of Prior-Period Errors:

When an error in prior-period consolidated financial statements is discovered, those statements are restated.

w. Accounting method for consumption taxes — Consumption tax and local consumption tax are accounted for by the tax-exclusion method.

Changes in Accounting Policies

Application of IFRS 16 “Leases” — Subsidiaries adopting International Financial Reporting Standards (IFRS) have applied International Financial Reporting Standard 16 “Leases” (hereinafter referred to as “IFRS 16”) from the current fiscal year. Accordingly, the lessee shall, in principle, record all leases on the balance sheet in assets and liabilities.

As a result, at the end of the current fiscal year ended June 30, 2020, “Property, plant and equipment” increased by ¥3,552 million (\$33,019 thousand), “Current portion of long-term borrowings” of current liabilities increased by ¥649 million (\$6,033 thousand), and “Long-term borrowings” of non-current liabilities increased by ¥2,957 million (\$27,488 thousand).

The impact on the consolidated statement of income and per share information for the current fiscal year ended June 30, 2020 is immaterial.

New Accounting Pronouncements

Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) and Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 31, 2020) — The International Accounting Standards Board (“IASB”) and Financial Accounting Standards Board of the United States of America (“FASB”) jointly developed a comprehensive accounting standard for revenue recognition and issued Revenue from Contracts with Customers (IFRS No. 15, issued by IASB and Topic 606 issued by FASB) in May 2014. Considering the situation that IFRS No. 15 has become applicable from the fiscal year beginning on or after January 1, 2018, and Topic 606 from the fiscal year beginning on or after December 15, 2017, ASBJ developed a comprehensive accounting standard for revenue recognition and issued it together with implementation guidance.

ASBJ’s basic policy in developing the accounting standard for revenue recognition was to establish accounting standards as a starting point to adopt the basic principles of IFRS No. 15 to ensure comparability with entities reporting under IFRS and to add alternative treatments that would not impair comparability with previous practices and others in Japan.

The Group will not apply this accounting standard because it will voluntarily apply IFRS from the year ending June 30, 2021. Therefore, the Group has not assessed the impact from application for the consolidated financial statements.

3. CHANGES IN PRESENTATION

In the consolidated financial statements, reclassifications and rearrangements which were made in 2019 were changed in 2020 in order to conform to the financial statements disclosed in Japan in accordance with Japanese generally accepted accounting principle.

4. ADDITIONAL INFORMATION

Employee Stock Ownership Plan (“ESOP”) Trust — The Company maintains an ESOP for a part of its employees’ welfare programs which includes transfers of the Company’s own stock to the employees’ stockholders association through a trust.

(1) Overview of the transaction

At a meeting of the Board of Directors held on May 15, 2017, the Company resolved to reintroduce an ESOP as a disposition-type employee shareholding incentive plan to provide the Group’s employees with incentives to improve corporate value and enhance their welfare programs.

The Company also resolved to dispose of a part of treasury stock that the Company owns to an account established in Trust & Custody Services Bank, Ltd. (the “Trust Account E”) by “third-party” allotment en bloc. The ESOP is an incentive plan that distributes the profit of stock price rise for all the employees who join “Nippon Koei Group employees’ stockholders association” (the “Employees’ Stockholders Association”). To initiate the ESOP, the Company concluded the “Stock Benefit Trust (disposition-type ESOP) Agreement;” the trust established pursuant to the role of the agreement shall be referred to as the “ESOP Trust,” whereby the Company is to act as administrator and the role of trustee is assigned to Mizuho Trust & Banking Co., Ltd. (the “Trustee”). The Trustee also concluded an agreement with Trust & Custody Services Bank, Ltd., under which the Trustee is to re-entrust management of security and other asset of the ESOP Trust to Trust & Custody Services Bank, Ltd.

The Trust Account E acquires shares of the Company that the Employees’ Stockholders Association is expected to obtain over the five years after the trust is set up, and periodically sells its holdings to the Employees’ Stockholders Association. If, by the time of the ESOP Trust’s termination, gains equivalent to capital gains on sales of shares are accumulated within the ESOP Trust through sales of Company’s shares by the Trust Account E to the Employees’ Stockholders Association, then those gains will be distributed as residual assets to the Employees’ Stockholders Association enrollees who meet the requirements for eligible beneficiaries. Furthermore, to guarantee funds borrowed by the Trustee that enable the Trust Account E to acquire Company’s shares, the Company is to repay any such remaining borrowings pursuant to a guarantee agreement, in the event that there are any remaining borrowings equivalent to losses on sales of shares due to a downturn in the price of Company’s shares up until termination of the ESOP Trust.

(2) The Company's shares remaining in the ESOP

Shares of the Company remaining in the ESOP are recognized at the ESOP's book value thereof (excluding the amount of ancillary expenses) as treasury stock under net assets. The book value and number of shares of such treasury stock were ¥313 million (\$2,910 thousand) and 103 thousand shares at June 30, 2020, ¥686 million and 226 thousand shares at June 30, 2019, respectively.

(3) Book value of borrowings posted through the application of the gross price method

Book value of borrowings posted through the application of the gross price method was ¥345 million (\$3,207 thousand) at June 30, 2020 and ¥728 million at June 30, 2019, respectively.

The impact of COVID-19 on accounting estimates — COVID-19 has a broad impact on the economy and business activities, and it is difficult to predict the future spread of COVID-19 and when it ends. The Company makes accounting estimates, including impairment of fixed assets, based on the assumption that the impact of COVID-19 will not continue beyond June 30, 2021 on the basis of the external information currently available. However, the timing of the end of COVID-19 and other factors may affect the future financial position and results of operations.

5. CASH AND CASH EQUIVALENTS

The relationship between cash and deposits in the consolidated balance sheet and cash and cash equivalents in the consolidated statement of cash flow at June 30, 2020 and 2019 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Cash and deposits	¥16,003	¥13,147	\$148,761
Time deposits with maturities of more than three months	(1,123)	(389)	(10,439)
ESOP trust special deposit	(109)	(95)	(1,013)
Cash and cash equivalents	¥14,771	¥12,663	\$137,309

6. INVESTMENT SECURITIES

The costs and aggregate fair values of investment securities at June 30, 2020 and 2019, were as follows:

June 30, 2020	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥3,106	¥796	¥360	¥3,542
Debt securities	—	—	—	—
Other	—	—	—	—
Total	¥3,106	¥796	¥360	¥3,542

June 30, 2019	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥2,865	¥982	¥322	¥3,525
Debt securities	—	—	—	—
Other	—	—	—	—
Total	¥2,865	¥982	¥322	¥3,525

June 30, 2020	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	\$28,873	\$7,399	\$3,347	\$32,925
Debt securities	—	—	—	—
Other	—	—	—	—
Total	\$28,873	\$7,399	\$3,347	\$32,925

The proceeds and realized gains and losses of the available-for-sale securities, which were sold during the years ended June 30, 2020 and 2019, were as follows:

June 30, 2020	Millions of Yen		
	Proceeds	Realized Gains	Realized Losses
Securities classified as:			
Available-for-sale:			
Equity securities	¥724	¥187	¥—
Debt securities	—	—	—
Other	—	—	—
Total	¥724	¥187	¥—

June 30, 2019	Millions of Yen		
	Proceeds	Realized Gains	Realized Losses
Securities classified as:			
Available-for-sale:			
Equity securities	¥—	¥—	¥—
Debt securities	552	15	31
Other	—	—	—
Total	¥552	¥15	¥31

June 30, 2020	Thousands of U.S. Dollars		
	Proceeds	Realized Gains	Realized Losses
Securities classified as:			
Available-for-sale:			
Equity securities	\$6,730	\$1,738	\$ —
Debt securities	—	—	—
Other	—	—	—
Total	\$6,730	\$1,738	\$ —

7. INVESTMENT PROPERTY

The Group owns some rental properties, such as office buildings and land in the Tokyo metropolitan area. The net of rental income and operating expenses for those rental properties was ¥377 million (\$3,505 thousand) and ¥732 million for the fiscal years ended June 30, 2020 and 2019, respectively.

In addition, the carrying amounts, changes in such balances, and market prices of such properties are as follows:

Millions of Yen			
Carrying Amount		Fair Value	
June 30, 2019	Increase	June 30, 2020	June 30, 2020
¥2,266	¥2,261	¥4,527	¥9,085

Millions of Yen			
Carrying Amount		Fair Value	
June 30, 2018	Decrease	June 30, 2019	June 30, 2019
¥2,300	¥(34)	¥2,266	¥5,402

Thousands of U.S. Dollars			
Carrying Amount		Fair Value	
June 30, 2019	Increase	June 30, 2020	June 30, 2020
\$21,064	\$21,018	\$42,082	\$84,453

Notes:

1. Carrying amount recognized in the consolidated balance sheets is net of accumulated depreciation and accumulated impairment losses, if any.
2. Increase during the fiscal year ended June 30, 2020, primarily represents completion of a building which was under construction and was not included in the above table at June 30, 2019. The carrying amount of newly recorded building is ¥2,296 million (\$21,340 thousand) at June 30, 2020. Decrease during the fiscal year ended June 30, 2019, primarily represents depreciation of buildings of stores for rent.
3. Fair value of properties was measured by the Group in accordance with the Real-Estate Appraisal Standard.

8. REDUCTION ENTRY

In the case of the acquisition expenses of the Group that have been subsidized by the national government, the amount of such subsidies is offset against the acquisition cost of the corresponding property, plant and equipment.

The amount of reduction entry by accounts under property, plant and equipment at June 30, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Buildings and structures	¥9	¥28	\$84
Machinery and equipment	148	167	1,375
Total	¥157	¥195	\$1,459

9. INVESTMENTS IN TO UNCONSOLIDATED SUBSIDIARIES AND ASSOCIATED COMPANIES

Investments in to unconsolidated subsidiaries and associated companies at June 30, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Investments	¥2,507	¥3,227	\$23,305

10. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

The annual interest rate applicable to the short-term borrowings was ranged from 0.330% to 0.350% at June 30, 2020.

Long-term debt at June 30, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Unsecured loans from banks due serially to 2029 with interest rates ranging from 0.250% to 9.460%	¥17,703	¥19,722	\$164,565
Obligation under finance leases	3,784	112	35,175
Total long-term debt	21,487	19,834	199,740
Less current portion of long-term borrowings	(2,781)	(2,083)	(25,852)
Less current portion of lease obligations	(705)	(38)	(6,553)
Long-term debt, less current portion	¥18,001	¥17,713	\$167,335

Annual maturities of long-term debt at June 30, 2020, for the next five years were as follows:

Years Ending June 30	Millions of Yen		Thousands of U.S. Dollars	
	Long-Term Borrowings	Lease Obligations	Long-Term Borrowings	Lease Obligations
2021	¥2,781	¥705	\$25,852	\$6,554
2022	5,640	51	52,429	474
2023	2,308	45	21,455	418
2024	2,158	23	20,060	214
2025	2,158	6	20,060	56

The Group and four financial institutions have entered into overdraft contracts and a commitment line contract by syndicated loan over three years. This commitment line contracts included restrictive financial covenants for each financial institution. The unused portion of these agreements at June 30, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Total amount of medium-term commitment lines and overdraft limits	¥36,500	¥36,500	\$339,298
Balance of borrowings	13,000	—	120,846
Balance of unused portion	¥23,500	¥36,500	\$218,452

11. RETIREMENT AND PENSION PLANS

The Company and certain consolidated subsidiaries have severance payment plans for employees and directors. Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service, and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from certain consolidated subsidiaries and annuity payments from a trustee. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age.

The liabilities for retirement benefits at June 30, 2020 and 2019, for directors were ¥18 million (\$167 thousand) and ¥30 million, respectively. The retirement benefits for directors are paid subject to the approval of the shareholders.

(1) The changes in defined benefit obligation for the years ended June 30, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Balance at beginning of year	¥15,851	¥15,718	\$147,348
Current service cost	1,194	1,155	11,099
Interest cost	116	109	1,078
Actuarial losses (gains)	176	(64)	1,636
Benefits paid	(1,004)	(1,067)	(9,333)
Others	72	—	670
Balance at end of year	¥16,405	¥15,851	\$152,498

(2) The changes in plan assets for the years ended June 30, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Balance at beginning of year	¥16,612	¥16,557	\$154,422
Expected return on plan assets	254	248	2,361
Actuarial losses (gains)	81	(400)	753
Contributions from the employer	1,084	1,018	10,077
Benefits paid	(763)	(811)	(7,093)
Others	50	—	465
Balance at end of year	¥17,318	¥16,612	\$160,985

(3) The changes in defined benefit obligation under the simplified method for the years ended June 30, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Balance at beginning of year	¥636	¥632	\$5,912
Periodic benefit cost	57	51	530
Benefits paid	(46)	(47)	(428)
Balance at end of year	¥647	¥636	\$6,014

(4) The reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets as of June 30, 2020 and 2019, was as follows (including the benefit plans for which the simplified method was applied):

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Funded defined benefit obligation	¥13,271	¥12,669	\$123,365
Plan assets	(17,318)	(16,612)	(160,985)
Total	(4,047)	(3,943)	(37,620)
Unfunded defined benefit obligation	3,781	3,818	35,147
Net liability arising from defined benefit obligation	<u>(266)</u>	<u>(125)</u>	<u>(2,473)</u>
Liability for retirement benefits	3,814	3,818	35,454
Asset for retirement benefits	4,080	3,943	37,927
Net liability arising from defined benefit obligation	¥(266)	¥(125)	\$(2,473)

(5) The components of net periodic benefit costs for the years ended June 30, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Service cost	¥1,194	¥1,155	\$11,099
Interest cost	115	109	1,069
Expected return on plan assets	(254)	(248)	(2,361)
Recognized actuarial gains	30	(112)	279
Amortization of prior service cost	38	27	353
Periodic benefit cost under simplified method ...	57	51	530
Net periodic benefit costs	¥1,180	¥982	\$10,969

(6) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended June 30, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Prior service cost	¥(38)	¥(27)	\$(353)
Actuarial losses	65	447	604
Total	¥27	¥420	\$251

(7) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of June 30, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Unrecognized prior service cost	¥136	¥174	\$1,264
Unrecognized actuarial gains	(1,109)	(1,174)	(10,309)
Total	¥(973)	¥(1,000)	\$(9,045)

(8) Plan assets

a. Components of plan assets

Plan assets as of June 30, 2020 and 2019, consisted of the following:

	2020	2019
Debt investments	37%	38%
Equity investments	40	40
Cash and cash equivalents	20	20
Others	3	2
Total	100%	100%

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 June 30, 2020 and 2019, were set forth as follows:

	2020	2019
Discount rate	Principally 0.7%	Principally 0.7%
Expected rate of return on plan assets	1.5	1.5
Lump-sum election rate	90.0	90.0

(10) Multiemployer pension plan

The Company and certain consolidated subsidiaries participate in a multiemployer plan for which the Company cannot reasonably calculate the amount of plan assets corresponding to the contributions made by the Company. Therefore, it is accounted for using the same method as a defined contribution plan.

The Ministry of Health, Labor and Welfare approved exemption of returning the previous portion for the substitution part of employees' pension funds. With this, the system was transferred from employees' pension plan to corporate pension plan.

The contributions to such multiemployer plan were ¥555 million (\$5,159 thousand) and ¥532 million for the years ended June 30, 2020 and 2019, respectively.

a. The funded status of the multiemployer plan as of June 30, 2020 and 2019, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Plan assets	¥81,514	¥79,656	\$757,741
Sum of actuarial liabilities of pension plan and minimum actuarial reserve	63,463	63,109	589,942
Net balance	¥18,051	¥16,547	\$167,799

The net balance above is mainly the result of past service cost of ¥(5,432) million (\$50,495 thousand) for 2020 and ¥(7,900) million for 2019, and surplus carried forward of ¥23,483 million (\$218,294 thousand) for 2020, and ¥24,448 million for 2019. Past service cost under the plan is amortized on a straight-line basis over 15 years, and the special contributions of ¥397 million (\$3,690 thousand) for 2020 and ¥380 million for 2019, which are utilized for such amortization, were expensed in the consolidated statement of income and comprehensive income of the Group.

b. The contribution ratio of the Group in the multiemployer plan for the years ended June 30, 2020 and 2019 was as follows:

	2020	2019
The contribution ratio of the Group in the multiemployer plan	13.6%	13.5%

The ratios above do not represent the actual actuarial liability ratio of the Group.

12. ALLOWANCE FOR ANTICIPATED PROJECT LOSS

(1) Work in process and allowance for anticipated project loss relating to construction contract estimated loss were recorded in debit side and in credit side respectively without offsetting. The amount of work in process corresponding to allowance for anticipated project loss at June 30, 2020 and 2019, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Work in process	¥44	¥44	\$409

(2) Provision (Reversal) of allowance for anticipated project loss included in cost of sales for the years ended June 30, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Provision (Reversal) of allowance for anticipated project loss ...	¥377	(¥57)	\$3,505

13. 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 30.6% for the years ended June 30, 2020 and 2019.

The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities at June 30, 2020 and 2019, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Deferred tax assets:			
Investment in subsidiaries	¥178	¥18	\$1,655
Accrued bonuses	549	598	5,103
Net defined benefit liability	812	810	7,548
Liability for retirement benefits for directors ...	21	25	195
Allowance for anticipated project loss	152	37	1,413
Overdepreciation	274	215	2,547
Loss on impairment of long-lived assets	93	85	865
Tax loss carryforwards	347	216	3,226
Other	1,085	762	10,086
Less valuation allowance	(1,183)	(593)	(10,997)
Total	2,328	2,173	21,641
Deferred tax liabilities:			
Net defined benefit asset	878	827	8,162
Reserve for deferred gains on sale of property	1,223	747	11,369
Reserve for special account for advanced depreciation of property	87	564	809
Unrealized gain on available-for-sale securities	130	200	1,208
The valuation differences by using the full fair value method	797	943	7,409
Other	257	208	2,389
Total	3,372	3,489	31,346
Net deferred tax assets	¥(1,044)	¥(1,316)	\$(9,705)

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income and comprehensive income for the year ended June 30, 2020, with the corresponding figures for 2019, is as follows:

	2020	2019
Normal effective statutory tax rate	30.6%	30.6%
Per capita levy of local tax	3.0	2.5
Expenses not deductible for tax purposes	1.7	1.8
Foreign income tax	4.4	6.5
Tax credit	(5.6)	(4.4)
Valuation allowance	12.1	2.2
Amortization of goodwill	2.9	2.5
Income taxes for prior periods	(1.0)	—
Lower income tax rates applicable to certain foreign subsidiaries	(3.7)	(3.0)
Foreign tax credit	(4.7)	(1.1)
Other – net	(1.1)	1.4
Actual effective tax rate	38.6%	39.0%

At June 30, 2020, certain subsidiaries have tax loss carryforwards aggregating approximately ¥1,074 million (\$9,984 thousand), which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

	Millions of Yen	Thousands of U.S. Dollars
June 30, 2024	¥52	\$484
June 30, 2025	119	1,106
June 30, 2026	81	753
June 30, 2027	51	474
June 30, 2028	254	2,361
June 30, 2030	517	4,806
Total	¥1,074	\$9,984

14. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

(1) The main breakdown of selling, general and administrative expenses for the years ended June 30, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Salaries and allowance	¥9,023	¥8,755	\$83,876
Provision for bonuses	2,514	2,257	23,370
Retirement benefit expenses	506	431	4,704

(2) Research and development costs charged to income were ¥1,195 million (\$11,109 thousand) and ¥1,101 million for the years ended June 30, 2020 and 2019, respectively.

15. LEASES

Lessee

(1) Finance Lease

Finance Lease transactions, except for those which meet the conditions that the ownership of the leased assets have been transferred to the lessee.

a. The content of leased assets:

Buildings and structures, Furniture and fixtures

b. Depreciation method of leased assets:

Please refer to “2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *e. Property, Plant, and Equipment*”.

(2) Operating lease

The minimum rental commitments under noncancelable operating leases at June 30, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Due within one year	¥3	¥1,277	\$28
Due after one year	9	4,320	84
Total	¥12	¥5,597	\$112

16. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group Policy for Financial Instruments

The Group uses financial instruments (mainly bank loans) based on its capital financing plan. Cash surpluses, if any, are invested in low-risk financial assets. Derivatives are used not for speculative purposes, but to manage exposure to financial risks as described in (2) below. To clarify the accountability for transactions, the Group set up an investment committee that examines basic principles of transactions and each financial instrument.

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

Receivables, such as trade notes and trade accounts, are exposed to customer credit risk. Receivables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates. Marketable and investment securities, mainly held-to-maturity securities and equity instruments of customers and suppliers of the Group, are exposed to the risk of market price fluctuations.

Payment terms of payables, such as trade notes and trade accounts, are less than one year. Long-term debt and obligation under finance leases are principally for the procurement of the funds necessary for investments in facilities and equipment.

Foreign-currency-denominated loans are exposed to the market risks from changes in interest rates and foreign currency exchange rates. A portion of foreign-currency-denominated loans is hedged by using interest rate and currency swaps as derivative financial instruments. Please see Note 17 for more details about derivatives.

(3) Risk Management for Financial Instruments

Credit Risk Management

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Group manages its credit risk from receivables on the basis of internal guidelines, which include monitoring of payment terms and balances of major customers by each business administration department to identify the default risk of customers at an early stage. With respect to held-to-maturity financial investments, the Group manages exposure to credit risk by limiting investments to high-credit-rated bonds in accordance with its internal guidelines.

The maximum credit risk exposure of financial assets is limited to their carrying amounts as of June 30, 2020.

Market risk management

The Group uses interest rate and currency swaps as derivative financial instruments to manage its exposure to fluctuations in foreign exchange rates and interest rates of foreign-currency-denominated loans.

Investment securities are managed by monitoring market values and the financial position of issuers on a regular basis.

The basic principles of derivative transactions have been approved by the investment committee based on the internal guidelines, which prescribe the authority and the limits for each transaction by the corporate treasury department. Reconciliation of the transaction and balances with customers is made, and the transaction data is reported to the chief financial officer on a monthly basis.

Liquidity risk management

Liquidity risk comprises the risk that the Group cannot meet its contractual obligations in full on its maturity dates. The Group manages its liquidity risk by concluding commitment line and overdraft contracts, along with adequate financial planning by the corporate treasury department.

(4) Concentration of Credit Risk

24.8% of total receivables are from three major customers of the Group as of June 30, 2020.

(5) 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.

(a) Fair value of financial instruments

	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
June 30, 2020			
Cash and deposits	¥16,003	¥16,003	¥—
Notes and accounts receivable - trade	39,048		
Allowance for doubtful accounts	(308)		
	38,740	38,740	—
Investment securities	3,542	3,542	—
Total	¥58,285	¥58,285	¥—
Short-term borrowings	¥13,000	¥13,000	¥—
Long-term borrowings (Note)	17,703	17,655	(48)
Total	¥30,703	¥30,655	¥(48)
Derivatives	¥(98)	¥(98)	¥—
June 30, 2019			
Cash and deposits	¥13,147	¥13,147	¥—
Notes and accounts receivable - trade	29,938		
Allowance for doubtful accounts	(203)		
	29,735	29,735	—
Investment securities	3,524	3,524	—
Total	¥46,406	¥46,406	¥—
Long-term borrowings (Note)	¥19,722	¥19,642	¥(80)
Total	¥19,722	¥19,642	¥(80)
Derivatives	¥(133)	¥(133)	¥—

June 30, 2020	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and deposits	\$148,761	\$148,761	\$ —
Notes and accounts receivable - trade	362,984		
Allowance for doubtful accounts	(2,863)		
	360,121	360,121	—
Investment securities	32,926	32,926	—
Total	\$541,808	\$541,808	\$ —
<hr/>			
Short-term borrowings	\$120,846	\$120,846	\$ —
Long-term borrowings (Note)	164,565	164,118	(447)
Total	\$285,411	\$284,964	\$(447)
<hr/>			
Derivatives	\$(911)	\$(911)	\$ —

Note: Long-term borrowings includes its current portion.

Cash and deposits, Notes, Accounts receivable – trade and Short-term borrowings

The carrying values of these financial instruments 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 and at the quoted price obtained from the financial institution for certain debt instruments. Fair value information for investment securities by classification is included in Note 6.

Long-term borrowings

The fair value of the “fixed rate” long-term borrowings is computed by applying a discount rate to the total of the principal and interest. The discount interest rate is based on the assumed interest rate if similar new borrowings was entered into. The fair value of the “floating rate” long-term borrowings is assumed as the carrying value because the interest rate of the borrowings reflects the current market interest rate and the Company’s credit score is stable.

A portion of the long-term borrowings qualified for integrated accounting treatment (special treatment and appropriated treatment) for interest rate and currency swaps is calculated by discounting the total amount of the principal and interest, with the relevant interest rate and currency swaps to which the special integrated accounting treatment has been applied, based on the reasonably estimated interest rate if similar new borrowings is entered into.

Derivatives

Fair value information for derivatives is included in Note 17.

The fair value of the derivatives, including interest rate and currency swaps under integrated accounting treatment, is included in the fair value of the long-term borrowings, because the swaps are accounted for as part of the long-term borrowings.

(b) The carrying amount of financial instruments whose fair values cannot be reliably determined is as follows:

June 30, 2020 and 2019	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Investments in equity instruments that do not have a quoted market price in an active market	¥2,959	¥3,705	\$27,506

The impairment loss on investments in equity instruments that do not have a quoted market price in an active market for the years ended June 30, 2019 was ¥311million.

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

June 30, 2020	Millions of Yen			
	Due in one Year or Less	Due after one Year through five Years	Due after five Years through ten Years	Due after ten Years
Cash and deposits	¥16,003	¥ —	¥ —	¥ —
Notes and accounts receivable - trade ...	39,048	—	—	—
Investment securities				
Available-for-sale securities with contractual maturities	—	—	—	—
Total	¥55,051	¥ —	¥ —	¥ —

June 30, 2019	Millions of Yen			
	Due in one Year or Less	Due after one Year through five Years	Due after five Years through ten Years	Due after ten Years
Cash and deposits	¥13,147	¥ —	¥ —	¥ —
Notes and accounts receivable - trade ...	29,938	—	—	—
Investment securities				
Available-for-sale securities with contractual maturities	—	—	—	—
Total	¥43,085	¥ —	¥ —	¥ —

June 30, 2020	Thousands of U.S. Dollars			
	Due in one Year or Less	Due after one Year through five Years	Due after five Years through ten Years	Due after ten Years
Cash and deposits	\$148,761	\$ —	\$ —	\$ —
Notes and accounts receivable - trade ...	362,984	—	—	—
Investment securities				
Available-for-sale securities with contractual maturities	—	—	—	—
Total	\$511,745	\$ —	\$ —	\$ —

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

17. DERIVATIVES

The Group uses derivative financial instruments to manage its exposure to fluctuations in foreign exchange rates and interest rates. The derivatives used by the Group are interest rate and currency swaps.

It is the Group's policy to use derivatives only for the purpose of reducing market risks associated with liabilities, and not for trading or speculative purposes.

Because the counterparties to these derivatives are limited to highly reputable domestic banks, the Group does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Group have been made in accordance with internal policies, which regulate authorization and credit limit amounts.

Derivative Transactions to Which Hedge Accounting is Not Applied

		Millions of Yen				
June 30, 2020	Transactions	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain	
	Interest rate and currency swaps: (fixed-rate payment, floating-rate receipt) (Japanese yen payment, U.S. dollars receipt)	Off-market transactions	¥3,481	¥2,901	¥(98)	¥(98)

		Millions of Yen				
June 30, 2019	Transactions	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain	
	Interest rate and currency swaps: (fixed-rate payment, floating-rate receipt) (Japanese yen payment, U.S. dollars receipt)	Off-market transactions	¥4,061	¥3,481	¥(133)	¥(133)

		Thousands of U.S. Dollars				
June 30, 2020	Transactions	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain	
	Interest rate and currency swaps: (fixed-rate payment, floating-rate receipt) (Japanese yen payment, U.S. dollars receipt)	Off-market transactions	\$32,359	\$26,967	\$(911)	\$(911)

Notes:

1. The fair value of derivative transactions is measured at the quoted price obtained from the financial institution.
2. The contact amounts of derivatives, which are shown in the above table, do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

Derivative Transactions to Which Hedge Accounting is Applied

June 30, 2020	Hedge accounting method	Hedged Item	Millions of Yen		
			Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate and currency swaps: (fixed-rate payment, floating-rate receipt) (Japanese yen payment, U.S. dollars receipt)	Integrated treatment of interest rate and currency swaps (Special treatment, Appropriated treatment)	Long-term debt	¥2,321	¥1,934	(Note1)

June 30, 2019	Hedge accounting method	Hedged Item	Millions of Yen		
			Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate and currency swaps: (fixed-rate payment, floating-rate receipt) (Japanese yen payment, U.S. dollars receipt)	Integrated treatment of interest rate and currency swaps (Special treatment, Appropriated treatment)	Long-term debt	¥2,707	¥2,321	(Note1)

June 30, 2020	Hedge accounting method	Hedged Item	Thousands of U.S. Dollars		
			Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate and currency swaps: (fixed-rate payment, floating-rate receipt) (Japanese yen payment, U.S. dollars receipt)	Integrated treatment of interest rate and currency swaps (Special treatment, Appropriated treatment)	Long-term debt	\$21,576	\$17,978	(Note1)

Notes:

1. The above interest rate and currency swaps, which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income. In addition, the fair value of such interest rate and currency swaps is included in that of long-term debt.
2. The contract amounts of derivatives, which are shown in the above table, do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

18. CONTINGENT LIABILITIES

On June 19, 2014, Nippon Civic Consulting Engineers Co., Ltd. ("NCC"), a consolidated subsidiary of the Company, was sued by Osaka Prefecture for damages resulting from a project related to designing a shield tunnel under tort liability. The amount of the damages claimed, which includes a 5% per annum delinquency charge, was ¥750 million (\$6,972 thousand). In addition, Osaka Prefecture expanded its claim to ¥8,643 million (\$80,344 thousand), which also includes a 5% per annum delinquency charge, via a written petition for the amendment of the claim dated February 29, 2016. NCC has concluded that it did not engage in an illegal act in the course of the project and intends to contest the claims brought forth by Osaka Prefecture in court.

Due to the court petition by Osaka Prefecture, a decision was made to execute a provisional seizure concerning the said claims in June 2014. Therefore, in July 2014, NCC deposited the money for release from a provisional seizure of ¥750 million (\$6,972 thousand) with the Legal Affairs Bureau, which is included in other assets under investments and other assets in the consolidated balance sheet.

19. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended June 30, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Unrealized loss on available-for-sale securities:			
Losses arising during the year	¥(416)	¥(1,099)	\$(3,867)
Reclassification adjustments to profit or loss ...	187	31	1,738
Amount before income tax effect	(229)	(1,068)	(2,129)
Income tax effect	70	328	651
Total	¥(159)	¥(740)	\$(1,478)
Foreign currency translation adjustments:			
Adjustments arising during the year	¥(439)	¥(933)	\$(4,081)
Reclassification adjustments to profit or loss ...	—	—	—
Amount before income tax effect	(439)	(933)	(4,081)
Income tax effect	—	—	—
Total	¥(439)	¥(933)	\$(4,081)
Defined retirement benefit plans:			
Adjustments arising during the year	¥(95)	¥(336)	\$(883)
Reclassification adjustments to profit or loss ...	68	(84)	632
Amount before income tax effect	(27)	(420)	(251)
Income tax effect	6	130	56
Total	¥(21)	¥(290)	\$(195)
Share of other comprehensive income (loss) in associates accounted for using equity method:			
Gains (Losses) arising during the year	¥59	¥(91)	\$549
Total	¥59	¥(91)	\$549
Total other comprehensive loss	¥(560)	¥(2,054)	\$(5,205)

20. SUBSEQUENT EVENTS

a. Appropriations of Retained Earnings

On August 31, 2020, the following appropriation of retained earnings at June 30, 2020, was resolved by the extraordinary Board of Directors' meeting:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥75 (\$0.70) per share	¥1,138	\$10,579

The total amount of the dividends above includes ¥8 million (\$74 thousand) in dividends on the Company's shares owned by "ESOP."

b. Issuance of new shares as restricted stock compensation

The Company decided to issue new stocks as restricted stock compensation at the extraordinary Board of Directors' meeting held on September 29, 2020, as follows:

The Company aims to have the directors (not including outside directors; "Eligible Directors") share benefits and risks of stock price fluctuations with shareholders and further enhance their willingness to contribute to improving stock prices and enhancing corporate value. Therefore, the Company decided, at the Board of Directors held on August 14, 2017, to introduce a restricted stock compensation system (the "System"), which will issue restricted stock to Eligible Directors.

Furthermore, the 73rd Annual General Meeting of Shareholders held on September 28, 2017, approved, under the System, setting the total amount of monetary compensation claims payable to the Eligible Directors as compensation related to restricted stock at a level where it does "not exceed an annual amount of ¥60 million." In addition, the total number of 50,000 shares, which are restricted stock to be allotted to Eligible Directors will be the upper limit of the number of restricted shares to be allotted in each fiscal year, and the transfer restriction period of restricted stock will be between one year to five years, determined by the Board of Directors.

(1) Payment date	October 28, 2020
(2) Class and number of shares to be issued	14,996 shares of common stock of the Company
(3) Issue price	¥2,880 per share
(4) Total issue price of shares to be issued	¥43,188,480
(5) Capitalization amount	¥1,440 per share
(6) Total capitalization amount	¥21,594,240
(7) Method of offer or allotment	Allotment of specified restricted stocks
(8) Method of contribution	In-kind contribution of monetary compensation claims
(9) Allottees, number thereof and number of shares to be allotted	14,996 shares to eight directors of the company (excluding outside directors)
(10) Transfer restriction period	October 28, 2020 to October 27, 2023
(11) Other	Issue of new shares to be allotted is conditioned on the securities registration statement taking effect in accordance with the Financial Instruments and Exchange Act.

c. Recording of compensation provision

Flaws were found in facilities related to completed projects in which the Group was in charge of design. It is probable that the responsibility for the flaws lied with the Group. The Group plans to record ¥485 million (\$4,508 thousand) as compensation provision for the estimated cost of the repair work in the fiscal year ended June 30, 2021.

21. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures," and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," 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 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) Outline of reportable segments

Reportable segments of the Company are determined as segments whose separate financial information is accessible from among the constituent units of the Company and are periodically used by the Board of Directors to determine the allocation of management resources and to evaluate achievements.

The Company has business headquarters separated by type of products and services. Each business headquarters formulates a comprehensive strategy based on the products and services and engages in conducting business activities.

In line with the above, the Company is composed of segments divided by products and services, with each business headquarters serving as the foundation, and the six reportable segments are “Domestic Consulting Operations,” “International Consulting Operations,” “Power Engineering Operations,” “Urban & Spatial Development Operations,” “Energy Business Operations,” and “Real Estate Leasing Operations.”

“Domestic Consulting Operations” engages in businesses within Japan, such as site surveying, planning, evaluation/assessment, designing, construction management, operational advice in the fields of water resources development, energy development, agricultural development, transportation, urban and regional development, management of natural and social environment, etc.

“International Consulting Operations” engages in businesses outside of Japan, such as technical studies, planning, reviews, designing, construction supervision, operational advice in the fields of water resources development, energy development, agricultural development, transportation, urban and regional development, social development, management of natural and social environment, etc.

“Power Engineering Operations” engages in manufacturing and sale of control devices and systems for power generating and transforming stations, water turbines, power generators, voltage converters, electric power-related equipment such as line taps for power transmission and distribution networks. It also engages in designing and implementation of various construction works for electric power and general electric facilities, including construction for power generation/transformation/transmission/distribution and civil engineering.

“Urban & Spatial Development Operations” engages in urban and spatial development business that includes urban planning and architectural design.

“Energy Business Operations” engages in research, development, design, construction, management, operation, support, and system/technology development of power generation/energy management operations utilizing distributed energy resources.

“Real Estate Leasing Operations” engages in the leasing of real estate within Japan.

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

Accounting treatments for reportable business segments closely match those shown in Note 2, “Summary of Significant Accounting Policies.”

Inter-segment net sales and transfers are based on the third-party transaction prices.

(3) Sales, Profit (Loss), Assets, Liabilities, and Other Items

Millions of Yen									
2020									
	Reportable Segment						Total	Others	Total
	Domestic Consulting	International Consulting	Power Engineering	Urban & Spatial Development	Energy Business	Real Estate Leasing			
Sales									
Sales to external customers ...	¥51,333	¥24,509	¥15,747	¥18,161	¥1,188	¥451	¥111,389	¥825	¥112,214
Intersegment sales	532	56	463	103	—	156	1,310	815	2,125
Total sales	¥51,865	¥24,565	¥16,210	¥18,264	¥1,188	¥607	¥112,699	¥1,640	¥114,339
Segment profit (loss)	5,155	521	1,030	731	(445)	377	7,369	(2,975)	4,394
Segment assets	24,049	25,810	11,630	26,807	9,589	5,838	103,723	56,365	160,088
Other:									
Depreciation	188	199	254	1,328	146	55	2,170	353	2,523
Amortization of goodwill ...	—	—	—	538	—	—	538	—	538
Interest income	27	55	2	39	125	1	249	443	692
Interest expense	92	216	97	355	38	—	798	101	899
Equity in profit (losses) of associated company ...	—	—	44	—	28	—	72	—	72
Investments in associates accounted for using equity method	—	—	241	—	1,289	—	1,530	—	1,530
Increase in property, plant, and intangible assets	352	277	353	4,183	1,149	831	7,145	4,492	11,637

Millions of Yen									
2019									
	Reportable Segment						Total	Others	Total
	Domestic Consulting	International Consulting	Power Engineering	Urban & Spatial Development	Energy Business	Real Estate Leasing			
Sales									
Sales to external customers ...	¥49,593	¥24,929	¥16,532	¥15,360	¥719	¥440	¥107,573	¥1,016	¥108,589
Intersegment sales	743	72	505	141	—	165	1,626	973	2,599
Total sales	¥50,336	¥25,001	¥17,037	¥15,501	¥719	¥605	¥109,199	¥1,989	¥111,188
Segment profit (loss)	4,977	575	2,047	114	(392)	732	8,053	(2,417)	5,636
Segment assets	20,591	23,181	10,639	23,312	5,462	4,482	87,667	41,033	128,700
Other:									
Depreciation	160	77	233	720	138	36	1,364	358	1,722
Amortization of goodwill ...	—	—	—	482	—	—	482	—	482
Interest income	25	54	4	47	124	0	254	380	634
Interest expense	74	194	80	220	39	—	607	81	688
Equity in profit (losses) of associated company ...	—	—	33	—	(139)	—	(106)	—	(106)
Investments in associates accounted for using equity method	—	—	200	—	1,203	—	1,403	—	1,403
Increase in property, plant, and intangible assets	228	114	213	207	5	1	768	3,188	3,956

Thousands of U.S. Dollars

	2020							Others	Total
	Reportable Segment								
	Domestic Consulting	International Consulting	Power Engineering	Urban & Spatial Development	Energy Business	Real Estate Leasing	Total		
Sales									
Sales to external customers ...	\$477,183	\$227,832	\$146,382	\$168,822	\$11,043	\$4,192	\$1,035,454	\$7,669	\$1,043,123
Intersegment sales	4,946	520	4,304	957	—	1,451	12,178	7,576	19,754
Total sales	\$482,129	\$228,352	\$150,686	\$169,779	\$11,043	\$5,643	\$1,047,632	\$15,245	\$1,062,877
Segment profit (loss)	47,920	4,843	9,575	6,795	(4,137)	3,505	68,501	(27,655)	40,846
Segment assets	223,556	239,925	108,111	249,193	89,138	54,269	964,192	523,960	1,488,152
Other:									
Depreciation	1,748	1,850	2,361	12,345	1,357	511	20,172	3,281	23,453
Amortization of goodwill ...	—	—	—	5,001	—	—	5,001	—	5,001
Interest income	251	511	19	363	1,162	9	2,315	4,118	6,433
Interest expense	855	2,008	902	3,300	353	—	7,418	940	8,358
Equity in profit (losses) of associated company ...	—	—	409	—	260	—	669	—	669
Investments in associates accounted for using equity method	—	—	2,240	—	11,983	—	14,223	—	14,223
Increase in property, plant, and intangible assets	3,272	2,575	3,281	38,885	10,681	7,725	66,419	41,757	108,176

Note:

The differences between total amounts for reportable segments and amounts in the consolidated balance sheets or consolidated statements of income and comprehensive income and the main details of these differences, which are related to difference adjustments at June 30, 2020 and 2019, were as follows:

Net sales

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Reportable segment total	¥112,699	¥109,199	\$1,047,632
Other net sales	1,640	1,989	15,245
Elimination of intersegment transactions	(2,125)	(2,599)	(19,754)
Net sales in the consolidated statement of income and comprehensive income ...	¥112,214	¥108,589	\$1,043,123

Profit

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Reportable segment total	¥7,369	¥8,053	\$68,501
Other loss	(2,975)	(2,417)	(27,655)
Elimination of intersegment transactions	210	(51)	1,952
Income before income taxes in the consolidated statement of income and comprehensive income ...	¥4,604	¥5,585	\$42,798

Assets

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Reportable segment total	¥103,723	¥87,667	\$964,192
Other property	56,365	41,033	523,960
Elimination of intersegment transactions	(29,872)	(15,525)	(277,685)
Total assets in the consolidated balance sheets	¥130,216	¥113,175	\$1,210,467

Other items

	Millions of Yen			
	2020			
	Reportable Segment	Others	Reconciliations	Total
Depreciation	¥2,170	¥353	¥(15)	¥2,508
Amortization of goodwill	538	—	—	538
Interest income	249	443	(495)	197
Interest expense	798	101	(466)	433
Equity in profit (losses) of associated company	72	—	(9)	63
Investments in associates accounted for using equity method	1,530	—	(32)	1,498
Increase in property, plant, and intangible assets	7,145	4,492	—	11,637

	Millions of Yen			
	2019			
	Reportable Segment	Others	Reconciliations	Total
Depreciation	¥1,364	¥358	¥(12)	¥1,710
Amortization of goodwill	482	—	—	482
Interest income	254	380	(411)	223
Interest expense	607	81	(411)	277
Equity in profit of associated company	(106)	—	(23)	(129)
Investments in associates accounted for using equity method	1,403	—	(23)	1,380
Increase in property, plant, and intangible assets	768	3,188	—	3,956

Thousands of U.S. Dollars

	2020			
	Reportable Segment	Others	Reconciliations	Total
Depreciation	\$20,172	\$3,281	\$(139)	\$23,314
Amortization of goodwill	5,001	—	—	5,001
Interest income	2,315	4,118	(4,602)	1,831
Interest expense	7,418	940	(4,333)	4,025
Equity in profit (losses) of associated company	670	—	(84)	586
Investments in associates accounted for using equity method	14,222	—	(297)	13,925
Increase in property, plant, and intangible assets	66,419	41,757	—	108,176

Note:

The main reconciling items of interest income and expense are eliminations of corporate interest in accounting for control.

(4) Related information

[Information about geographical areas]

The information about geographical areas at June 30, 2020 and 2019 was as follows:

Sales

Millions of Yen								
2020								
Japan	United Kingdom (Note 3)	Asia	Middle East	Africa	Latin America	Europe	Other	Total
¥68,545	¥11,901	¥18,910	¥1,996	¥3,017	¥3,203	¥1,361	¥3,281	¥112,214
Millions of Yen								
2019								
Japan	United Kingdom (Note 3)	Asia	Middle East	Africa	Latin America	Europe	Other	Total
¥66,924	¥11,897	¥16,091	¥1,617	¥3,882	¥5,174	¥1,439	¥1,565	¥108,589
Thousands of U.S. Dollars								
2020								
Japan	United Kingdom (Note 3)	Asia	Middle East	Africa	Latin America	Europe	Other	Total
\$637,183	\$110,629	\$175,784	\$18,554	\$28,046	\$29,775	\$12,652	\$30,500	\$1,043,123

Note:

- Sales are classified by country or region based on the location of customers.
- Method of classifying countries or regions, and primary countries or regions attributable to each area:
 - Method of classifying countries or regions: By geographical proximity.
 - Primary countries or regions attributable to each area, excluding Japan (2020):
 - Asia: Vietnam, India, Bangladesh
 - Middle East: Iraq, UAE, Palestine
 - Africa: Kenya, Mozambique, Senegal,
 - Latin America: Peru, El Salvador, Panama
 - Europe: Ireland, Netherlands, Sweden
 - Other: Canada, Ukraine, Maldives
- Changes in presentation—"United Kingdom" (¥11,901 million (\$110,629 thousand) in the current fiscal year and ¥11,897 million in the previous fiscal year), which was included in "Europe" in the previous fiscal year, is presented separately due to its increased materiality.

Property, plant and equipment

Millions of Yen							
2020							
Japan	Asia	Middle East	Africa	Latin America	Europe	Other	Total
¥33,617	¥3,028	¥8	¥5	¥518	¥3,295	¥285	¥40,756

Thousands of U.S. Dollars							
2020							
Japan	Asia	Middle East	Africa	Latin America	Europe	Other	Total
\$312,498	\$28,148	\$74	\$46	\$4,815	\$30,630	\$2,650	\$378,861

Note:

1. (1) Method of classifying countries or regions: By geographical proximity.

(2) Primary countries or regions attributable to each area, excluding Japan(2020):

Asia: Indonesia, India, Philippines

Middle East: UAE

Africa: Mozambique, Kenya, Cape Verde

Latin America: Peru, Panama, Brazil

Europe: United Kingdom, Ireland, Netherlands

Other: Canada

2. Property, plant and equipment was not disclosed in the previous fiscal year, because more than 90% of Property, plant and equipment was located within Japan at June 30, 2019.

[Information about major customers]

The information about major customers at June 30, 2020 and 2019 was as follows:

Millions of Yen		
2020		
Name of Customers	Sales	RelatedSegmentName
Ministry of Land, Infrastructure, Transport and Tourism ..	¥19,127	Domestic Consulting
Japan International Cooperation Agency	6,223	International Consulting
TEPCO Power Grid, Incorporated	4,336	Power Engineering

Millions of Yen		
2019		
Name of Customers	Sales	RelatedSegmentName
Ministry of Land, Infrastructure, Transport and Tourism ..	¥17,508	Domestic Consulting
Japan International Cooperation Agency	8,773	International Consulting
TEPCO Power Grid, Incorporated	5,028	Power Engineering

Thousands of U.S. Dollars		
2020		
Name of Customers	Sales	RelatedSegmentName
Ministry of Land, Infrastructure, Transport and Tourism ..	\$177,802	Domestic Consulting
Japan International Cooperation Agency	57,848	International Consulting
TEPCO Power Grid, Incorporated	40,307	Power Engineering

[Information on Impairment Loss of Non-Current Assets by Reportable Segment]

There is no relevant information for years ended June 30, 2020 and 2019.

[Information on goodwill by Reportable Segment]

Amortization of goodwill for the years ended June 30, 2020 and 2019 and the balance of goodwill at June 30, 2020 and 2019 were as follows:

Goodwill

	Millions of Yen									
	2020									
	Reportable Segment							Others	Elimination/ Corporate	Consolidated
Domestic Consulting	International Consulting	Power Engineering	Urban & Spatial Development	Energy Business	Real Estate Leasing	Total				
Amortization of goodwill ...	¥—	¥—	¥—	¥538	¥—	¥—	¥538	¥—	¥—	¥538
Goodwill at June 30, 2020	—	—	—	7,398	—	—	7,398	—	—	7,398

	Millions of Yen									
	2019									
	Reportable Segment							Others	Elimination/ Corporate	Consolidated
Domestic Consulting	International Consulting	Power Engineering	Urban & Spatial Development	Energy Business	Real Estate Leasing	Total				
Amortization of goodwill ...	¥—	¥—	¥—	¥482	¥—	¥—	¥482	¥—	¥—	¥482
Goodwill at June 30, 2019	—	—	—	8,193	—	—	8,193	—	—	8,193

	Thousands of U.S. Dollars									
	2020									
	Reportable Segment							Others	Elimination/ Corporate	Consolidated
Domestic Consulting	International Consulting	Power Engineering	Urban & Spatial Development	Energy Business	Real Estate Leasing	Total				
Amortization of goodwill ...	\$—	\$—	\$—	\$5,001	\$—	\$—	\$5,001	\$—	\$—	\$5,001
Goodwill at June 30, 2020	—	—	—	68,771	—	—	68,771	—	—	68,771

[Information on Gain on Bargain Purchase by Reportable Segment]

There is no relevant information for years ended June 30, 2020 and 2019.

22. RELATED PARTY INFORMATION

Transactions with related parties for the year ended June 30, 2019 was as follows:

Type	Name of company	Location	Share capital		Business	Percentage of voting rights, etc. held (%)	Relationships with Related Parties	Details of the transaction	Transaction amount		Account	Balance at end of period	
			Millions of Yen	Thousands of U.S. Dollars					Millions of Yen	Thousands of U.S. Dollars		Millions of yen	Thousands of U.S. Dollars
Subsidiaries	PT.CIKAENGAN TIRTA ENERGI	South Jakarta, Republic of Indonesia	349	3,244	Hydroelectric power generation business	Direct 90.0	Construction and operation of a hydroelectric power plant in Indonesia	Loan Advances(note)	1,580	14,687		1,380	12,828
								Collection of loans(note)	980	9,110	Long-term loans receivable		
								Received interest(note)	18	167			

Note: The interest rate is reasonably determined based on the loan agreement, taking into account market interest rates.

There is no relevant information for the year ended June 30, 2020



Independent Auditor's Report

To the Board of Directors of Nippon Koei Co., Ltd.

Opinion

We have audited the consolidated financial statements of Nippon Koei Co., Ltd. and its subsidiaries (the Group), which comprise the consolidated balance sheet as at June 30, 2020, and the consolidated statement of income and 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at June 30, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

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

Other Matter

The consolidated financial statements of the Company for the fiscal year ended June 30, 2019 had been audited by a predecessor auditor. The predecessor auditor had issued unqualified opinion for the consolidated financial statements on September 27, 2019.

Responsibilities of Management and Those Charged with Governance 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 and disclosing, as applicable, matters related to going concern.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an

auditor's report that includes our opinion. 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, and 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 an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the purpose of the consolidated financial statement audit is not to express 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 presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, 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 those charged with governance 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.




Convenience translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended June 30, 2020 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

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.


Masataka Kubota



Designated Engagement Partner
Certified Public Accountant


Hitoshi Kondo



Designated Engagement Partner
Certified Public Accountant

December 18, 2020

Nonconsolidated Balance Sheet

Nippon Koei Co., Ltd.
June 30, 2020

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
CURRENT ASSETS:			
Cash and deposits	¥4,242	¥4,573	\$39,433
Accounts receivable - trade (Note 13)	26,892	19,377	249,984
Work in process	970	4,329	9,017
Short-term loan receivables (Note 13)	2,463	1,984	22,896
Current portion of long-term receivables (Note 13) ...	284	249	2,640
Other (Note 13)	2,886	1,912	26,828
Allowance for doubtful accounts	(285)	(126)	(2,650)
Total current assets	<u>37,452</u>	<u>32,298</u>	<u>348,148</u>
NON-CURRENT ASSETS:			
PROPERTY, PLANT AND EQUIPMENT			
Buildings (Note 7)	20,447	10,822	190,072
Accumulated depreciation	(6,936)	(7,450)	(64,476)
Buildings, net	<u>13,511</u>	<u>3,372</u>	<u>125,596</u>
Structures (Note 7)	755	774	7,018
Accumulated depreciation	(675)	(673)	(6,275)
Structures, net	<u>80</u>	<u>101</u>	<u>743</u>
Machinery and equipment (Note 7)	2,318	2,262	21,548
Accumulated depreciation	(2,022)	(1,991)	(18,796)
Machinery and equipment, net	<u>296</u>	<u>271</u>	<u>2,752</u>
Furniture and fixtures	2,438	2,121	22,663
Accumulated depreciation	(1,783)	(1,820)	(16,574)
Furniture and fixtures, net	<u>655</u>	<u>301</u>	<u>6,089</u>
Land	14,375	14,375	133,628
Construction in progress	172	5,926	1,599
Other, net	129	67	1,199
Total property, plant and equipment	<u>29,218</u>	<u>24,413</u>	<u>271,606</u>
INTANGIBLE ASSETS			
Leasehold interests in land	628	628	5,838
Software	329	358	3,058
Other	89	47	827
Total intangible assets	<u>1,046</u>	<u>1,033</u>	<u>9,723</u>
INVESTMENTS AND OTHER ASSETS			
Shares of subsidiaries and associates	27,103	27,026	251,945
Long-term loans receivable from subsidiaries and associates	4,347	3,041	40,409
Prepaid pension costs	2,757	2,612	25,629
Other	4,409	5,008	40,985
Allowance for doubtful accounts	(92)	(92)	(855)
Total investments and other assets	<u>38,524</u>	<u>37,595</u>	<u>358,113</u>
Total non-current assets	<u>68,788</u>	<u>63,041</u>	<u>639,442</u>
TOTAL	<u>¥106,240</u>	<u>¥95,339</u>	<u>\$987,590</u>

LIABILITIES AND EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
CURRENT LIABILITIES:			
Accounts payable - trade (Note 13)	¥4,003	¥3,593	\$37,211
Short-term borrowings (Note 9 and 13)	19,710	6,430	183,221
Current portion of long-term borrowings	2,161	1,959	20,088
Provision for bonuses	947	924	8,803
Provision for directors' bonuses	52	91	483
Allowance for anticipated project loss	472	89	4,388
Other (Note 13)	9,355	9,883	86,963
Total current liabilities	36,700	22,969	341,157
NON-CURRENT LIABILITIES:			
Long-term borrowings	13,980	16,531	129,956
Deferred tax liabilities	1,318	1,449	12,252
Allowance for environmental measures	25	25	232
Liability for retirement benefits	91	103	846
Other	681	395	6,331
Total non-current liabilities	16,095	18,503	149,617
Total liabilities.....	52,795	41,472	490,774
EQUITY:			
Common stock, authorized, 38,000,000 shares in 2020 and 38,000,000 shares in 2019; issued, 15,933,058 shares in 2020 and 15,919,544 shares in 2019	7,459	7,438	69,338
Capital surplus: Additional paid-in capital	6,158	6,137	57,244
Retained earnings:			
Legal reserve	1,546	1,546	14,371
Other retained earnings			
Reserve for tax purpose reduction entry of non-current assets	2,770	2,772	25,749
Reserve for market development	1,920	1,920	17,848
General reserve	22,367	22,367	207,920
Retained earnings brought forward	13,305	11,969	123,681
Total retained earnings	41,908	40,574	389,569
Treasury stock-at cost 861,023 shares in 2020 and 235,268 shares in 2019	(2,346)	(717)	(21,808)
Total shareholders' equity	53,179	53,432	494,343
Unrealized gain on available-for-sale securities	266	435	2,473
Total equity	53,445	53,867	496,816
TOTAL	¥106,240	¥95,339	\$987,590

See notes to nonconsolidated financial statements.

Nonconsolidated Statement of Income

Nippon Koei Co., Ltd.
Year ended June 30, 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
NET SALES (Note 13)	¥69,432	¥68,014	\$645,429
COST OF SALES (Note 13)	51,680	49,338	480,409
Gross profit	17,752	18,676	165,020
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 12 and 13) ...	16,139	15,965	150,026
Operating income	1,613	2,711	14,994
OTHER INCOME:			
Interest income (Note 13)	163	137	1,515
Dividend income (Note 13)	1,499	489	13,934
Other (Note 13)	624	788	5,802
Total other income	2,286	1,414	21,251
OTHER EXPENSES:			
Interest expense (Note 13)	243	273	2,259
Loss on valuation of investment securities	314	311	2,919
Foreign currency exchange loss	143	128	1,329
Other	63	54	586
Total other expenses	763	766	7,093
INCOME BEFORE INCOME TAXES	3,136	3,359	29,152
INCOME TAXES:			
Current	665	835	6,182
Deferred	(56)	195	(521)
Total income taxes	609	1,030	5,661
NET INCOME	¥2,527	¥2,329	\$23,491

	Yen	U.S. Dollars (Note 1)
PER SHARE OF COMMON STOCK (Note 2 t.):		
Basic net income	¥167.07	¥149.16
Cash dividends applicable to the year	75.00	75.00
		\$1.55
		0.70

See notes to nonconsolidated financial statements.

Nonconsolidated Statement of Cost of Sales

Nippon Koei Co., Ltd.
Year ended June 30, 2020

	Millions of Yen	Ratio(%)	Millions of Yen	Ratio(%)	Thousands of U.S. Dollars
	2020		2019		2020
Materials costs	¥1,669	3.5	¥1,762	3.7	\$15,515
Labour costs	19,197	39.7	18,514	38.6	178,452
Expenses(Note)	27,455	56.8	27,693	57.7	255,217
Total expenses in the current period	48,321	100	47,969	100	449,184
Beginning Work in process	4,329		5,698		40,242
Total	52,650		53,667		489,426
Ending Work in process	970		4,329		9,017
Cost of sales	¥51,680		¥49,338		\$480,409

Note: The main breakdown is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Outsourcing expenses	¥20,310	¥20,367	\$188,799
Travel and transportation expenses	3,661	4,292	34,032
Report Preparation Fee	999	1,093	9,287
Rent expenses	828	814	7,697
Depreciation	348	317	3,235

The Company uses cost accounting based on job-order cost system.

Nonconsolidated Statement of Changes in Equity

Nippon Koei Co., Ltd.
Year ended June 30, 2020

	Thousands		Millions of Yen										
	Outstanding Number of Shares of Common Stock	Capital Surplus		Retained Earnings						Treasury Stock	Total Shareholders' Equity	Unrealized Gain on Available-for-Sale Securities	Total Equity
		Common Stock	Additional Paid-in Capital	Legal Reserve	Unappropriated			Total Retained Earnings					
					Reserve for Tax Purpose Reduction Entry of Non-Current Assets	Reserve for Market Development	General Reserve		Retained Earnings brought forward				
BALANCE, JULY1, 2018	15,541	¥7,415	¥6,114	¥1,546	¥2,319	¥1,920	¥22,367	¥11,285	¥39,437	¥(1,110)	¥51,857	¥1,156	¥53,012
Issuance of new shares	14	23	23	—	—	—	—	—	—	—	46	—	46
Cash dividends, ¥75.00 per share	—	—	—	—	—	—	—	(1,192)	(1,192)	—	(1,192)	—	(1,192)
Provision of reserve for tax purpose reduction entry of non-current assets ...	—	—	—	—	480	—	—	(480)	—	—	—	—	—
Reversal of reserve for tax purpose reduction entry of non-current assets ...	—	—	—	—	(27)	—	—	27	—	—	—	—	—
Net income	—	—	—	—	—	—	—	2,329	2,329	—	2,329	—	2,329
Purchase of treasury stock	(3)	—	—	—	—	—	—	—	—	(8)	(8)	—	(8)
Disposal of treasury stock	132	—	—	—	—	—	—	—	—	401	401	—	401
Net change in the year	—	—	—	—	—	—	—	—	—	—	—	(721)	(721)
BALANCE, JUNE 30, 2019	15,684	7,438	6,137	1,546	2,772	1,920	22,367	11,969	40,574	(717)	53,432	435	53,867
Issuance of new shares	14	21	21	—	—	—	—	—	—	—	42	—	42
Cash dividends, ¥75.00 per share	—	—	—	—	—	—	—	(1,193)	(1,193)	—	(1,193)	—	(1,193)
Provision of reserve for tax purpose reduction entry of non-current assets ...	—	—	—	—	1,080	—	—	(1,080)	—	—	—	—	—
Reversal of reserve for tax purpose reduction entry of non-current assets ...	—	—	—	—	(1,082)	—	—	1,082	—	—	—	—	—
Net income	—	—	—	—	—	—	—	2,527	2,527	—	2,527	—	2,527
Purchase of treasury stock	(749)	—	—	—	—	—	—	—	—	(2,002)	(2,002)	—	(2,002)
Disposal of treasury stock	123	—	—	—	—	—	—	—	—	373	373	—	373
Net change in the year	—	—	—	—	—	—	—	—	—	—	—	(169)	(169)
BALANCE, JUNE 30, 2020	15,072	¥7,459	¥6,158	¥1,546	¥2,770	¥1,920	¥22,367	¥13,305	¥41,908	¥(2,346)	¥53,179	¥266	¥53,445

Thousands of U.S.Dollars (Note 1)

	Thousands of U.S.Dollars (Note 1)												
	Common Stock	Capital Surplus		Retained Earnings						Treasury Stock	Total Shareholders' Equity	Unrealized Gain on Available-for-Sale Securities	Total Equity
		Additional Paid-in Capital	Legal Reserve	Unappropriated			Total Retained Earnings						
				Reserve for Tax Purpose Reduction Entry of Non-Current Assets	Reserve for Market Development	General Reserve		Retained Earnings brought forward					
BALANCE, JUNE 30, 2019	\$69,142	\$57,048	\$14,371	\$25,768	\$17,848	\$207,920	\$111,261	\$377,168	\$ (6,665)	\$496,693	\$4,044	\$500,737	
Issuance of new shares	196	196	—	—	—	—	—	—	—	392	—	392	
Cash dividends, \$0.70 per share	—	—	—	—	—	—	(11,090)	(11,090)	—	(11,090)	—	(11,090)	
Provision of reserve for tax purpose reduction entry of non-current assets ...	—	—	—	10,040	—	—	(10,040)	—	—	—	—	—	
Reversal of reserve for tax purpose reduction entry of non-current assets ...	—	—	—	(10,059)	—	—	10,059	—	—	—	—	—	
Net income	—	—	—	—	—	—	23,491	23,491	—	23,491	—	23,491	
Purchase of treasury stock	—	—	—	—	—	—	—	—	(18,610)	(18,610)	—	(18,610)	
Disposal of treasury stock	—	—	—	—	—	—	—	—	3,467	3,467	—	3,467	
Retirement of treasury stock	—	—	—	—	—	—	—	—	—	—	—	—	
Net change in the year	—	—	—	—	—	—	—	—	—	—	(1,571)	(1,571)	
BALANCE, JUNE 30, 2020	\$69,338	\$57,244	\$14,371	\$25,749	\$17,848	\$207,920	\$123,681	\$389,569	\$ (21,808)	\$494,343	\$2,473	\$496,816	

See notes to nonconsolidated financial statements.

Notes to Nonconsolidated Financial Statements

Nippon Koei Co., Ltd.
Year ended June 30, 2020

1. BASIS OF PRESENTATION OF NONCONSOLIDATED FINANCIAL STATEMENTS

The accompanying nonconsolidated financial statements have been prepared from the accounts maintained by Nippon Koei Co., Ltd. (the “Company”) in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

As consolidated statements of cash flows and certain disclosures are presented in the consolidated financial statements of the Company, nonconsolidated statements of cash flows and certain disclosures are not presented herein in accordance with accounting principles generally accepted in Japan.

Effective for the year ended March 31, 2014, the Japanese Financial Instruments and Exchange Act and its related accounting regulations were amended to allow an entity to not disclose certain designated footnote information in its nonconsolidated financial statements if the entity prepares and discloses consolidated financial statements. Accordingly, the Company has omitted disclosure of certain footnote information in the accompanying nonconsolidated financial statements.

In preparing these nonconsolidated financial statements, certain reclassifications have been made in the 2019 nonconsolidated financial statements to conform to the classifications used in 2020.

The nonconsolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and 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 ¥107.575 to \$1, the approximate rate of exchange at June 30, 2020. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Nonconsolidation — The nonconsolidated financial statements do not include the accounts of subsidiaries. Investments in subsidiaries and associated companies are stated at cost.

b. 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 investment trusts, both of which mature or become due within three months of the date of acquisition.

c. Investment Securities — Investment securities are classified and accounted for, depending on management’s intent, as follows:

(1) Held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, are reported at amortized cost; (2) available-for-sale securities, which are not classified as the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, in a separate component of equity; and (3) investments in subsidiaries and associated companies are reported at cost.

Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method. For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

d. Inventories — Work in process is stated at the lower of cost, mainly determined by the specific identification cost method, or net selling value.

e. Property, Plant, and Equipment — Property, plant and equipment are stated at cost. Depreciation of property, plant, and equipment is computed principally by the straight-line method based on the estimated useful lives of the assets. The range of useful lives is principally from 2 to 50 years for buildings, 2 to 40 years for structures, 2 to 15 years for machinery and equipment, and 2 to 20 years for furniture and fixtures. The useful lives for lease assets are the terms of the respective leases.

f. Long-Lived Assets — The Company reviews its long-lived assets for impairment whenever events or changes in circumstances 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.

g. Allowance for Doubtful Accounts — The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Company's past credit loss experience and an evaluation of potential losses in the receivables outstanding.

h. Retirement and Pension Plans — The Company has a contributory defined benefit pension plan and unfunded retirement benefit plan for the benefit of its employees.

The Company accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the nonconsolidated balance sheet date. The projected benefit obligations are attributed to periods on a straight-line basis. Actual gains and losses and past service costs are amortized and recognized in profit or loss over 13 years.

Hitherto, retirement benefits for directors were provided at the amount that would be required if all directors retired at the nonconsolidated balance sheet date. However, the Company terminated benefit pension plans for directors. The balance in the nonconsolidated balance sheet is the estimated amount for directors who have belonged to the Company since the plans were effective.

i. Allowance for Anticipated Project Loss — The Company has made a provision for anticipated losses on uncompleted project contracts.

j. Asset Retirement Obligations — An asset retirement obligation is recorded for 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.

k. Employee Stock Ownership Plan — In accordance with Practical Issues Task Force ("PITF") No. 30, "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts," upon the transfer of treasury stock to the employee stockownership trust (the "Trust") by the entity, any difference between the book value and fair value of the treasury stock shall be recorded in capital surplus. At year-end, the Company records (1) the Company's stock held by the Trust as treasury stock in equity, (2) all other assets and liabilities of the Trust on a line-by-line basis, and (3) a liability/asset for the net of (i) any gain or loss on delivery of the stock by the Trust to the employee shareholding association, (ii) dividends received from the entity for the stock held by the Trust, and (iii) any expenses relating to the Trust.

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

m. Leases — Finance lease transactions are capitalized to recognize lease assets and lease obligations in the nonconsolidated balance sheet. All other leases are accounted for as operating leases.

n. Accrued Bonuses — Bonuses to employees, directors, and Audit & Supervisory Board members are accrued at the end of the year to which such bonuses are attributable.

- o. Allowance for Environmental Measures** — The Company has made a provision for the treatment of Polychlorinated Biphenyl (“PCB”) Wastes based on the Act on Special Measures concerning Promotion of Proper Treatment of PCB Wastes.
- p. Income Taxes** — The provision for income taxes is computed based on the pretax income included in the nonconsolidated 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.
- q. 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 nonconsolidated balance sheet date. The foreign exchange gains and losses from translation are recognized in the nonconsolidated statement of income.
- r. Revenue Recognition** — During the progress of operation, the percentage-of-completion method is applied when the extent of progress toward completion, total costs on and total revenue from the contract are reliably estimated. The stage of completion is determined using the cost-to-cost method.
- s. Derivatives and Hedging Activities** — The Company uses derivative financial instruments to manage its exposure to fluctuations in foreign exchange. Interest rate and currency swap are utilized by the Company to reduce its exposure to reduce the risks of foreign currency exchange rates and interest rates. The Company does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments are classified and accounted for as follows: (a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the nonconsolidated statement of income; (b) for derivatives used for hedging purposes, if 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.

Interest rate and currency swaps that qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements is recognized and included in interest expense or income.

- t. Per Share Information** — Basic net income per share is computed by dividing net income attributable to shareholders of common stock with the weighted-average number of shares of common stock outstanding for the period.

Diluted net income per share of common stock is not disclosed because the Company has nothing that might dilute the per share information for the years ended June 30, 2020 and 2019.

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

- u. Accounting Changes and Error Corrections** — Under ASBJ Statement No. 24, “Accounting Standard for Accounting Changes and Error Corrections,” and ASBJ Guidance No. 24, “Guidance on Accounting Standard for Accounting Changes and Error Corrections,” accounting treatments under this standard and guidance are as follows:

(1) Changes in Accounting Policies:

When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions.

(2) Changes in Presentation:

When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation.

(3) Changes in Accounting Estimates:

A change in an accounting estimate is accounted for in the period of the change if the change affects that period only and is accounted for prospectively if the change affects both the period of the change and future periods.

(4) Corrections of Prior-Period Errors:

When an error in prior-period financial statements is discovered, those statements are restated.

- v. **Accounting method for consumption taxes** — Consumption tax and local consumption tax are accounted for by the tax-exclusion method.

3. CHANGES IN PRESENTATION

In the nonconsolidated financial statements, reclassifications and rearrangements which were made in 2019 were changed in 2020 in order to conform to the financial statements disclosed in Japan in accordance with Japanese generally accepted accounting principle.

4. ADDITIONAL INFORMATION

Employee Stock Ownership Plan (“ESOP”) Trust — For more information about this note, please refer to “Notes to Consolidated Financial Statements- 4.Additional Information”.

The impact of COVID-19 on accounting estimates — COVID-19 has a broad impact on the economy and business activities, and it is difficult to predict the future spread of COVID-19 and when it ends.

The Company makes accounting estimates, including impairment of fixed assets, based on the assumption that the impact of COVID-19 will not continue beyond June 30, 2021 on the basis of the external information currently available. However, the timing of the end of COVID-19 and other factors may affect the future financial position and results of operations.

5. PROPERTY, PLANT AND EQUIPMENT

The book value and changes in such balances for the year ended June 30, 2020 are as follows:

	Millions of Yen						
	Book value at beginning of period	Increase	Decrease	Depreciation	Book value at end of period	Accumulated depreciation	Acquisition cost at end of period
Buildings	¥3,372	¥10,519	¥29	¥351	¥13,511	¥6,936	¥20,447
Structures	101	20	31	10	80	675	755
Machinery and equipment	271	114	2	87	296	2,022	2,318
Vehicles	18	8	0	7	19	76	95
Tools, furniture and fixtures	301	470	15	101	655	1,783	2,438
Land	14,375	—	—	—	14,375	—	14,375
Leased assets	49	90	—	29	110	58	168
Construction in progress	5,926	4,317	10,071	—	172	—	172
Total	¥24,413	¥15,538	¥10,148	¥585	¥29,218	¥11,550	¥40,768

	Thousands of U.S. Dollars						
	Book value at beginning of period	Increase	Decrease	Depreciation	Book value at end of period	Accumulated depreciation	Acquisition cost at end of period
Buildings	\$31,346	\$97,783	\$270	\$3,263	\$125,596	\$64,476	\$190,072
Structures	939	185	288	93	743	6,275	7,018
Machinery and equipment	2,519	1,060	19	808	2,752	18,796	21,548
Vehicles	167	75	0	65	177	706	883
Tools, furniture and fixtures ...	2,798	4,369	139	939	6,089	16,574	22,663
Land	133,628	—	—	—	133,628	—	133,628
Leased assets	455	837	—	270	1,022	540	1,562
Construction in progress	55,087	40,130	93,618	—	1,599	—	1,599
Total	\$226,939	\$144,439	\$94,334	\$5,438	\$271,606	\$107,367	\$378,973

Increase and decrease during the fiscal year ended June 30, 2020, primarily were related to construction of a new head office. These changes were increase of buildings ¥9,048 million (\$84,109 thousand), increase of tools, furniture and fixtures ¥324 million (\$3,012 thousand) and decrease of construction in process ¥10,040 million (\$93,330 thousand).

6. INTANGIBLE ASSETS

The book values and changes in such balances for the year ended June 30, 2020 were as follows:

	Millions of Yen				
	Book value at beginning of period	Increase	Decrease	Depreciation	Book value at end of period
Leasehold interests in land	¥628	¥—	¥—	¥—	¥628
Telephone subscription right	47	—	2	—	45
Right to use water facilities	0	—	—	0	0
Software	358	129	6	152	329
Software development in progress ...	—	47	3	—	44
Patent right	0	—	—	0	—
Total	¥1,033	¥176	¥11	¥152	¥1,046

	Thousands of U.S. Dollars				
	Book value at beginning of period	Increase	Decrease	Depreciation	Book value at end of period
Leasehold interests in land	\$5,838	\$—	\$—	\$—	\$5,838
Telephone subscription right	437	—	19	—	418
Right to use water facilities	0	—	—	0	0
Software	3,328	1,199	56	1,413	3,058
Software development in progress ...	—	437	28	—	409
Patent right	0	—	—	0	—
Total	\$9,603	\$1,636	\$103	\$1,413	\$9,723

7. REDUCTION ENTRY

In the case of the acquisition expenses of the Company that have been subsidized by the national government, the amount of such subsidies is offset against the acquisition cost of the corresponding property, plant, and equipment.

The amount of reduction entry by accounts under property, plant, and equipment at June 30, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Buildings and structures	¥9	¥28	\$84
Machinery and equipment	148	167	1,375
Total	¥157	¥195	\$1,459

8. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATED COMPANIES

Investments in subsidiaries and associated companies as of June 30, 2020 and 2019, were as follows:

June 30, 2020	Millions of Yen		Unrealized Gain/Loss
	Carrying Amount	Fair Value	
Investment in affiliated companies	¥—	¥—	¥—
Total	¥—	¥—	¥—

June 30, 2019	Millions of Yen		Unrealized Gain/Loss
	Carrying Amount	Fair Value	
Investment in affiliated companies	¥916	¥735	¥(181)
Total	¥916	¥735	¥(181)

June 30, 2020	Thousands of U.S. Dollars		Unrealized Gain/Loss
	Carrying Amount	Fair Value	
Investment in affiliated companies	\$—	\$—	\$—
Total	\$—	\$—	\$—

The carrying amount of investments in subsidiaries and associated companies whose fair values cannot be reliably determined is as follows:

June 30, 2020 and 2019	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Investment in subsidiaries that do not have a quoted market price in an active market ...	¥26,313	¥25,320	\$244,601
Investments in affiliated companies that do not have a quoted market price in an active market ...	790	790	7,344
Total	¥27,103	¥26,110	\$251,945

9. BORROWINGS

The Company and four financial institutions have entered into overdraft contracts and a commitment line contract by syndicated loan over three years. This commitment line contracts included restrictive financial covenants for each financial institution. The unused portion of these agreements at the end of the fiscal year was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Total amount of medium-term commitment lines and overdraft limits.....	¥36,500	¥36,500	\$339,298
Balance of borrowings	13,000	—	120,846
Balance of unused portion	¥23,500	¥36,500	\$218,452

10. ALLOWANCE AND PROVISION

The balances and changes for the year ended June 30, 2020 were as follows:

	Millions of Yen			
	Balance at beginning of period	Increase	Decrease	Balance at end of period
Allowance for doubtful accounts	¥218	¥164	¥5	¥377
Provision for bonuses	924	947	924	947
Provision for directors' bonuses	91	52	91	52
Allowance for anticipated project loss	89	436	53	472
Provision for environmental measures	25	—	—	25

	Thousands of U.S. Dollars			
	Balance at beginning of period	Increase	Decrease	Balance at end of period
Allowance for doubtful accounts	\$2,026	\$1,524	\$46	\$3,504
Provision for bonuses	8,589	8,803	8,589	8,803
Provision for directors' bonuses	846	483	846	483
Allowance for anticipated project loss	827	4,054	493	4,388
Provision for environmental measures	232	—	—	232

11. INCOME TAXES

The Company is subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 30.6% for the years ended June 30, 2020 and 2019.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at June 30, 2020 and 2019, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Deferred tax assets:			
Investment in subsidiaries	¥596	¥358	\$5,540
Allowance for doubtful accounts	115	67	1,069
Accrued bonuses	301	422	2,798
Liability for retirement benefits for employees	28	31	260
Allowance for anticipated project loss	145	27	1,348
Overdepreciation	170	72	1,580
Loss on impairment of long-lived assets	62	62	576
Loss on valuation of investment securities	93	93	865
Other	281	287	2,613
Less valuation allowance	(847)	(626)	(7,874)
Total	944	793	8,775
Deferred tax liabilities:			
Reserve for deferred gains on sale of property	1,223	746	11,369
Reserve for special account for advanced depreciation of property	—	477	—
Unrealized gain on available-for-sale securities	117	192	1,088
Prepaid pension cost	844	800	7,846
Other	78	27	724
Total	2,262	2,242	21,027
Net deferred tax assets	¥(1,318)	¥(1,449)	\$(12,252)

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying nonconsolidated statement of income for the year ended June 30, 2020, with the corresponding figures for 2019, is as follows:

	2020	2019
Normal effective statutory tax rate	30.6%	30.6%
Per capita levy of local tax	2.8	2.6
Expenses not deductible for tax purposes	2.1	2.0
Foreign income tax	4.1	4.7
Valuation allowance	7.0	2.1
Special Tax Credit	(8.2)	(7.3)
Income taxes for prior periods	(1.4)	—
Income not included for tax purposes	(12.9)	(3.6)
Other – net	(4.7)	(0.4)
Actual effective tax rate	19.4%	30.7%

12. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The ratio of selling expenses to the total selling, general and administrative expenses for years ended June 20, 2020 and 2019, were 21% and 22%, respectively. The ratio of general and administrative expenses to the total selling, general administrative expenses for years ended June 20, 2020 and 2019, were 79% and 78%, respectively.

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Salaries and allowance	¥4,310	¥4,390	\$40,065
Rent expenses on real estate	1,794	1,577	16,677
Provision for bonuses	7	300	65
Provision for directors' bonuses	52	91	483
Retirement benefit expenses	386	341	3,588
Provision of allowance for doubtful accounts ...	159	119	1,478
Depreciation	393	339	3,653

13. TRANSACTIONS WITH AFFILIATED COMPANIES

(1) The amount relating to transactions with affiliated companies in nonconsolidated statement of income for years ended June 30, 2020 and 2019, were follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Sales	¥511	¥565	\$4,750
Cost of purchased goods	3,057	3,166	28,417
Selling, general and administrative expenses	899	1,043	8,357
Non-operating income	1,716	716	15,952
Non-operating expenses	20	19	186

(2) The balance of receivables and payables to affiliated companies at June 30, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Short-term account receivables	¥3,444	¥2,912	\$32,015
Short-term account payables	7,200	7,333	66,930

(3) The Company had the following contingent liabilities at June 30, 2020 and 2019:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Refundment bonds of a subsidiary	¥501	¥48	\$4,657
Performance bond of subsidiaries	101	73	939

14. SUBSEQUENT EVENTS

a. Appropriations of Retained Earnings

On August 31, 2020, the following appropriation of retained earnings at June 30, 2020, was resolved by the extraordinary Board of Directors' meeting:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥75 (\$0.70) per share	¥1,138	\$10,579

The total amount of the dividends above includes ¥8 million (\$74 thousand) in dividends on the Company's shares owned by "ESOP."

b. Issuance of new shares as restricted stock compensation

The Company decided to issue new stocks as restricted stock compensation at the extraordinary Board of Directors' meeting held on September 29, 2020, as follows:

The Company aims to have the directors (not including outside directors; "Eligible Directors") share benefits and risks of stock price fluctuations with shareholders and further enhance their willingness to contribute to improving stock prices and enhancing corporate value. Therefore, the Company decided, at the Board of Directors held on August 14, 2017, to introduce a restricted stock compensation system (the "System"), which will issue restricted stock to Eligible Directors.

Furthermore, the 73rd Annual General Meeting of Shareholders held on September 28, 2017, approved, under the System, setting the total amount of monetary compensation claims payable to the Eligible Directors as compensation related to restricted stock at a level where it does "not exceed an annual amount of ¥60 million." In addition, the total number of 50,000 shares, which are restricted stock to be allotted to Eligible Directors will be the upper limit of the number of restricted shares to be allotted in each fiscal year, and the transfer restriction period of restricted stock will be between one year to five years, determined by the Board of Directors.

(1) Payment date	October 28, 2020
(2) Class and number of shares to be issued	14,996 shares of common stock of the Company
(3) Issue price	¥2,880 per share
(4) Total issue price of shares to be issued	¥43,188,480
(5) Capitalization amount	¥1,440 per share
(6) Total capitalization amount	¥21,594,240
(7) Method of offer or allotment	Allotment of specified restricted stocks
(8) Method of contribution	In-kind contribution of monetary compensation claims
(9) Allottees, number thereof and number of shares to be allotted	14,996 shares to eight directors of the company (excluding outside directors)
(10) Transfer restriction period	October 28, 2020 to October 27, 2023
(11) Other	Issue of new shares to be allotted is conditioned on the securities registration statement taking effect in accordance with the Financial Instruments and Exchange Act.

c. Recording of compensation provision

A flaw was found in the facility related to the completed project in which the Company was in charge of design. It is probable that the responsibility for the flaw lied with the Company. The Company plans to record ¥280 million (\$2,603 thousand) as compensation provision for the estimated cost of the repair work in the fiscal year ended June 30, 2021.



Independent Auditor's Report

To the Board of Directors of Nippon Koei Co., Ltd.

Opinion

We have audited the financial statements of Nippon Koei Co., Ltd. (the Company), which comprise the nonconsolidated balance sheet as at June 30, 2020, and the nonconsolidated statement of income and nonconsolidated statement of changes in equity, and notes to the nonconsolidated financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2020, and its financial performance for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

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

Other Matter

The financial statements of the Company for the fiscal year ended June 30, 2019 had been audited by a predecessor auditor. The predecessor auditor had issued unqualified opinion for the financial statements on September 27, 2019.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern and disclosing, as applicable, matters related to going concern.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. 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 an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the purpose of the financial statement audit is not to express an opinion on the effectiveness of the Company'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 Company'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 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 Company to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures of the financial statements are in accordance with accounting principles generally accepted in Japan, the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Convenience translation

The U.S. dollar amounts in the accompanying financial statements with respect to the year ended June 30, 2020 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the financial statements.




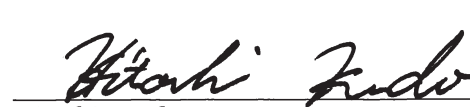
Interest required to be disclosed by the Certified Public Accountants Act of Japan

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



Masataka Kubota

Designated Engagement Partner
Certified Public Accountant



Hitoshi Kondo

Designated Engagement Partner
Certified Public Accountant

December 18, 2020

Significant Consolidated Subsidiaries

Significant consolidated subsidiaries of each segment as of June 30, 2020 are as follows:

Domestic Consulting Operations

Tamano Consultants Co., Ltd.
Nippon Civic Consulting Engineers Co., Ltd.
El Koei Co., Ltd.

International Consulting Operations

Koei Research & Consulting Inc.
Nippon Koei Latin America-Caribbean Co., Ltd.
Nippon Koei LAC, Inc.
Nippon Koei India Pvt. Ltd.
Nippon Koei Vietnam International Co., Ltd.
Philkoei International, Inc.
PT. Indokoei International
Myanmar Koei International Ltd.

Power Engineering Operations

Koei System Inc.
Sankoh Machinery Co., Ltd. (Equity method affiliate)

Urban & Spatial Development Operations

BDP Holdings Limited
Building Design Partnership Limited
Quadrangle Architects Limited
Kisho Kurokawa Architect & Associates Co., Ltd.

Energy Business Operations

Koei Energy Co., Ltd.
Nippon Koei Energy Europe B.V.
Ironmont Hydro Pte. Ltd.
PT. Cikaengan Tirta Energi
PT. Arkora Hydro (Equity method affiliate)
Ohkura Masudama Hydropower Co., Ltd. (Equity method affiliate)
Powersource Philippines Distributed Power Holdings, Inc. (Equity method affiliate)
Flexible Energy Service Co., Ltd. (Equity method affiliate)

Real Estate Leasing Operations and Others

Nikki Corporation
DSI Co., Ltd.

 **NIPPON KOEI CO.,LTD.**

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