



ODAYASHI CORPORATION

NON CONSOLIDATED
FINANCIAL STATEMENTS

Year Ended March 31, 2020

Independent Auditor's Report

The Board of Directors
OBAYASHI CORPORATION

Opinion

We have audited the accompanying non consolidated financial statements of OBAYASHI CORPORATION, which comprise the non-consolidated balance sheet as at March 31, 2020, and the non-consolidated statement of income, and changes in net assets for the year then ended, and notes to the non-consolidated financial statements.

In our opinion, the accompanying non consolidated financial statements present fairly, in all material respects, the non consolidated financial position of OBAYASHI CORPORATION at March 31, 2020, and its non consolidated 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 Non Consolidated Financial Statements section of our report. We are independent of the entity 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.

Responsibilities of Management, Corporate Auditor and Board of Corporate Auditors for the Non-Consolidated Financial Statements

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

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

Corporate Auditor and Board of Corporate Auditors are responsible for overseeing the entity's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the non consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these non 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 non consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the non-consolidated financial statements is not expressing an opinion on the effectiveness of the entity'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 entity'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 non 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 entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the non-consolidated financial statements, including the disclosures, and whether the non-consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.

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

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

Conflicts of Interest

We have no interest in the entity which should be disclosed in accordance with the Certified Public Accountants Act.

Convenience Translation

The U.S. dollar amounts in the accompanying non consolidated financial statements with respect to the year ended March 31, 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 2 to the non-consolidated financial statements.

Ernst & Young ShinNihon LLC
Tokyo, Japan
[June 25, 2020]

Shuji Kaneko
Designated Engagement Partner
Certified Public Accountant

Kenji Sato
Designated Engagement Partner
Certified Public Accountant

Non-Consolidated Balance Sheets

OBAYASHI CORPORATION
At March 31, 2020 and 2019

	Millions of yen		Thousands of U S dollars (Note 2)	
	2020	2019	2020	2019
Assets				
Current assets				
Cash and deposits	\ 183,648	\ 53,879	\$ 1,687,482	\$ 495,076
Notes receivable—trade	1,609	2,922	14,791	26,855
Electronically recorded monetary claims	10,324	8,371	94,865	76,924
Accounts receivable from completed construction contracts	604,250	678,744	5,552,240	6,236,738
Accounts receivable—real estate business and other	8,349	7,597	76,722	69,810
Short-term investment securities	154	143	1,418	1,320
Real estate for sale	3,512	3,576	32,277	32,859
Costs on uncompleted construction contracts	33,765	29,821	310,261	274,016
Costs on real estate business and other	4,144	4,843	38,085	44,506
Raw materials and supplies	2,199	2,585	20,207	23,757
Short-term loans receivable	79,583	34,621	731,264	318,124
Prepaid expenses	1,789	1,660	16,445	15,260
Accounts receivable—other (Note 5)	71,619	88,136	658,083	809,853
Other	17,598	14,207	161,702	130,551
Allowance for doubtful accounts	(76)	(79)	(698)	(725)
Total current assets	1,022,474	931,032	9,395,151	8,554,929
Noncurrent assets				
Property, plant and equipment				
Buildings	110,777	113,242	1,017,893	1,040,545
Accumulated depreciation	(50,983)	(51,473)	(468,471)	(472,974)
Buildings, net	59,793	61,768	549,422	567,571
Structures	5,639	6,305	51,822	57,938
Accumulated depreciation	(3,886)	(4,230)	(35,712)	(38,871)
Structures, net (Note 5)	1,753	2,075	16,109	19,067
Machinery and equipment	38,676	34,020	355,382	312,606
Accumulated depreciation	(28,660)	(25,371)	(263,348)	(233,131)
Machinery and equipment, net (Note 5)	10,016	8,649	92,033	79,474
Vehicles	603	568	5,548	5,224
Accumulated depreciation	(488)	(393)	(4,489)	(3,615)
Vehicles, net	115	175	1,058	1,609
Tools, furniture and fixtures	13,331	12,776	122,498	117,396
Accumulated depreciation	(10,642)	(10,272)	(97,792)	(94,389)
Tools, furniture and fixtures, net (Note 5)	2,688	2,503	24,706	23,007
Land	198,186	184,551	1,821,062	1,695,773
Leased assets	23	27	212	250
Accumulated depreciation	(15)	(13)	(144)	(126)
Leased assets, net	7	13	67	124
Construction in progress	8,960	2,070	82,331	19,025
Total property, plant and equipment	281,520	261,807	2,586,792	2,405,653
Intangible assets				
Software (Note 5)	1,889	1,608	17,358	14,781
Leasehold rights	22	22	203	203
Telephone subscription rights	412	412	3,792	3,792
Other	1,226	1,093	11,274	10,048
Total intangible assets	3,551	3,137	32,629	28,827
Investments and other assets				
Investment securities (Note 5)	278,000	348,474	2,554,443	3,202,010
Stocks of subsidiaries and affiliates (Note 8)	45,988	45,437	422,567	417,511
Investments in capital	272	270	2,501	2,483
Investments in capital of subsidiaries and affiliates	14,556	14,223	133,755	130,691
Long-term loans receivable from employees	636	547	5,851	5,033
Long-term loans receivable from subsidiaries and affiliates	47,991	85,827	440,980	788,636
Claims provable in bankruptcy, claims provable in rehabilitation and other	1,865	1,930	17,140	17,735
Lease and guarantee deposits	5,733	5,786	52,687	53,168
Other (Note 5)	3,025	3,252	27,796	29,883
Allowance for doubtful accounts	(945)	(795)	(8,691)	(7,310)
Total investments and other assets	397,124	504,954	3,649,031	4,639,845
Total noncurrent assets	682,195	769,898	6,268,453	7,074,325
Total assets	\ 1,704,670	\ 1,700,931	\$ 15,663,605	\$ 15,629,254

The accompanying notes to the non-consolidated financial statements are an integral part of this statement.

	Millions of yen		Thousands of U S dollars (Note 2)	
	2020	2019	2020	2019
Liabilities				
Current liabilities				
Notes payable—trade	10,327	14,924	\$ 94,896	\$ 137,138
Electronically recorded obligations	119,469	121,424	1,097,767	1,115,726
Accounts payable for construction contracts	388,886	402,701	3,573,340	3,700,281
Accounts payable—real estate and other	1,149	921	10,560	8,469
Short-term loans payable	39,729	36,726	365,055	337,462
Current portion of bonds payable		10,000		91,886
Lease obligations	4	6	42	61
Accounts payable—other (Note 5)	18,854	5,500	173,244	50,538
Accrued expenses	17,880	18,408	164,296	169,151
Income taxes payable	24,588	23,802	225,936	218,716
Advances received on uncompleted construction contracts	72,956	79,471	670,368	730,234
Deposits received—real estate and other	1,276	1,933	11,731	17,770
Deposits received	115,711	100,855	1,063,227	926,729
Unearned revenue	119	119	1,097	1,096
Provision for warranties for completed construction	3,867	3,972	35,532	36,497
Provision for loss on construction contracts	11,881	1,105	109,170	10,153
Provision for loss on Antimonopoly Act	4,145	4,145	38,086	38,086
Deposits received from employees	26,439	25,514	242,943	234,444
Other	1,075	850	9,885	7,817
Total current liabilities	858,362	852,385	7,887,183	7,832,265
Noncurrent liabilities				
Bonds payable	40,000	30,000	367,545	275,659
Long-term loans payable	69,443	73,282	638,086	673,362
Lease obligations	3	8	32	74
Deferred tax liabilities (Note 9)	12,000	36,785	110,266	338,007
Deferred tax liabilities for land revaluation (Note 9)	15,555	15,615	142,934	143,485
Provision for retirement benefits	45,293	46,320	416,189	425,623
Provision for stock payments for directors	433	381	3,987	3,501
Provision for loss on real estate business and other	—	993	—	9,124
Provision for loss on business of subsidiaries and affiliates	2,068	2,736	19,002	25,144
Provision for environmental measures	213	247	1,957	2,278
Assets retirement obligations	6	6	59	59
Other	5,134	4,921	47,176	45,219
Total noncurrent liabilities	190,152	211,297	1,747,238	1,941,539
Total liabilities	1,048,514	1,063,683	9,634,421	9,773,804
Net assets				
Shareholders' equity				
Capital stock	57,752	57,752	530,668	530,668
Capital surplus				
Legal capital surplus	41,694	41,694	383,115	383,115
Total capital surpluses	41,694	41,694	383,115	383,115
Retained earnings				
Legal reserve	14,438	14,438	132,666	132,666
Other retained earnings				
Reserve for advanced depreciation of noncurrent assets	2,463	2,545	22,635	23,385
General reserve	315,000	240,000	2,894,422	2,205,274
Retained earnings brought forward	105,861	119,533	972,724	1,098,352
Total retained earnings	437,763	376,516	4,022,448	3,459,678
Treasury stock	(2,121)	(2,132)	(19,491)	(19,590)
Total shareholders' equity	535,088	473,831	4,916,740	4,353,871
Valuation and translation adjustments				
Valuation difference on available-for-sale securities	104,712	149,866	962,170	1,377,066
Deferred gains on hedges	(16)	0	(147)	6
Revaluation reserve for land	16,370	13,549	150,420	124,504
Total valuation and translation adjustments	121,067	163,416	1,112,442	1,501,578
Total net assets	656,156	637,248	6,029,183	5,855,449
Total liabilities and net assets	1,704,670	1,700,931	\$ 15,663,605	\$ 15,629,254

The accompanying notes to the non-consolidated financial statements are an integral part of this statement

Non-Consolidated Statements of Income

OBAYASHI CORPORATION

For the years ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 2)	
	2020	2019	2020	2019
Net sales				
Construction contracts (Note 6)	\ 1,392,825	\ 1,376,688	\$ 12,798,174	\$ 12,649,901
Real estate business and other	23,536	21,597	216,265	198,451
Total net sales	1,416,361	1,398,286	13,014,439	12,848,353
Cost of sales				
Construction contracts	1,213,460	1,191,386	11,150,051	10,947,221
Real estate business and other	18,799	16,272	172,743	149,518
Total cost of sales	1,232,259	1,207,658	11,322,795	11,096,740
Gross profit				
Construction contracts	179,365	185,302	1,648,122	1,702,679
Real estate business and other	4,736	5,325	43,521	48,933
Total gross profit	184,101	190,628	1,691,644	1,751,613
Selling, general and administrative expenses (Note 6)				
Operating income	113,019	123,266	1,038,496	1,132,655
Other income (expenses)				
Interest and dividend income (Note 6)	11,570	13,878	106,318	127,528
Foreign exchange gains (losses), net	(1,213)	471	(11,154)	4,332
Interest expense	(801)	(760)	(7,365)	(6,992)
Gain on sales of investment securities	5,034	2,539	46,264	23,337
Gain on sales of noncurrent assets	104	3,495	961	32,116
Loss on valuation of investment securities	(3,116)	(6)	(28,633)	(56)
Loss on sales of investment securities	(439)	(586)	(4,039)	(5,392)
Loss on sales and disposal of noncurrent assets	(38)	(164)	(352)	(1,508)
Other, net (Note 6)	(699)	(2,889)	(6,430)	(26,554)
Total other income (expenses)	10,400	15,977	95,568	146,810
Profit before income taxes				
	123,420	139,244	1,134,065	1,279,466
Income taxes (Note 9)				
Income taxes—current	39,961	40,096	367,195	368,430
Income taxes—deferred	(5,022)	712	(46,146)	6,551
Total income taxes	34,939	40,809	321,048	374,981
Profit				
	\ 88,480	\ 98,435	\$ 813,016	\$ 904,484

The accompanying notes to the non-consolidated financial statements are an integral part of this statement.

Non-Consolidated Statements of Changes in Net Assets

OBAYASHI CORPORATION

For the year ended March 31, 2020

Millions of yen

	Shareholders' equity								
	Capital stock	Capital surplus	Retained earnings					Treasury stock	Total shareholders' equity
		Legal capital surplus	Legal reserve	Other retained earnings			Total retained earnings		
				Reserve for advanced depreciation of noncurrent assets	General reserve	Retained earnings brought forward			
Balance at the beginning of current period	¥ 57,752	¥ 41,694	¥ 14,438	¥ 2,545	¥ 240,000	¥ 119,533	¥ 376,516	¥ (2,132)	¥ 473,831
Changes during period									
Reversal of reserve for advanced depreciation of noncurrent assets				(81)		81	-		-
Provision of general reserve					75,000	(75,000)	-		-
Cash dividends paid						(24,413)	(24,413)		(24,413)
Profit						88,480	88,480		88,480
Reversal of revaluation reserve for land						(2,820)	(2,820)		(2,820)
Purchase of treasury stock								(5)	(5)
Disposal of treasury stock								16	16
Net changes in items other than those in shareholders' equity									
Total changes during period				(81)	75,000	(13,672)	61,246	10	61,257
Balance at the end of current period	¥ 57,752	¥ 41,694	¥ 14,438	¥ 2,463	¥ 315,000	¥ 105,861	¥ 437,763	¥ (2,121)	¥ 535,088

	Valuation and translation adjustments				Total net assets
	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedges	Revaluation reserve for land	Total valuation and translation adjustments	
Balance at the beginning of current period	¥ 149,866	¥ 0	¥ 13,549	¥ 163,416	¥ 637,248
Changes during period					
Reversal of reserve for advanced depreciation of noncurrent assets					-
Provision of general reserve					-
Cash dividends paid					(24,413)
Profit					88,480
Reversal of revaluation reserve for land					(2,820)
Purchase of treasury stock					(5)
Disposal of treasury stock					16
Net changes in items other than those in shareholders' equity	(45,153)	(16)	2,820	(42,349)	(42,349)
Total changes during period	(45,153)	(16)	2,820	(42,349)	18,907
Balance at the end of current period	¥ 104,712	¥ (16)	¥ 16,370	¥ 121,067	¥ 656,156

For the year ended March 31, 2020

Thousands of U.S. dollars (Note 2)

	Shareholders' equity								
	Capital stock	Capital surplus	Retained earnings					Treasury stock	Total shareholders' equity
		Legal capital surplus	Legal reserve	Other retained earnings			Total retained earnings		
				Reserve for advanced depreciation of noncurrent assets	General reserve	Retained earnings brought forward			
Balance at the beginning of current period	\$ 530,668	\$ 383,115	\$ 132,666	\$ 23,385	\$ 2,205,274	\$ 1,098,352	\$ 3,459,678	\$ (19,590)	\$ 4,353,871
Changes during period									
Reversal of reserve for advanced depreciation of noncurrent assets				(750)		750			
Provision of general reserve					689,148	(689,148)			
Cash dividends paid						(224,330)	(224,330)		(224,330)
Profit						813,016	813,016		813,016
Reversal of revaluation reserve for land						(25,915)	(25,915)		(25,915)
Purchase of treasury stock								(48)	(48)
Disposal of treasury stock								147	147
Net changes in items other than those in shareholders' equity									
Total changes during period				(750)	689,148	(125,627)	562,770	98	562,869
Balance at the end of current period	\$ 530,668	\$ 383,115	\$ 132,666	\$ 22,635	\$ 2,894,422	\$ 972,724	\$ 4,022,448	\$ (19,491)	\$ 4,916,740

	Valuation and translation adjustments				Total net assets
	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedges	Revaluation reserve for land	Total valuation and translation adjustments	
Balance at the beginning of current period	\$ 1,377,066	\$ 6	\$ 124,504	\$ 1,501,578	\$ 5,855,449
Changes during period					
Reversal of reserve for advanced depreciation of noncurrent assets					
Provision of general reserve					
Cash dividends paid					(224,330)
Profit					813,016
Reversal of revaluation reserve for land					(25,915)
Purchase of treasury stock					(48)
Disposal of treasury stock					147
Net changes in items other than those in shareholders' equity	(414,896)	(154)	25,915	(389,135)	(389,135)
Total changes during period	(414,896)	(154)	25,915	(389,135)	173,733
Balance at the end of current period	\$ 962,170	\$ (147)	\$ 150,420	\$ 1,112,442	\$ 6,029,183

The accompanying notes to the consolidated financial statements are an integral part of this statement.

For the year ended March 31, 2019

Millions of yen

	Shareholders' equity								
	Capital stock	Capital surplus	Retained earnings					Treasury stock	Total shareholders' equity
		Legal capital surplus	Legal reserve	Other retained earnings			Total retained earnings		
				Reserve for advanced depreciation of noncurrent assets	General reserve	Retained earnings brought forward			
Balance at the beginning of current period	¥ 57,752	¥ 41,694	¥ 14,438	¥ 2,603	¥ 180,000	¥ 100,841	¥ 297,882	¥ (1,929)	¥ 395,400
Changes during period									
Reversal of reserve for advanced depreciation of noncurrent assets				(58)		58			
Provision of general reserve					60,000	(60,000)			
Cash dividends paid						(20,105)	(20,105)		(20,105)
Profit						98,435	98,435		98,435
Reversal of revaluation reserve for land						304	304		304
Purchase of treasury stock								(298)	(298)
Disposal of treasury stock								96	96
Net changes in items other than those in shareholders' equity									
Total changes during period				(58)	60,000	18,692	78,633	(202)	78,431
Balance at the end of current period	¥ 57,752	¥ 41,694	¥ 14,438	¥ 2,545	¥ 240,000	¥ 119,533	¥ 376,516	¥ (2,132)	¥ 473,831

	Valuation and translation adjustments				Total net assets
	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedges	Revaluation reserve for land	Total valuation and translation adjustments	
Balance at the beginning of current period	¥ 158,860	¥ 106	¥ 13,854	¥ 172,821	¥ 568,221
Changes during period					
Reversal of reserve for advanced depreciation of noncurrent assets					
Provision of general reserve					
Cash dividends paid					(20,105)
Profit					98,435
Reversal of revaluation reserve for land					304
Purchase of treasury stock					(298)
Disposal of treasury stock					96
Net changes in items other than those in shareholders' equity	(8,994)	(105)	(304)	(9,404)	(9,404)
Total changes during period	(8,994)	(105)	(304)	(9,404)	69,026
Balance at the end of current period	¥ 149,866	¥ 0	¥ 13,549	¥ 163,416	¥ 637,248

For the year ended March 31, 2019

Thousands of U.S. dollars (Note 2)

	Shareholders' equity								
	Capital stock	Capital surplus	Retained earnings					Treasury stock	Total shareholders' equity
		Legal capital surplus	Legal reserve	Other retained earnings			Total retained earnings		
				Reserve for advanced depreciation of noncurrent assets	General reserve	Retained earnings brought forward			
Balance at the beginning of current period	\$ 530,668	\$ 383,115	\$ 132,666	\$ 23,921	\$ 1,653,955	\$ 926,596	\$ 2,737,139	\$ (17,730)	\$ 3,633,192
Changes during period									
Reversal of reserve for advanced depreciation of noncurrent assets				(535)		535			
Provision of general reserve					551,318	(551,318)			
Cash dividends paid						(184,743)	(184,743)		(184,743)
Profit						904,484	904,484		904,484
Reversal of revaluation reserve for land						2,797	2,797		2,797
Purchase of treasury stock								(2,743)	(2,743)
Disposal of treasury stock								883	883
Net changes in items other than those in shareholders' equity									
Total changes during period				(535)	551,318	171,756	722,539	(1,859)	720,679
Balance at the end of current period	\$ 530,668	\$ 383,115	\$ 132,666	\$ 23,385	\$ 2,205,274	\$ 1,098,352	\$ 3,459,678	\$ (19,590)	\$ 4,353,871

	Valuation and translation adjustments				Total net assets
	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedges	Revaluation reserve for land	Total valuation and translation adjustments	
Balance at the beginning of current period	\$ 1,459,711	\$ 979	\$ 127,302	\$ 1,587,993	\$ 5,221,186
Changes during period					
Reversal of reserve for advanced depreciation of noncurrent assets					
Provision of general reserve					
Cash dividends paid					(184,743)
Profit					904,484
Reversal of revaluation reserve for land					2,797
Purchase of treasury stock					(2,743)
Disposal of treasury stock					883
Net changes in items other than those in shareholders' equity	(82,645)	(972)	(2,797)	(86,415)	(86,415)
Total changes during period	(82,645)	(972)	(2,797)	(86,415)	634,263
Balance at the end of current period	\$ 1,377,066	\$ 6	\$ 124,504	\$ 1,501,578	\$ 5,855,449

The accompanying notes to the consolidated financial statements are an integral part of this statement.

Notes to Non-Consolidated Financial Statements

OBAYASHI CORPORATION for the years ended March 31, 2020 and 2019

1 Basis of Presenting Non-consolidated Financial Statements

The accompanying non-consolidated financial statements were prepared based on the accounts maintained by OBAYASHI CORPORATION (the "Company") in accordance 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, and are compiled from the non-consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan. Certain amounts in the prior year's financial statements were reclassified to conform to the changes made for the latest fiscal year.

2. U.S. Dollar Amounts

The accounts of the non-consolidated financial statements presented herein are expressed in Japanese yen by rounding down to the nearest million. The U.S. dollar amounts shown in the accompanying non-consolidated financial statements and notes thereto were translated from the original Japanese yen into U.S. dollars on the basis of ¥108.83 to US\$1, the rate of exchange prevailing at March 31, 2020, and were then rounded down to the nearest thousand. These U.S. dollar amounts are not intended to imply that the Japanese yen amounts have been or could be converted, realized or settled in U.S. dollars at this or any other rate.

3 Summary of Significant Accounting Policies

(1) Short-term investment securities and investment securities

Securities are classified into three categories: held-to-maturity, stocks of subsidiaries and affiliates, and other securities. Held-to-maturity securities are carried at amortized cost. Stocks of subsidiaries and affiliates are carried at cost. Marketable securities classified as other securities are carried at fair value with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

(2) Inventories

Real estate held for sale, costs on uncompleted construction contracts and costs on real estate business and other are all stated at cost determined by the specific identification method.

Raw materials and supplies are stated at cost determined by the first-in first-out method.

Inventories are stated at the lower of cost or net realizable value.

(3) Property, plant and equipment

The Company calculates depreciation by the declining-balance method, while straight-line method is applied to the buildings and fixtures acquired on or after April 1, 1998 and facilities attached to the buildings and other non-building structures acquired on or after April 1, 2016.

The useful lives and residual values of depreciable assets are estimated in accordance with the Corporate Tax Law.

(4) Intangible assets

Intangible fixed assets are amortized by the straight-line method. Computer software for internal use is amortized by the straight-line method over the estimated useful life of 5 years.

(5) Leased assets

Amortization of leased assets under finance leases that do not transfer ownership of the leased assets to the lessee is calculated by the straight-line method over the lease period with a residual value of zero.

(6) Foreign currency translation

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the rate of exchange in effect at the balance sheet date.

The resulting exchange gains and losses from translation are recognized in the non-consolidated statements of income.

(7) Allowance for doubtful accounts

Allowance for doubtful accounts is provided based on the Company's historical experience with respect to write-offs and based on an estimate of the amount for specific uncollectible accounts.

(8) Provision for warranties for completed construction

Provision for warranties for completed construction is provided to cover expenses for defects claimed concerning completed work, based on the estimated amount of compensation to be paid in the future for the work completed during the fiscal year.

(9) Provision for loss on construction contracts

Provision for loss on construction contracts is provided at the estimated amount for the future losses on contract backlog at the balance sheet date which will probably be incurred and which can be reasonably estimated.

(10) Provision for loss on Antimonopoly Act

Provision for loss on Antimonopoly Act is provided for the estimated surcharges and other based on the Antimonopoly Act.

(11) Provision for retirement benefits

Provision for retirement benefits is provided mainly at an amount calculated based on the projected benefit obligation and the fair value of the pension plan assets, as adjusted for unrecognized actuarial differences and unrecognized prior service cost.

Retirement benefit obligation for employees is attributed to each period by the benefit formula method.

Actuarial differences are amortized commencing in the following years after the differences are recognized primarily by the straight-line method over a period 10 years which are shorter than the average remaining years of service of the employees. Prior service cost (PSC) is amortized by the straight-line method over a period of 10 years which is shorter than the average remaining years of service of the employees.

(12) Provision for stock payments for directors

Provision for stock payments for directors is provided for stock award debt based on predetermined regulations for awarding stock, which is prepared for future awards of the Company shares to its directors and executive officers.

(13) Provision for loss on real estate business and other

Provision for loss on real estate business and other is provided for the estimated losses to be incurred in liquidating real estate and restructuring the real estate related business.

(14) Provision for loss on business of subsidiaries and affiliates

Provision for loss on business of subsidiaries and affiliates is provided for the estimated losses which exceed investments in capital of and loans receivable from subsidiaries and affiliates

(15) Provision for environmental measures

Provision for environmental measures is provided based on an estimate of costs for disposal of Polychlorinated Biphenyl (PCB) waste, which the Company is obliged to dispose by the Act on Special Measures Concerning Promotion of Proper Treatment of PCB Waste.

(16) Recognizing revenues and costs of construction contracts

Revenues and costs of construction contracts of which the percentage of completion can be reliably estimated are recognized by the percentage-of-completion method. The percentage of completion is calculated at the cost incurred as a percentage of the estimated total cost. The completed-contract method continues to be applied for contracts for which the percentage of completion cannot be reliably estimated.

(17) Derivatives and hedge accounting

(a) Method of hedge accounting

Hedging instruments are valued at fair value and accounted for using the deferral method of accounting.

The monetary assets and liabilities denominated in foreign currencies, for which foreign exchange forward contracts or currency options are used to hedge the foreign currency fluctuations, are translated at the contracted rate if the foreign exchange forward contracts or currency options qualify for hedge accounting.

The interest rate 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 charged to income (short-cut method)

(b) Hedging instruments and hedged items

To hedge foreign exchange risks related to the monetary assets and liabilities denominated in foreign currencies and projected future foreign currency transactions, foreign exchange forward contracts and non-deliverable foreign exchange forward contracts are employed as hedging instruments. To hedge the interest-rate risks and foreign exchange risks related to loans payable, interest rate swaps or interest rate/currency swaps are employed as hedging instruments.

(c) Hedging policy

The Company utilizes derivative financial instruments only for the purpose of hedging future risks of fluctuation of foreign currency exchange rates or interest rates in accordance with internal rules.

(d) Assessment of hedge effectiveness

Hedge effectiveness is not assessed when substantial terms and conditions of the hedging instruments and the hedged forecasted transactions are the same.

The evaluation of hedge effectiveness is omitted for interest rate swaps as they meet certain criteria under the short-cut method.

(18) Accounting treatment of retirement benefits

The treatment of unrecognized actuarial differences and unrecognized prior service cost in the non-consolidated balance sheet differs from that in the consolidated balance sheet

(19) Consumption taxes

Consumption tax and local consumption tax are accounted for under the tax-exclusive method.

(20) Income taxes

The Company applies deferred tax accounting for income taxes which requires recognition of income taxes by the asset/liability method.

Under the asset/liability method, deferred tax assets and liabilities are determined based on the difference between financial reporting basis and the tax basis of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(21) Consolidated tax payment system

The Company applies the consolidated tax payment system.

4 Additional Information

(1) Performance-linked stock compensation plan for directors and executive officers

As for the performance-linked stock compensation plan for the Directors through the BIP Trust, see Note 5 of "Notes to Consolidated Financial Statements."

(2) Accounting estimates associated with the spread of the Coronavirus (COVID-19)

Due to the spread of the Coronavirus, the Companies suspended a part of domestic and overseas construction projects. The Companies estimate revenues and costs of construction contracts by the percentage-of-completion method and recoverability of deferred tax assets assuming that the effect of the suspension will continue until June 2020

5 Notes to Non-Consolidated Balance Sheets

(1) Deposited assets

Assets deposited under the "Law for Execution of Warranty against Housing Defects" and the others are as follows:

At March 31	Millions of yen		Thousands of U.S. dollars	
	2020	2019	2020	2019
Short-term investment securities	\ 154	\ -	\$ 1,418	\$ -
Investment securities	159	445	1,464	4,089
Investments and other assets—other	216	81	1,988	749
Total	\ 530	\ 526	\$ 4,871	\$ 4,838

(2) Receivables from subsidiaries and affiliates (excusing receivables separately disclosed)

At March 31	Millions of yen		Thousands of U.S. dollars	
	2020	2019	2020	2019
Short-term loans receivable	\ 79,583	\ 34,621	\$ 731,264	\$ 318,124
Accounts receivable from completed construction contracts	20,398	12,915	187,435	118,672
Other (assets)	16,474	15,960	151,381	146,659

(3) Contingent liabilities

The Company is contingently liable for the following:

At March 31	Millions of yen		Thousands of U.S. dollars	
	2020	2019	2020	2019
Guarantees of long-term debt of customers, subsidiaries, affiliates and employees	\ 7,820	\ 5,829	\$ 71,855	\$ 53,569
Commitments of guarantees for short-term and long-term debt of customers and subsidiaries	22,136	32,253	203,406	296,364

(4) Directly-deducted advanced depreciation

Advanced depreciation for tax purposes is charged directly to the following non-current assets:

At March 31	Millions of yen		Thousands of U.S. dollars	
	2020	2019	2020	2019
Machinery and equipment, net	\ -	\ 559	\$ -	\$ 5,142
Tools, furniture and fixtures, net	0	0	0	4
Construction in progress	27	-	250	-
Total	\ 27	\ 560	\$ 251	\$ 5,146

(5) Consumption tax receivable and payable

Consumption tax payable and local consumption tax payable are shown included in "Accounts payable—other" at March 31, 2020 while consumption tax receivable and local consumption tax receivable are shown included in "Accounts receivable—other" at March 31, 2019.

(6) Commitment lines

The Company has a commitment line agreement with syndicated financial institutions to ensure timely access to funds in case of emergency. At March 31, 2020 and 2019, there are no outstanding balances under the agreement.

This commitment line agreement includes financial covenants on net assets, ordinary income (loss) and the credit rating of the Company.

The total commitment lines available are as follows:

At March 31	Millions of yen		Thousands of U.S. dollars	
	2020	2019	2020	2019
Contract amount	\ 50,000	\ 50,000	\$ 459,432	\$ 459,432
Outstanding borrowings	-	-	-	-
Available amount	\ 50,000	\ 50,000	\$ 459,432	\$ 459,432

6. Notes to Non-Consolidated Statements of Income

(1) Revenues from construction contracts recognized by the percentage-of-completion method

For the years ended March 31	Millions of yen		Thousands of U.S. dollars	
	2020	2019	2020	2019
	\ 1,313,777	\ 1,278,153	\$ 12,071,836	\$ 11,744,498

(2) The major components of "Selling, general and administrative expenses"

For the years ended March 31	Millions of yen		Thousands of U.S. dollars	
	2020	2019	2020	2019
Employees' salaries and allowances	\ 26,962	\ 26,437	\$ 247,752	\$ 242,922
Retirement benefit expenses	898	1,060	8,256	9,743
Research and development expenses	13,457	12,025	123,657	110,499

(3) Transactions with subsidiaries and affiliates

For the years ended March 31	Millions of yen		Thousands of U.S. dollars	
	2020	2019	2020	2019
Dividend income	\ 2,367	\ 4,705	\$ 21,754	\$ 43,232

(4) The major components of "Other, net" included in "Other income (expenses)"

For the years ended March 31	Millions of yen		Thousands of U.S. dollars	
	2020	2019	2020	2019
Other income				
Compensation income	\ 216	\ -	\$ 1,991	\$ -
Reversal of provision for loss on real estate business and other	176	-	1,624	-

7 Notes to Non-Consolidated Statements of Changes in Net Assets

Shareholders' equity

The Corporation Law of Japan provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than legal capital surplus) and retained earnings (other than legal reserve) be transferred to legal capital surplus or legal reserve, until the sum of legal capital surplus and legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met. The retained earnings account in the accompanying non-consolidated balance sheet at March 31, 2020 includes a legal reserve of \14,438 million (\$132,666 thousand).

8. Stocks of Subsidiaries and Affiliates with Fair Value

Stocks of subsidiaries and affiliates

None.

Note: Carrying value of stocks of subsidiaries and affiliates for which fair value is extremely difficult to determine

At March 31	Millions of yen		Thousands of U.S. dollars	
	2020	2019	2020	2019
Stocks of subsidiaries	\ 43,676	\ 43,619	\$ 401,329	\$ 400,804
Stocks of affiliates	2,311	1,818	21,237	16,706

It is extremely difficult to determine the fair values for these securities, since they have no quoted market prices available. Thus, they are not included in "Stocks of subsidiaries and affiliates."

9. Deferred Tax Accounting

The major components of deferred tax assets and liabilities at March 31, 2020 and 2019 are summarized as follows:

At March 31	Millions of yen		Thousands of U.S. dollars	
	2020	2019	2020	2019
Deferred tax assets				
Provision for retirement benefits	¥ 13,814	¥ 14,127	\$ 126,937	\$ 129,815
Costs on uncompleted construction contracts	10,443	8,196	95,961	75,310
Impairment loss	7,523	8,279	69,134	76,079
Accrued expenses (bonus)	4,513	4,426	41,468	40,671
Provision for loss on construction contracts	3,623	337	33,296	3,096
Loss on assets traded within the Group	2,542	1,548	23,364	14,232
Loss on valuation of investments in subsidiaries and affiliates	2,112	2,058	19,409	18,911
Bad debts expenses and allowance for doubtful accounts	2,071	1,867	19,031	17,164
Other	8,498	9,385	78,094	86,241
	55,144	50,227	506,698	461,522
Valuation allowance	(17,101)	(17,077)	(157,138)	(156,921)
Total deferred tax assets	38,042	33,149	349,560	304,601
Deferred tax liabilities				
Valuation difference on available-for-sale securities	(45,953)	(65,768)	(422,247)	(604,324)
Gain on assets traded within the Group	(2,554)	(2,597)	(23,470)	(23,867)
Reserve for advanced depreciation of noncurrent assets	(1,081)	(1,116)	(9,933)	(10,262)
Other	(454)	(452)	(4,175)	(4,154)
Total deferred tax liabilities	(50,042)	(69,935)	(459,826)	(642,608)
Net deferred tax assets (liabilities)	¥ (12,000)	¥ (36,785)	\$ (110,266)	\$ (338,007)

In addition to the above, the Company recognized deferred tax liabilities related to revaluation reserve for land on the non-consolidated balance sheets as follows:

At March 31	Millions of yen		Thousands of U.S. dollars	
	2020	2019	2020	2019
	¥ (15,555)	¥ (15,615)	\$ (142,934)	\$ (143,485)

A reconciliation between the statutory tax rate and the effective tax rate for the year ended March 31, 2020 is as follows:

For the year ended March 31

	2020
Statutory tax rate	30.5 %
Reconciliation:	
Permanent non-deductible items	0.9
Permanent non-taxable items	(1.0)
Per-capita inhabitant tax	—
Change in valuation allowance	(0.7)
Change in tax rate	—
Tax credit for research and development expenses	(1.2)
Other	(0.2)
Effective tax rate	28.3 %

Information for the year ended March 31, 2019 is not disclosed because the difference is not more than 5% of the statutory tax rate.

10. Subsequent Event

Capital Increase for OBAYASHI PROPERTIES UK Limited

The Company resolved at its board of director's meeting held on June 24, 2020 to increase capital for its subsidiary, which is newly established to promote the Company's real estate business in the United Kingdom. With this capital increase (the "Capital Increase"), the subsidiary corresponds to the specified subsidiary of the Company because the amount of investment for it rises over 10% of the capital stock of the Company.

(1) Purpose of the Capital Increase

The Company increases capital of OBAYASHI PROPERTIES UK Limited to enable to purchase the real estate located in London City

(2) Outline of the subsidiary

(a) Company name	OBAYASHI PROPERTIES UK Limited
(b) Location	1 Friday Street, London (the United Kingdom)
(c) Title and name of representative	Yoshifumi Yamamoto, President, Director
(d) Contents of business	<ul style="list-style-type: none">• Acquisition, holding and disposal of real estate• Lease and management of real estate• Real estate development business• Acquisition, holding and disposal of real estate trust beneficiary rights
(e) Date of incorporation	June 3, 2020
(f) Date of increase of capital	June 29, 2020
(g) Amount of capital stock before the Capital Increase	1 British pound
(h) The Company's holding ratio before the Capital Increase	100%
(i) Amount of capital stock after the Capital Increase	320 million British pounds
(j) The Company's holding ratio after the Capital Increase	100%