

HITACHI Zosen CORPORATION
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
Years Ended March 31, 2022 and 2023



Independent auditor's report

To the Board of Directors of Hitachi Zosen Corporation:

Opinion

We have audited the accompanying consolidated financial statements of Hitachi Zosen Corporation (“the Company”) and its consolidated subsidiaries (collectively referred to as “the Group”), which comprise the consolidated balance sheets as at March 31, 2023 and 2022, the consolidated statements of income, comprehensive income, changes in net assets and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2023 and 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

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

Key Audit Matters

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

Reasonableness of the Company's estimate of total construction costs related to performance obligations satisfied over time

The key audit matter	How the matter was addressed in our audit
<p>As described in Note 2, "Significant Accounting Policies, t) Significant Accounting Estimates" under ① Revenue recognition of construction contracts to the consolidated financial statements, Hitachi Zosen Corporation (hereinafter, the "Company") and its consolidated subsidiaries recognize revenue over time for construction contracts for which control of goods or services promised in the contract is transferred to the customer over the contractual period, by estimating each contract's total construction revenue, total construction costs, and progress towards complete satisfaction of a performance obligation. Net sales recorded from revenue recognized over time for the current fiscal year amounted to ¥329,541 million, representing approximately 67% of net sales in the consolidated financial statements.</p> <p>Of the estimates described above, the total construction costs are calculated by identifying work contents, and estimating appropriate costs based on the contract terms, such as the specifications and the deadline, stipulated in the contract with the customer. The total construction costs are also revised in a timely manner to reflect any changes in circumstances that occurred subsequent to receiving the construction order. The progress is measured as a percentage of accumulated costs incurred through the reporting date against the total construction costs.</p> <p>Construction contracts with key customers are subject to a risk of cancellation, incurring additional costs due to factors, such as a disaster and a construction delay, as well as penalties associated with technical or product issues. Accordingly, it is important to revise the estimate of construction costs in a timely manner when any changes in circumstances occur. The revisions to the estimated construction costs involved uncertainty relating to forecasting future events and management's judgment thereon had a significant effect on the estimate of total construction costs.</p> <p>We, therefore, determined that our assessment of the reasonableness of the Company's estimate of the total construction costs related to performance</p>	<p>In order to assess the reasonableness of the Company's estimate of the total construction costs related to performance obligations satisfied over time, we primarily performed the procedures described below.</p> <p>In addition, we requested the component auditor of Hitachi Zosen Inova AG, a particularly significant consolidated subsidiary, to perform an audit and then evaluated the report of the component auditor to conclude on whether sufficient and appropriate audit evidence was obtained from the following procedures, among others:</p> <p>(1) Internal control testing</p> <p>Test of the design and operating effectiveness of certain internal controls relevant to the estimates of the total construction costs, with a greater focus on controls such as those related to the approval of the revision to a project budget subsequent to the start of construction by an appropriate authorized personnel.</p> <p>(2) Assessment of the reasonableness of the estimated total construction costs</p> <p>(i) Inspection of the construction contracts for material construction projects to confirm significant contract terms and any changes in the contract.</p> <p>(ii) Assessment of whether the total construction costs of material construction projects were revised in a timely manner in response to changes in circumstances that occurred subsequent to the start of construction by inspecting the materials for the project status meetings and inquiring of the personnel responsible for the projects about changes in the project budget; and comparison of the estimated costs with the supporting worksheets that accumulated construction costs.</p> <p>(iii) Assessment of whether there was a risk of cancellation, incurring additional costs due to factors such as a disaster and a construction delay, as well as penalties associated with technical or product issues with key customers by inspecting the minutes of relevant meetings.</p>

obligations satisfied over time was of most significance in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.	(iv) Evaluation of the accuracy of the Company's estimates by analyzing the differences between the actual total costs of the construction projects completed in the current fiscal year and the estimated total construction costs of the same projects as of the end of the previous fiscal year.
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Other Information

The other information comprises the information included in the disclosure documents that contain or accompany the audited financial statements, but does not include the financial statements and our auditor's report thereon.

We do not perform any work on the other information as we determine such information does not exist.

Responsibilities of Management and Corporate Auditors and the Board of Corporate Auditors for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Corporate auditors and the board of corporate auditors are responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of 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 our 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 objective of the 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 in the consolidated financial statements are in accordance with accounting standards 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 corporate auditors and the board of corporate auditors regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide corporate auditors and the board of corporate auditors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2023 are presented solely for convenience. Our audit also included the translation of 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

We 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.

Kenta Tsujii
Designated Engagement Partner
Certified Public Accountant

Takaaki Mitsui
Designated Engagement Partner
Certified Public Accountant

Takeshi Ikeda
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Osaka Office, Japan
July 26, 2023

Notes to the Reader of Independent Auditor's Report:

This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.

CONSOLIDATED BALANCE SHEETS
Hitachi Zosen Corporation and Consolidated Subsidiaries
At March 31, 2022 and 2023

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2023	2023
ASSETS			
Current assets:			
Cash and deposits (Note 20)	¥ 67,200	¥ 86,404	\$ 647,080
Receivables:			
Trade notes and accounts, contract assets(Note 5):			
Nonconsolidated subsidiaries and affiliates	774	2,015	15,097
Other (Note 6)	189,000	196,362	1,470,551
Other	11,512	11,841	88,681
Allowance for doubtful receivables	(3,255)	(3,864)	(28,944)
	198,031	206,355	1,545,386
Inventories (Note 4)	14,474	17,186	128,706
Prepaid expenses and other current assets (Note 5)	12,533	8,907	66,707
Total current assets	292,241	318,853	2,387,880
Property, plant and equipment, at cost (Note 5):			
Land (Notes 7 and 28)	46,155	40,223	301,233
Buildings and structures (Note 28)	87,603	83,084	622,216
Machinery and equipment	122,328	117,668	881,216
Lease assets (Note 21)	1,725	1,053	7,891
Right of use assets	5,247	6,974	52,233
Construction in progress	5,358	1,022	7,660
	268,418	250,028	1,872,451
Less accumulated depreciation	(157,879)	(151,775)	(1,136,638)
Property, plant and equipment, net	110,539	98,253	735,813
Intangible assets:			
Goodwill	1,486	1,079	8,086
Other intangible assets	9,964	10,048	75,249
Total intangible assets	11,451	11,127	83,335
Investments and other noncurrent assets:			
Investments in nonconsolidated subsidiaries and affiliates (Notes 3 and 5)	11,082	14,003	104,873
Investments securities (Notes 3 and 5)	5,786	6,243	46,754
Long-term loans receivable (Note 5)	27	25	191
Net defined benefit assets (Note 24)	5,659	1,283	9,613
Deferred tax assets (Note 25)	16,964	19,355	144,949
Other investments and noncurrent assets	9,082	11,107	83,181
Allowance for doubtful receivables	(1,767)	(638)	(4,783)
Total investments and other noncurrent assets	46,835	51,379	384,780
Deferred assets	93	67	506
Total assets	¥ 461,161	¥ 479,682	\$ 3,592,317

See the accompanying Notes to the Consolidated Financial Statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2023	2023
LIABILITIES			
Current liabilities:			
Notes and accounts payable:			
Nonconsolidated subsidiaries and affiliates	¥ 213	¥ 104	\$ 783
Other	71,599	73,179	548,038
Short-term borrowings (Note 5)	2,210	3,056	22,893
Current portion of long-term debt	24,505	13,561	101,562
Accrued expenses	71,027	70,138	525,260
Accrued income taxes	4,077	4,021	30,118
Contract liabilities	29,128	41,355	309,709
Reserve for product warranties	11,690	14,572	109,131
Reserve for losses on construction contracts (Note 4)	6,619	6,819	51,069
Lease liabilities (Note 2)	1,302	1,341	10,046
Other current liabilities	15,640	12,659	94,807
Total current liabilities	238,015	240,811	1,803,422
Long-term liabilities:			
Long-term debt, less current portion (Note 5)	61,177	65,876	493,348
Asset retirement obligations (Note 27)	3,092	3,081	23,079
Deferred tax liabilities (Note 25)	428	415	3,112
Net defined benefit liability (Note 24)	21,859	21,354	159,922
Directors' and corporate auditors' severance and retirement benefits	93	63	476
Lease liabilities (Note 2)	2,686	2,630	19,697
Other noncurrent liabilities	880	4,136	30,981
Total long-term liabilities	90,219	97,559	730,618
Total liabilities	328,234	338,370	2,534,040
CONTINGENT LIABILITIES (Note 6)			
NET ASSETS (Note 8):			
Common stock			
Authorized — 400,000,000 shares			
Issued — 170,214,843 shares at March 31, 2022 and 2023	45,442	45,442	340,315
Capital surplus	8,530	8,176	61,230
Retained earnings	71,163	84,685	634,205
Treasury stock, at cost (Note 19) — 1,683,577 shares in 2022			
— 1,687,175 shares in 2023	(1,026)	(1,029)	(7,709)
Net unrealized holding gains (losses) on securities	1,307	986	7,388
Net unrealized holding gains (losses) on hedging derivatives	(119)	77	576
Land revaluation difference (Note 7)	(7)	(7)	(59)
Foreign currency translation adjustments	931	426	3,195
Remeasurements of defined benefit plans	5,077	863	6,463
Non-controlling interests in consolidated subsidiaries	1,626	1,691	12,670
Total net assets	132,926	141,311	1,058,277
Total liabilities and net assets	<u>¥ 461,161</u>	<u>¥ 479,682</u>	<u>\$ 3,592,317</u>

See the accompanying Notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME
Hitachi Zosen Corporation and Consolidated Subsidiaries
For the Years Ended March 31, 2022 and 2023

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2023	2023
Net sales	¥ 441,797	¥ 492,692	\$ 3,689,754
Cost of sales (Note 9)	369,648	409,334	3,065,489
Gross profit	72,149	83,358	624,264
Selling, general and administrative expenses	56,607	63,301	474,058
Operating income	15,541	20,056	150,205
Other income (expenses):			
Interest and dividend income	183	455	3,413
Interest expense	(809)	(788)	(5,906)
Foreign exchange gain (loss)	(935)	(128)	(961)
Equity in net income (outgo) of nonconsolidated subsidiaries and affiliates	260	423	3,174
Gain on sale of equity interest	286	—	—
Gain on change in equity	198	—	—
Provision for loss on litigation(Note 16)	—	(688)	(5,153)
Provision for loss on liquidation(Note 15)	—	(729)	(5,460)
Gain on government grants(Note 13)	—	1,798	13,471
Arbitration settlements	—	(870)	(6,517)
Gain on sale of shares of subsidiaries and affiliates (Note 12)	—	1,430	10,712
Factory relocation expense	(118)	—	—
Loss on using the reduction entry(Note 17)	—	(1,798)	(13,471)
Gain on sale of property (Note 11)	—	1,020	7,642
Gain on bargain purchase (Note 10)	3,781	—	—
Impairment loss (Note 14)	(3,692)	(341)	(2,556)
Other, net	(2,824)	(1,314)	(9,846)
Total other expenses	(3,668)	(1,530)	(11,460)
Profit before income taxes and non-controlling interests	11,873	18,526	138,746
Income taxes (Note 25)			
Current	4,079	4,088	30,620
Deferred	(119)	(1,177)	(8,821)
Profit	7,912	15,615	116,946
Profit (loss) attributable to non-controlling interests	13	38	289
Profit attributable to shareholders of Hitachi Zosen	¥ 7,899	¥ 15,577	\$ 116,657

	Yen		U.S. dollars (Note 1)
	2022	2023	2023
Amounts per share (Note 2)			
Net income	¥ 46.87	¥ 92.43	\$ 0.69
Cash dividends	12.00	18.00	0.13

See the accompanying Notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Hitachi Zosen Corporation and Consolidated Subsidiaries

For the Years Ended March 31, 2022 and 2023

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2023	2023
Profit	¥ 7,912	¥ 15,615	\$ 116,946
Other comprehensive income			
Net unrealized holding gains (losses) on securities	(31)	(182)	(1,368)
Net unrealized holding gains (losses) on hedging derivatives	117	97	732
Foreign currency translation adjustments	149	(380)	(2,846)
Remeasurements of defined benefit plans	794	(4,216)	(31,574)
accounted for using equity method	81	(157)	(1,178)
Total other comprehensive income (Note 18)	1,111	(4,838)	(36,235)
Total comprehensive income	9,024	10,777	80,710
Comprehensive income attributable to			
Shareholders of Hitachi Zosen	9,004	10,733	80,381
Non-controlling interests	20	44	329

See the accompanying Notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Hitachi Zosen Corporation and Consolidated Subsidiaries

For the Years Ended March 31, 2022 and 2023

For the year ended March 31, 2022

(Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock (Note 13)	Total shareholders' equity
Balance at beginning of year	¥ 45,442	¥ 8,530	¥ 67,296	¥ (1,022)	¥ 120,246
Cumulative effects of changes in accounting policies			(2,008)		(2,008)
Restated balance	45,442	8,530	65,287	(1,022)	118,237
Changes of items during the period					
Cash dividends			(2,022)		(2,022)
Profit attributable to shareholders of Hitachi Zosen			7,899		7,899
Treasury stock disposed, net		0		0	0
Treasury stock purchased, net				(3)	(3)
Net changes of items other than shareholders' equity					
Total changes during the period	—	0	5,876	(3)	5,872
Balance at end of year	¥ 45,442	¥ 8,530	¥ 71,163	¥ (1,026)	¥ 124,110

	Other accumulated comprehensive income						Non-controlling interests in consolidated subsidiaries	Total net assets
	Net unrealized holding gains (losses) on securities	Net unrealized holding gains (losses) on hedging derivatives	Land revaluation difference (Note 7)	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total other accumulated comprehensive income		
Balance at beginning of year	¥ 1,294	¥ (117)	¥ (7)	¥ 637	¥ 4,278	¥ 6,084	¥ 1,836	¥ 128,167
Cumulative effects of changes in accounting policies								(2,008)
Restated balance	1,294	(117)	(7)	637	4,278	6,084	1,836	126,158
Changes of items during the period								
Cash dividends								(2,022)
Profit attributable to shareholders of Hitachi Zosen								7,899
Treasury stock disposed, net								0
Treasury stock purchased, net								(3)
Net changes of items other than shareholders' equity	13	(1)	—	294	798	1,105	(210)	895
Total changes during the period	13	(1)	—	294	798	1,105	(210)	6,767
Balance at end of year	¥ 1,307	¥ (119)	¥ (7)	¥ 931	¥ 5,077	¥ 7,189	¥ 1,626	¥ 132,926

See the accompanying Notes to the Consolidated Financial Statements.

For the year ended March 31, 2023

(Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock (Note 13)	Total shareholders' equity
Balance at beginning of year	¥ 45,442	¥ 8,530	¥ 71,163	¥ (1,026)	¥ 124,110
Changes of items during the period					
Cash dividends			(2,022)		(2,022)
Profit attributable to shareholders of Hitachi Zosen			15,577		15,577
Treasury stock disposed, net		0		0	0
Treasury stock purchased, net				(3)	(3)
Changes due to increase/decrease in consolidated subsidiaries			(33)		(33)
Deferred tax adjustment due to change in equity of prior year		(354)			(354)
Net changes of items other than shareholders' equity					
Total changes during the period	—	(354)	13,521	(3)	13,163
Balance at end of year	¥ 45,442	¥ 8,176	¥ 84,685	¥ (1,029)	¥ 137,274

	Other accumulated comprehensive income						Non-controlling interests in consolidated subsidiaries	Total net assets
	Net unrealized holding gains (losses) on securities	Net unrealized holding gains (losses) on hedging derivatives	Land revaluation difference (Note 7)	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total other accumulated comprehensive income		
Balance at beginning of year	¥ 1,307	¥ (119)	¥ (7)	¥ 931	¥ 5,077	¥ 7,189	¥ 1,626	¥ 132,926
Changes of items during the period								
Cash dividends								(2,022)
Profit attributable to shareholders of Hitachi Zosen								15,577
Treasury stock disposed, net								0
Treasury stock purchased, net								(3)
Changes due to increase/decrease in consolidated subsidiaries								(33)
Deferred tax adjustment due to change in equity of prior year								(354)
Net changes of items other than shareholders' equity	(321)	196	—	(504)	(4,214)	(4,843)	65	(4,778)
Total changes during the period	(321)	196	—	(504)	(4,214)	(4,843)	65	8,385
Balance at end of year	¥ 986	¥ 77	¥ (7)	¥ 426	¥ 863	¥ 2,345	¥ 1,691	¥ 141,311

See the accompanying Notes to the Consolidated Financial Statements.

For the year ended March 31, 2023

(Thousands of U.S. dollars (Note 1))

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock (Note 13)	Total shareholders' equity
Balance at beginning of year	\$ 340,315	\$ 63,885	\$ 532,943	\$ (7,687)	\$ 929,456
Changes of items during the period					
Cash dividends			(15,145)		(15,145)
Profit attributable to shareholders of Hitachi Zosen			116,657		116,657
Treasury stock disposed, net		0		0	0
Treasury stock purchased, net				(23)	(23)
Changes due to increase/decrease in consolidated subsidiaries			(249)		(249)
Deferred tax adjustment due to change in equity of prior year		(2,655)			(2,655)
Net changes of items other than shareholders' equity					
Total changes during the period	—	(2,655)	101,263	(22)	98,585
Balance at end of year	\$ 340,315	\$ 61,230	\$ 634,205	\$ (7,709)	\$ 1,028,042

	Other accumulated comprehensive income						Non-controlling interests in consolidated subsidiaries	Total net assets
	Net unrealized holding gains (losses) on securities	Net unrealized holding gains (losses) on hedging derivatives	Land revaluation difference (Note 7)	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total other accumulated comprehensive income		
Balance at beginning of year	\$ 9,795	\$ (893)	\$ (59)	\$ 6,975	\$ 38,022	\$ 53,839	\$ 12,181	\$ 995,478
Changes of items during the period								
Cash dividends								(15,145)
Profit attributable to shareholders of Hitachi Zosen								116,657
Treasury stock disposed, net								0
Treasury stock purchased, net								(23)
Changes due to increase/decrease in consolidated subsidiaries								(249)
Deferred tax adjustment due to change in equity of prior year								(2,655)
Net changes of items other than shareholders' equity	(2,406)	1,470	—	(3,780)	(31,559)	(36,276)	489	(35,787)
Total changes during the period	(2,406)	1,470	—	(3,780)	(31,559)	(36,276)	489	62,798
Balance at end of year	\$ 7,388	\$ 576	\$ (59)	\$ 3,195	\$ 6,463	\$ 17,564	\$ 12,670	\$ 1,058,277

See the accompanying Notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Hitachi Zosen Corporation and Consolidated Subsidiaries
For the Years Ended March 31, 2022 and 2023

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2023	2023
Cash flows from operating activities:			
Profit before income taxes and non-controlling interests	¥ 11,873	¥ 18,526	\$ 138,746
Adjustments to reconcile profit before income taxes and non-controlling interests to net cash provided by operating activities:			
Depreciation	10,663	10,515	78,747
Impairment loss	3,692	341	2,556
Increase (decrease) in provision for loss on liquidation	—	729	5,460
Increase (decrease) in provision for loss on litigation	—	688	5,153
Loss on using the reduction entry	—	1,798	13,471
Loss (gain) on sales of property	—	(1,020)	(7,642)
Gain on sale of shares of subsidiaries and associates	—	(1,430)	(10,712)
Gain on government grants	—	(1,798)	(13,471)
Gain on bargain purchase	(3,781)	—	—
Amortization of goodwill	258	458	3,437
Increase (decrease) of net defined benefit liability	490	504	3,775
Increase (decrease) in allowance for doubtful receivables	515	(540)	(4,048)
Increase (decrease) in reserve for losses on construction contracts	2,931	1,003	7,512
Increase (decrease) in provision for product warranty	4,104	2,160	16,178
Interest and dividend income	(183)	(455)	(3,413)
Interest expense	809	788	5,906
Foreign exchange loss (gain)	935	128	961
Equity in net loss (gain) of nonconsolidated subsidiaries and affiliates	(260)	(423)	(3,174)
Decrease (increase) in trade receivables and contract assets	(13,731)	(7,535)	(56,433)
Decrease (increase) in inventories	10,745	(3,769)	(28,229)
Decrease (increase) in other current assets	3,577	2,567	19,228
Increase (decrease) in trade payables	3,443	1,760	13,181
Increase (decrease) in accrued expenses	5,564	(3,861)	(28,915)
Increase (decrease) in contract liabilities	2,641	12,358	92,554
Increase (decrease) in other current liabilities	(9,830)	(2,833)	(21,221)
Other	(2,822)	113	853
Subtotal	31,636	30,773	230,462
Interest and dividends received	249	702	5,258
Gain on government grants	—	1,447	10,837
Interest paid	(820)	(788)	(5,908)
Income taxes paid	(4,206)	(4,125)	(30,895)
Net cash and cash equivalents provided by operating activities	26,858	28,008	209,755
Cash flows from investing activities:			
Increase in time deposits	(2,346)	(1,966)	(14,729)
Decrease in time deposits	2,618	1,779	13,330
Purchase of property, plant and equipment	(7,474)	(6,574)	(49,239)
Proceeds from sales of property, plant and equipment	302	3,283	24,590
Purchase of intangible assets	(1,758)	(2,067)	(15,483)
Purchase of investments in securities	(1,048)	(631)	(4,725)
Proceeds from sales of investments in securities	324	1,444	10,819
Purchase of shares of subsidiaries and associates	—	(499)	(3,743)
Proceeds from sales of investments in capital of affiliates	2,508	—	—
Payments for investments in capital of affiliates	(462)	(2,333)	(17,479)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(508)	(282)	(2,113)
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	8,702	—	—
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	—	5,287	39,594
Other	85	98	740
Net cash and cash equivalents provided by (used in) investing activities	943	(2,462)	(18,439)
Cash flows from financing activities:			
Increase (decrease) in short-term borrowings, net	(7,660)	1,343	10,060
Proceeds from long-term debt	1,235	20,665	154,759
Payment of long-term debt	(4,348)	(26,642)	(199,524)
Proceeds from issuance of bonds	10,000	—	—
Redemption of bonds	(5,000)	—	—
Cash dividends paid	(2,022)	(2,022)	(15,145)
Other	(962)	(1,185)	(8,877)
Net cash and cash equivalents provided by used in financing activities	(8,759)	(7,841)	(58,727)
Effect of exchange rate changes on cash and cash equivalents	1,098	1,213	9,090
Net increase in cash and cash equivalents	20,141	18,918	141,678
Cash and cash equivalents at beginning of year	45,812	65,956	493,945
Increase in cash and cash equivalents resulting from new consolidations	2	—	—
Cash and cash equivalents at end of year (Note 20)	¥ 65,956	¥ 84,874	\$ 635,623

See the accompanying Notes to the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Hitachi Zosen Corporation (“the Company”) and its consolidated subsidiaries (together, “the Companies”) have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations and in conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accounts of the Company’s overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. As discussed in Note 2, the accounts of the consolidated overseas subsidiaries for the year ended March 31, 2023 were prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles. The accompanying consolidated financial statements have been reformatted and translated into English (with some expanded descriptions) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Certain supplementary information included in the statutory Japanese language consolidated financial statements is not presented in the accompanying consolidated financial statements.

Figures are presented in millions of yen and are rounded down to the nearest million yen, unless otherwise indicated. As permitted by the regulations under the Financial Instruments and Exchange Act of Japan, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements in yen do not necessarily agree with the sums of the individual amounts.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2023, which was ¥133.53 to U.S. \$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Significant Accounting Policies

a) Consolidation

The accompanying consolidated financial statements include the accounts of the Company and significant companies over which the Company has power of control through majority voting rights or the existence of certain other conditions evidencing control by the Company. Investments in nonconsolidated subsidiaries and affiliates over which the Company has the ability to exercise significant influence over operating and financial policies are accounted for by the equity method.

The consolidated financial statements consist of the accounts of the Company and its 124 significant subsidiaries that meet the control requirements for consolidation. Intercompany transactions and accounts have been eliminated in the consolidation.

Investments in 30 affiliates are accounted for by the equity method.

The consolidated financial statements include the accounts of 17 consolidated subsidiaries with the fiscal year-ends of December 31. Appropriate adjustments were made for significant transactions during the period from December 31 to March 31, the date of the consolidated financial statements.

b) Cash Flow Statements

In preparing the consolidated statements of cash flows, cash on hand, readily-available deposits and highly liquid debt investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

c) Translation of Foreign Currencies

Foreign currency monetary assets and liabilities are translated into Japanese yen at the year-end rates, and the resulting translation gains and losses are included in the current statement of income.

Assets and liabilities of the consolidated overseas subsidiaries are translated into Japanese yen using the exchange rates prevailing at the end of each fiscal year. Revenue and expenses are translated at the average rates of exchange for the respective years. The resulting foreign currency translation adjustments are shown as a separate component of net assets, net of the non-controlling interests in the consolidated subsidiaries, in the consolidated balance sheets.

d) Revenue Recognition

In "Environmental Systems" "Machinery and Infrastructure" and "Carbon Neutral Solution", which are the main businesses of the Company and its consolidated subsidiaries, the Company and its consolidated subsidiaries carry out construction work and sell products. The main performance obligations and the normal times at which the performance obligations are satisfied (the normal time at which revenue is recognized) are as follows.

(1) Construction contracts

Revenue from construction contracts for engineering, manufacturing and other work is recognized on the basis that the performance obligation is deemed to be satisfied over a certain period of time and that an estimate can be made of the degree of progress made in satisfying that performance obligation to the customer.

In regard to construction contracts a reasonable estimate of the degree of progress made in satisfying the performance obligation can be determined based on costs incurred. The measurement of progress is based on the proportion of costs incurred to the end of the period to the estimated total cost.

Certain consolidated subsidiaries recognize revenue on a cost recovery basis when the degree of completion in meeting performance obligations cannot be reasonably estimated, but the costs incurred are expected to be recovered. When it is probable that certain refund obligations to customers will be incurred, such as damages for late delivery and non-fulfilment of other performance obligations, revenue is reduced by an estimate of the relevant portion. The consideration for transactions is received mainly in stages as progress is made in meeting performance obligations or in accordance with contracts with customers and does not include a significant financial component.

(2) Product sales

Revenue from the sale of products is mainly recognized at the time of delivery of the product when the customer obtains control over the product as the performance obligation is usually deemed to be satisfied at the time of delivery of the product. The consideration received in such transactions is received mainly within one year of satisfaction of the performance obligation and does not include a significant financial element.

e) Allowance for Doubtful Receivables

For receivables from insolvent customers who are undergoing bankruptcy or other collection proceedings or who are in a similar financial condition, the allowance for doubtful accounts is provided based on an evaluation of each customer's financial condition and an estimation of recoverable amounts due to the existence of security interests or guarantees.

For other receivables, the allowance for doubtful receivables is provided based on the Companies' actual rate of bad debts in the past.

f) Securities

Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for by the equity method are stated at moving average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized holding gains and unrealized holding losses on these securities are reported, net

of applicable income taxes, as a separate component of net assets. Realized gains and losses on the sale of such securities are calculated using moving average cost. Securities with no available fair market value which are classified as available-for-sale securities are stated at moving average cost.

If the market value of held-to-maturity debt securities, equity securities issued by nonconsolidated subsidiaries and affiliated companies or available-for-sale securities declines significantly, the securities are stated at fair market value, and the difference between fair market value and the carrying amount is recognized as loss in the period of the decline. If the fair market value of equity securities issued by nonconsolidated subsidiaries or affiliated companies not on the equity method is not readily available, the securities are written down to net asset value with a corresponding charge in the statement of income in the event net asset value declines significantly. In these cases, the fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

g) Derivatives and Hedge Accounting

Derivative financial instruments are stated at fair value and changes in the fair values are recognized as gains and losses unless the derivative financial instruments are used for hedging purposes.

(1) Hedge accounting

The Companies defer recognition of gains and losses resulting from changes in the fair value of derivative financial instruments until the related losses and gains on the hedged items are recognized.

If the derivative financial instruments are used as hedges and meet certain hedging criteria, the Group defers recognition of gain or loss resulting from changes in the fair value of a derivative financial instrument until the related loss or gain on the corresponding hedged item is recognized ("deferred hedge" method). Deferred gains and losses on these derivative instruments are reported, net of applicable income taxes, as a separate component of accumulated other comprehensive income in net assets.

If foreign currency exchange contracts are used as hedges and meet certain hedging criteria, the hedged items are stated at the forward exchange rates ("assigning" method).

Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the asset or liability for which the swap contract was executed.

(2) Hedging instruments and hedged items

Hedging instruments: Interest rate swap contracts

Hedged items: Interest on borrowings and bonds payable

Hedging instruments: Forward foreign exchange contracts and other derivatives

Hedged items: Trade receivables and expected trade receivables denominated in foreign currencies from exports of products, trade payables and expected trade payables denominated in foreign currencies from imports of materials

(3) Hedging policy

The Companies use derivative financial instruments to hedge future risks of interest rate fluctuations and future risks of foreign exchange fluctuations in accordance with their internal policies and procedures.

(4) Evaluation of hedge effectiveness

The Companies evaluate hedge effectiveness by comparing the cumulative changes in cash flows and foreign currency exchange or the changes in fair value of hedged items and the corresponding changes in the hedging derivative instruments.

(5) Control over use of derivatives

When the accounting sections of group companies use derivatives, they follow the group companies' basic policies approved at the management strategy conferences and the group companies' administrative rules.

h) Inventories

Work in progress is composed of the accumulated production costs of contracts. The accumulated production costs include direct production costs, factory and engineering overhead and other costs incurred. And it is stated at the lower of the accumulated production costs of contracts or net realizable value at the end of the fiscal year.

Raw materials and supplies are stated at the lower of the costs, which are generally determined by the specific identification method or the moving average method, or net realizable value at the end of the fiscal year.

i) Depreciation and Amortization

Depreciation, except for that of leased assets, is calculated, with minor exceptions, by the declining balance method. However, buildings, excluding facilities attached to buildings, acquired after April 1, 1998 and facilities attached to buildings and structures acquired after April 1, 2016 are depreciated using the straight-line method.

Amortization of intangible assets, except for leased assets, is calculated by the straight-line method based on the useful life of the asset.

Depreciation for leased assets is calculated by the straight-line method over the term of the lease to the residual value of zero.

Depreciation for right-of-use assets is calculated by the straight-line method to the residual value of zero over the shorter of the lease term or the useful life.

j) Software Costs

The Companies include internal use software in intangible assets and depreciate it using the straight-line method over the estimated useful life of five years.

k) Goodwill

Goodwill is amortized by the straight-line method over five or ten years.

l) Deferred Assets

Bond issue expenses are amortized by the straight-line method over the repayment period of the bond.

m) Reserve for Product Warranty

The reserve for product warranty, which is based on the experience of the past two years, is provided to cover possible warranty costs incurred after delivery or completion of construction.

n) Reserve for Losses on Construction Contracts

To provide for losses on construction contracts, the Companies record an estimated amount at the end of the fiscal year.

o) Employees' Severance and Retirement Benefits

In calculating projected benefit obligation, the benefit formula basis is used as the method of attributing expected benefit obligation to the period up to the end of this fiscal year.

Unrecognized past service costs are recognized by the straight-line method over a certain term within the average remaining service period of the employees (from 5 to 12 years).

Unrecognized actuarial differences are recognized as income or expenses from the following fiscal year by the straight-line method over a certain term within the average remaining service period of the employees (from 5 to 12 years) of the respective fiscal years.

p) Directors' and Corporate Auditors' Severance and Retirement Benefits

To provide for payment of retirement benefits to directors and corporate auditors, the Companies record the required amount based on internal regulations for retirement benefits for directors and corporate auditors at the end of the fiscal year.

q) Research and Development Expenses

Research and development expenses are charged to selling, general and administrative expenses and manufacturing costs as incurred. Research and development expenses amounted to ¥6,136 million and ¥8,581 million (\$64,269 thousand) for the years ended March 31, 2022 and 2023, respectively.

r) Income Taxes

The provision for income taxes is based on income for financial statement purposes. Deferred income taxes are recognized for loss carryforwards and temporary differences between financial and tax reporting purposes. Income taxes comprise corporation tax, enterprise tax and prefectural and municipal inhabitants taxes.

The Company and some of its domestic consolidated subsidiaries have adopted the group tax sharing system.

From the year ending March 31, 2023, the Company and some of its domestic consolidated subsidiaries transited from the consolidated taxation system to the group tax sharing system. Accordingly the Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System (PITF No. 42, August 12, 2021), which sets out the accounting and disclosure of corporation and local taxes and tax effect accounting under the group tax sharing system, is applied from the beginning of the year ending March 31, 2023. The Company has deemed that there was no impact from the change in accounting policy according to Paragraph 32(1) of PITF No. 42.

s) Amounts Per Share

Basic net income per share is calculated based on the weighted average number of shares of common stock outstanding during each year.

Diluted net income per share is not shown because there were no dilutive securities.

t) Significant Accounting Estimates

(For the fiscal year ended March 31, 2022)

① Revenue recognition of construction contracts

(1) Amounts recorded in the consolidated financial statements for the fiscal year ended March 31, 2022

For the contracts in which control over the good or services will be transferred to the customer over a period of time, the amount for sales recognized over a period of time was ¥293,464 million.

(2) Information on significant accounting estimates for identified items

The Companies recognize revenue in this fiscal year for the construction contracts in which control over the good or services will be transferred to the customer over a period of time, by estimating the total revenue, the total cost of construction and the percentage of completion in perfectly satisfying the performance obligation per contract.

Of these estimates, the total cost of construction is calculated by specifying the nature of the work and estimating appropriate costs based on the specifications and delivery date stipulated in the contract with the customer. In addition, it is reviewed on a timely basis, and changes in circumstances after the order is received are reflected in the estimate of the total construction cost.

In the event that costs exceed the initially estimated total construction costs due to cancellations of contracts with major customers during the term of the contract, additional costs due to disasters, construction delays, etc., or penalties due to technical or product problems, etc., the business results for the following consolidated fiscal year may be affected.

② Recoverability of deferred tax assets

(1) Amounts recorded in the consolidated financial statements for the fiscal year ended March 31, 2022

The amount of deferred tax assets for the consolidated fiscal year ended March 31, 2022 was ¥16,964 million and the net amount after deducting deferred tax liabilities of ¥428 million was ¥16,535 million. For details, see Notes 25, "Income Taxes".

(2) Information on significant accounting estimates for identified items

Deferred tax assets are evaluated for recoverability based on business plans, future taxable income generation and tax planning. In particular, deferred tax assets for tax loss carryforwards are recognized to the extent that it is probable that they will be offset by future taxable income, taking into consideration projected future taxable income and tax planning.

Business plans, which are the basis for the generation of future taxable income, are formulated by each company based on certain assumptions, taking into account the business environment, such as the status of the COVID-19, in the forecast of order intakes and other factors. Of the deferred tax assets for tax loss carryforwards, the amount incurred by Hitachi Zosen Inova AG was ¥3,330 million. The deferred tax assets were recognized due to a significant deterioration in the company's profits in prior years. The deferred tax assets are expected to be recoverable due to the expectation of future taxable income resulting from the receipt of order intakes for large, profitable projects and the implementation of accurate budget management and appropriate construction management.

If, as a result of a review of future taxable income due to changes in the business environment, etc., it is determined that all or part of the deferred tax assets are not recoverable and a reversal of the deferred tax assets becomes necessary, the financial position and business results of the next consolidated fiscal year may be affected.

(For the fiscal year ended March 31, 2023)

① Revenue recognition of construction contracts

(1) Amounts recorded in the consolidated financial statements for the fiscal year ended March 31, 2023

For the contracts in which control over the good or services will be transferred to the customer over a period of time, the amount for sales recognized over a period of time was ¥329,541 million (\$2,467,922 thousand).

(2) Information on significant accounting estimates for identified items

The Companies recognize revenue in this fiscal year for the construction contracts in which control over the good or services will be transferred to the customer over a period of time, by estimating the total revenue, the total cost of construction and the percentage of completion in perfectly satisfying the performance obligation per contract.

Of these estimates, the total cost of construction is calculated by specifying the nature of the work and estimating appropriate costs based on the specifications and delivery date stipulated in the contract with the customer. In addition, it is reviewed on a timely basis, and changes in circumstances after the order is received are reflected in the estimate of the total construction cost.

In the event that costs exceed the initially estimated total construction costs due to cancellations of contracts with major customers during the term of the contract, additional costs due to disasters, construction delays, etc., or penalties due to technical or product problems, etc., the business results for the following consolidated fiscal year may be affected.

② Recoverability of deferred tax assets

(1) Amounts recorded in the consolidated financial statements for the fiscal year ended March 31, 2023

The amount of deferred tax assets for the consolidated fiscal year ended March 31, 2023 was ¥19,355 million (\$144,949 thousand) and the net amount after deducting deferred tax liabilities of ¥415 million (\$3,112 thousand) was ¥18,939 million (\$141,837 thousand). For details, see Notes 25, "Income Taxes".

(2) Information on significant accounting estimates for identified items

Deferred tax assets are evaluated for recoverability based on business plans, future taxable income generation and tax planning. In particular, deferred tax assets for tax loss carryforwards are recognized to the extent that it is probable that they will be offset by future taxable income, taking into consideration projected future taxable income and tax planning.

Business plans, which are the basis for the generation of future taxable income, are formulated by

each company based on certain assumptions, taking into account the business environment, such as in the forecast of order intakes and other factors. The deferred tax assets for tax loss carryforwards mainly occurred by Hitachi Zosen Inova AG. The deferred tax assets were recognized due to a significant deterioration in the company's profits in prior years. The deferred tax assets are expected to be recoverable due to the expectation of future taxable income resulting from the receipt of order intakes for large, profitable projects and the implementation of accurate budget management and appropriate construction management.

If, as a result of a review of future taxable income due to changes in the business environment, etc., it is determined that all or part of the deferred tax assets are not recoverable and a reversal of the deferred tax assets becomes necessary, the financial position and business results of the next consolidated fiscal year may be affected.

u) Reclassifications

Certain reclassifications were made to previously reported amounts for the fiscal year ended March 31, 2022 to conform to the fiscal year ended March 31, 2023 presentation. These reclassifications had no effect on previously reported net profit or total shareholders' equity.

3. Securities

a) The following tables summarize acquisition costs, book values and fair values of securities with available fair values as of March 31, 2022 and 2023:

Available-for-sale securities:

At March 31, 2022

Securities with book values (fair values) exceeding acquisition costs:

	Millions of yen		
	Book value	Acquisition cost	Difference
Equity securities	¥ 1,796	¥ 663	¥ 1,132
Others	583	552	31
Total	¥ 2,380	¥ 1,215	¥ 1,164

Securities with book values (fair values) not exceeding acquisition costs:

	Millions of yen		
	Book value	Acquisition cost	Difference
Equity securities	¥ 2	¥ 2	¥ (0)
Total	¥ 2	¥ 2	¥ (0)

At March 31, 2023

Securities with book values (fair values) exceeding acquisition costs:

	Millions of yen		
	Book value	Acquisition cost	Difference
Equity securities	¥ 2,393	¥ 1,411	¥ 982
Others	36	15	21
Total	¥ 2,430	¥ 1,427	¥ 1,003

Securities with book values (fair values) not exceeding acquisition costs:

	Millions of yen		
	Book value	Acquisition cost	Difference
Equity securities	¥ 70	¥ 70	¥ (0)
Others	524	535	(10)
Total	¥ 594	¥ 606	¥ (11)

Securities with book values (fair values) exceeding acquisition costs:

	Thousands of U.S. dollars		
	Book value	Acquisition cost	Difference
Equity securities	\$ 17,924	\$ 10,570	\$ 7,354
Others	276	119	157
Total	\$ 18,201	\$ 10,689	\$ 7,512

Securities with book values (fair values) not exceeding acquisition costs:

	Thousands of U.S. dollars		
	Book value	Acquisition cost	Difference
Equity securities	\$ 524	\$ 528	\$ (3)
Others	3,924	4,007	(75)
Total	\$ 4,454	\$ 4,539	\$ (85)

Note. There was no available fair market price for non-listed equity securities. As a result, these securities were not included in the table (1) Available-for-sale securities.

b) Sales of available-for-sale securities in the years ended March 31, 2022 and 2023 were as follows:

Year ended March 31, 2022

	Millions of yen		
	Sales	Gains on sales	Losses on sales
Equity securities	¥ 323	¥ 1	¥ —
Others	0	0	—
Total	¥ 324	¥ 1	¥ —

Year ended March 31, 2023

	Millions of yen		
	Sales	Gains on sales	Losses on sales
Equity securities	¥ 214	¥ 89	¥ —
Others	0	—	(0)
Total	¥ 214	¥ 89	¥ (0)

	Thousands of U.S. dollars		
	Sales	Gains on sales	Losses on sales
Equity securities	\$ 1,602	\$ 671	\$ —
Others	5	—	(0)
Total	\$ 1,608	\$ 671	\$ (0)

4. Inventories

Inventories at March 31, 2022 and 2023 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Merchandise and finished goods	¥ 1,119	¥ 1,461	\$ 10,946
Work in progress	6,836	7,391	55,358
Raw material and supplies	6,518	8,332	62,402
Total	¥ 14,474	¥ 17,186	\$ 128,706

Inventories for construction contracts with expected losses and a reserve for losses on construction contracts were not offset but individually reported.

The corresponding amounts of inventories for the reserve for losses on construction contracts at March 31, 2022 and 2023 were ¥473 million and ¥72 million (\$546 thousand), respectively, all of which represented work in progress.

5. Short-term Borrowings and Long-term Debt

Short-term borrowings that represented bank borrowings bearing average interest rates of 0.57% and 0.50 % as of March 31, 2022 and 2023, respectively, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Secured (or partly secured)	¥ —	¥ —	\$ —
Unsecured	2,210	3,056	22,893
Total	¥ 2,210	¥ 3,056	\$ 22,893

As of March 31, 2022 and 2023, the Company had line-of-credit agreements for short-term borrowings with financial institutions totaling ¥30,000 million and ¥30,000 million (\$224,668 thousand). The used amounts were zero as of March 31, 2022 and zero as of March 31, 2023.

Long-term debt as of March 31, 2022 and 2023 consisted of the followings:

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Borrowings from banks and other financial institutions at 0.65% to 1.07%, due through 2082:			
Secured (or partly secured)	¥ 3,262	¥ 1,627	\$ 12,190
Unsecured	52,421	47,810	358,052
Straight bonds at 0.57% due 2024	10,000	10,000	74,889
Straight bonds at 0.59% due 2025	10,000	10,000	74,889
Straight bonds at 0.43% due 2026	10,000	10,000	74,889
Lease liabilities	3,988	3,971	29,743
Less current portion included in current liabilities	(25,807)	(14,903)	(111,608)
Total	¥ 63,863	¥ 68,507	\$ 513,045

The following assets were pledged as collateral mainly for secured long-term debt of ¥3,262 million at March 31, 2022 and ¥1,627 million (\$12,190 thousand) at March 31, 2023:

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Trade notes and accounts	¥ 1,659	¥ 7,486	\$ 56,068
Prepaid expenses and other current assets	1	1	13
Property, plant and equipment, net	270	1,030	7,714
Investments in nonconsolidated subsidiaries and affiliates	25	25	187
Investments in securities	76	76	569
Long-term loans receivable	12	10	76
Total	¥ 2,045	¥ 8,630	\$ 64,630

The aggregate annual maturities of long-term debt outstanding at March 31, 2023 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2025	¥ 22,586	\$ 169,148
2026	11,960	89,573
2027	11,039	82,675
2028	859	6,436
2029 and thereafter	22,060	165,212
Total	¥ 68,507	\$ 513,045

6. Contingent Liabilities

Contingent liabilities at March 31, 2022 and 2023 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Notes receivable endorsed	¥ 91	¥ —	\$ —
Guarantees of bank borrowings and other indebtedness	3,092	4,341	32,514
Total	¥ 3,184	¥ 4,341	\$ 32,514

7. Land Revaluation Difference

Land for operations was revalued by consolidated subsidiaries in accordance with the Land Revaluation Law in the year ended March 31, 2000. The revaluation amount is shown as a separate component of net assets.

At October 1, 2002, the Company merged with HEC Corporation, which was a consolidated subsidiary, and succeeded to the land revaluation difference.

The market value of the land was ¥70 million and ¥70 million (\$524 thousand) lower than the revalued book amount at March 31, 2022 and 2023, respectively.

8. Net Assets

Under the Japanese Companies Act (“the law”) and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

In cases in which a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. However, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the nonconsolidated financial statements of the Company in accordance with Japanese laws and regulations.

At the annual shareholders’ meeting held on June 21, 2023, the shareholders approved cash dividends of ¥3,033 million (\$22,717 thousand). The appropriation has not been accrued in the consolidated financial statements as of March 31, 2023. This type of appropriation is recognized in the period in which it is approved by the shareholders.

9. Provision for Losses on Construction Contracts Included in Cost of Sales

Provision for losses on construction contracts included in cost of sales was ¥3,000 million and ¥3,037 million (\$22,749 thousand) for the years ended March 31, 2022 and 2023, respectively.

10. Gain on bargain purchase

Gain on bargain purchase for the fiscal year ended March 31, 2022 was due to the acquisition of all of the shares of the Steinmüller Babcock Environment GmbH and the subsidiary Steinmüller Babcock Montaz Sp. z o.o.

11. Gain on sale of property

Gain on sale of property for the fiscal year ended March 31, 2023 was recorded in the amount of ¥1,020 million (\$7,642 thousand) due to the sales of 90 building in Osaka city.

12. Gain on sale of shares of subsidiaries and affiliates

Gain on sale of shares of subsidiaries and affiliates for the fiscal year ended March 31, 2023 was recorded in the amount of ¥1,430 million (\$10,712 thousand) due to the sales of shares of the subsidiary, OHNAMI Corporation.

13. Gain on government grants

Gain on government grants for the fiscal year ended March 31, 2023 was recorded in the amount of ¥1,798 million (\$13,471 thousand) due to the receipt of government grants from Ohdate City.

14. Impairment loss

The asset for which the Companies recognized impairment loss in the year ended March 31, 2022 was as follows:

① Ibaraki Works

In the wholesale electricity business, including that of the Ibaraki Works, the Company determined that there were indications of impairment of fixed assets due to adjustment the business plan against a significant deterioration in the business environment including a decrease of unit price of contract in a capacity market (introduced to avoid soaring market prices due to insufficient supply).

As a result of examining the future recoverability, the book value of fixed assets grouped in this business was reduced to the recoverable amount, and the amount of the reduction was recorded as impairment loss (¥1,600 million) under other expenses.

Location	Use	Type of Assets	Millions of yen
Ibaraki Works	Wholesales electricity business	Buildings and structures	¥ 355
(Hitachiomiya-city, Ibaraki Prefecture)		Machinery, equipment and vehicles	¥ 1,163
		Land	¥ 80
Total			¥ 1,600

The recoverable amount of the Ibaraki works was measured based on the value in use, which was calculated by discounting the future cash flow at 4.88%. As part of the business plans that form the basis for the calculation of future cash flows, electricity sales are estimated based on the future operation plans that takes into accounts that the electricity sales unit prices of this fiscal year and electricity supply and demand contracts. In addition, the revenue related capacity market from FY2026 onward is estimated based on the unit price of contracts on FY2025.

② Natural Energy Japan

In Natural energy japan, which operates renewable energy generation, wholesale electricity businesses and waste disposal business in Akita-city, there were indications of impairment of fixed assets due to continuously operating loss.

As a result of examining the future recoverability, the book value of fixed assets grouped in this business was reduced to the recoverable amount, and the amount of the reduction was recorded as impairment loss (¥2,092 million) under other expenses.

Location	Use	Type of Assets	Millions of yen
Natural Energy Japan (Akita-city, Akita Prefecture)	Renewable energy generation, wholesales electricity business and waste disposal business	Buildings and structures	¥ 1,088
		Machinery and equipment	¥ 645
		Land	¥ 231
		Other intangible assets	¥ 127
Total			¥ 2,092

The recoverable amount of Natural energy japan was zero. It's because the value in use, which is used to measure the recoverable amounts, was negative based on the future cash flow.

The asset for which the Companies recognized impairment loss in the year ended March 31, 2023 was as follows:

Kompogas SLO LLC

In regards to Kompogas SLO LLC, the Company determined that there were indications of impairment of fixed assets due to a significant deterioration in the business environment. As a result of examining the future recoverability, the book value of fixed assets grouped in this business was reduced to the recoverable amount, and the amount of the reduction was recorded as impairment loss (¥341 million (\$2,556 thousand)) under other expenses.

Location	Use	Type of Assets	Millions of yen	Thousands of U.S. dollars
Kompogas SLO LLC (Sun Luis Obispo, California, USA)	Kompogas plant	Machinery, equipment and vehicles	¥ 341	\$ 2,556
Total			¥ 341	\$ 2,556

The recoverable amount of the Kompogas SLO LLC assets was measured based on the value in use, which was calculated by discounting the future cash flow at 8.0%. As part of the business plans that form the basis for the calculation of future cash flows, sales were estimated based on the future operation plans.

15. Provision for loss on liquidation

Provision for loss on liquidation for the fiscal year ended March 31, 2023 was recorded in the amount of ¥729 million (\$5,460 thousand) due to provision for loss of removal of equipment.

16. Provision for loss on litigation

Provision for loss on litigation for the fiscal year ended March 31, 2023 was recorded in the amount of ¥688 million (\$5,153 thousand) due to pending litigation.

17. Loss on using the reduction entry

Loss on using the reduction entry for the fiscal year ended March 31, 2023 was recorded in the amount of ¥1,798 million (\$13,471 thousand) due to the application of direct reduction method regarding government grants (Note.13).

18. Comprehensive Income Information

Amounts reclassified to net income (loss) in the current period that were recognized in other comprehensive income in the current or previous periods and tax effects for each component of other comprehensive income were as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Net unrealized holding gains (losses) on securities			
Increase (decrease) during the year	¥ (70)	¥ (180)	\$ (1,351)
Reclassification adjustments	(2)	(60)	(450)
Subtotal before tax	(73)	(240)	(1,801)
Tax benefit (expenses)	41	57	432
Subtotal net of tax	(31)	(182)	(1,368)
Net unrealized holding gains (losses) on hedging derivatives			
Increase (decrease) during the year	¥ 265	¥ 213	\$ 1,599
Reclassification adjustments	(67)	(154)	(1,157)
Subtotal before tax	198	58	441
Tax benefit (expenses)	(80)	38	291
Subtotal net of tax	117	97	732
Foreign currency translation adjustments			
Increase (decrease) during the year	¥ 246	¥ (365)	\$ (2,740)
Reclassification adjustments	(96)	(14)	(105)
Subtotal	149	(380)	(2,846)
Remeasurements of defined benefit plans			
Increase (decrease) during the year	¥ 1,188	¥ (4,554)	\$ (34,108)
Reclassification adjustments	(247)	(678)	(5,081)
Subtotal before tax	941	(5,233)	(39,189)
Tax benefit (expenses)	(146)	1,016	7,615
Subtotal net of tax	794	(4,216)	(31,574)
Equity of nonconsolidated subsidiaries and affiliates accounted for using equity method			
Increase (decrease) during the year	¥ 172	¥ (157)	\$ (1,178)
Reclassification adjustments	(91)	—	—
Subtotal	81	(157)	(1,178)
Total other comprehensive income	¥ 1,111	¥ (4,838)	\$ (36,235)

19. Treasury Stock

Treasury stock for the years ended March 31, 2022 and 2023 consisted of the following:

Year ended March 31, 2022

Number of shares of common stock	Thousands
At March 31, 2021	1,678
Increase	4
Decrease	(0)
At March 31, 2022	1,683

Year ended March 31, 2023

Number of shares of common stock	Thousands
At March 31, 2022	1,683
Increase	3
Decrease	(0)
At March 31, 2023	1,687

20. Cash Flow Information

Cash and cash equivalents

Cash and cash equivalents in the consolidated statements of cash flows and cash and deposits in the consolidated balance sheets at March 31, 2022 and 2023 were reconciled as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Cash and deposits in the balance sheets	¥ 67,200	¥ 86,404	\$ 647,080
Time deposits with maturities over three months	(1,244)	(1,529)	(11,456)
Cash and cash equivalents in cash flow statements	¥ 65,956	¥ 84,874	\$ 635,623

Year ended March 31, 2022

The amount ¥8,651 million among the Proceeds from shares of subsidiaries resulting in change in scope of consolidation is due to newly consolidation of Steinmüller Babcock Environment GmbH and its subsidiary, Steinmüller Babcock Montaz Sp.z.o.o..

The assets and liabilities of a newly consolidated subsidiary are as follows:

	Millions of yen
Current assets	¥ 16,342
Noncurrent assets	2,290
Total assets	¥ 18,632
Current liabilities	¥ (13,174)
Noncurrent liabilities	(1,675)
Total liabilities	¥ (14,850)

Year ended March 31, 2023

A portion of the proceeds from the sales of shares of subsidiaries resulting in change in scope of consolidation in the amount ¥5,206 million (\$38,988 thousand) was due to the recent deconsolidation of OHNAMI Corporation and its subsidiary, OHNAMI RIKUUN Corporation.

The assets and liabilities of a deconsolidated subsidiary are as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 4,185	\$ 31,343
Noncurrent assets	8,590	64,333
Total assets	¥ 12,775	\$ 95,677
Current liabilities	¥ (2,740)	\$ (20,525)
Noncurrent liabilities	(2,886)	(21,618)
Total liabilities	¥ (5,627)	\$ (42,143)

21. Lease Information

a) Finance leases as lessee

Finance leases which do not transfer ownership and do not have bargain purchase provisions at March 31, 2022 and 2023 consisted of leases for production facilities for the Environmental systems and Industrial plants segment and Machinery segment (machinery, equipment and vehicles) and software. Depreciation was as described in Note 2(i), "Significant Accounting Policies - Depreciation and Amortization."

b) Operating leases as lessee

Future minimum payments for operating leases at March 31, 2022 and 2023 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Payments due within one year	¥ 741	¥ 671	\$ 5,026
Payments due after one year	10,466	9,702	72,661
Total	¥ 11,207	¥ 10,373	\$ 77,688

c) Right of use assets as lessee

Right of use assets at March 31, 2022 and 2023 consisted of leases for production facilities in foreign subsidiaries. Depreciation was as described in Note 2(i), "Significant Accounting Policies - Depreciation and Amortization."

d) Finance leases as lessor

Lease investment assets

Current assets as of March 31, 2022 and 2023 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Lease payments receivable	¥ 21	¥ 19	\$ 149
Interest	(0)	(1)	(8)
Total	¥ 20	¥ 18	\$ 140

Lease investment assets receivable after March 31, 2022 and 2023 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Within one year	¥ 14	¥ 7	\$ 55
Over one year but within two years	4	5	41
Over two years but within three years	1	5	37
Over three years but within four years	1	1	10
Over four years but within five years	0	0	3
Over five years	—	—	—

22. Financial Instruments

a) Articles concerning status of financial instruments

(1) Policies for financial instruments

The Companies raise necessary funds for capital investment plans, R&D plans and operation of particular projects mainly through bank borrowings and the issuance of corporate bonds. The Companies invest temporary surplus funds in highly secure financial assets and obtain working capital mainly through bank borrowings. The Companies utilize derivative financial instruments not for speculation but for hedging purposes only.

(2) Substances and risks of financial instruments

Trade and other receivables are exposed to credit risk of customers. Since the Companies operate internationally, foreign currency net cash inflows are exposed to currency fluctuation risks. Forward foreign exchange contracts are used principally to hedge these risks.

Securities and investment securities, mainly held-to-maturity debt securities and the securities of companies with which the Companies have business relationships, are exposed to market fluctuation risk. The Companies have long-term loans with the companies with which the Companies have business relationships.

Almost all of the trade payables are due within six months. Foreign currency trade payables are exposed to currency fluctuation risk, but these trade payables are controlled not to exceed the cash inflows of the same foreign currencies.

Borrowings and corporate bonds are mainly for the purpose of raising funds for capital investment, R&D and operation of particular projects. The longest due date is 59 years after the fiscal year end. Some of the items are exposed to interest rate fluctuation risk.

Derivative transactions mainly consist of forward foreign exchange contracts and currency option contracts made for hedging currency fluctuation risk arising from foreign currency receivables and payables and interest rate swap contracts for hedging interest rate fluctuation risk arising from long-term borrowings. As to the hedging derivative financial instruments used and items hedged, hedging policy and the method of evaluating hedge effectiveness are described in Note 2 (g), "Significant Accounting Policies-Derivatives and Hedge Accounting."

(3) Management of financial instruments

① Management of credit risk (risk of customer default)

The financial department of the Company is subject to internal regulations for the management of trade receivables and long-term loans. To reduce the risk of default associated with these instruments, the Company research the credit standing of customers, monitors due dates and balances by customer at regular intervals through the each sales and business administration divisions of each department and recognizes early signs of deterioration in the financial status of its customers. The consolidated subsidiaries are subject to internal regulations for similar management.

Held-to-maturity debt securities are limited to top-ranked securities so as to minimize credit risk.

As to derivative transactions, the Companies deal solely with financial institutions to raise funds and top-ranked financial institutions to reduce credit risk.

② Management of market risk (risk of exchange rate or interest rate fluctuation)

The Company and some consolidated subsidiaries utilize mainly forward foreign exchange contracts and currency option contracts for the purpose of hedging currency fluctuation risk arising from foreign currency receivables and payables and prospective transactions that are highly expected to occur, which are categorized by the type of currency and the monthly due date. The Company utilizes interest rate swap contracts for the purpose of hedging interest rate fluctuation risk arising from long-term borrowings.

As to securities and investment securities, the Companies monitor the fair market value and evaluate the financial status of issuing companies that are important customers. For other than held-to-maturity

debt securities, the Companies regularly examine whether the holding position is proper or not while taking the relationships with the issuing companies into consideration.

As to derivative transactions, the Company is subject to internal regulations to administer derivative transactions that provide for trading authority and limit maximum amounts and approves basic policies annually at its management strategy conference. The Company's financial department engages in transactions, records them and monitors the balances. The results of the transactions are reported regularly in its management strategy conference. The consolidated subsidiaries manage derivatives in a similar way.

③ Management of liquidity risk of raising funds (risk of default)

The financial department of the Company makes and updates finance plans based on finance reports from each department. The consolidated subsidiaries manage liquidity risk in a similar way.

(4) Supplementary explanation about fair value of financial instruments

Reasonably estimated fair values of financial instruments may fluctuate because the values depend on estimations based on certain variable assumptions. The contract amounts of derivative transactions of the following Note 23, "Derivative Transactions," do not show the market risk of the derivatives themselves.

b) Articles concerning fair value of financial instruments

Consolidated balance sheet amounts and fair values of financial instruments and the difference between them, if any, for the years ended March 31, 2022 and 2023 are set forth in the tables below.

At March 31, 2022:

	Millions of yen		
	Book value	Fair value	Difference
(1) Trade notes and accounts	110,120		
Allowance for doubtful receivables *2	(911)		
	109,209	109,271	62
(2) Securities and investment securities	4,892	3,192	(1,699)
Total assets	¥ 114,101	¥ 112,464	¥ (1,637)
(1) Short-term borrowings	(2,210)	(2,210)	—
(2) Current portion of long-term debt	(24,505)	(24,590)	(84)
(3) Long-term debt, less current portion	(61,177)	(60,998)	179
Total liabilities	¥ (87,893)	¥ (87,798)	¥ 94
Derivative transactions *3			
Derivative transactions for which hedge accounting has not been applied	(689)	(689)	—
Derivative transactions for which hedge accounting has been applied	291	291	—
Total derivative transactions	¥ (397)	¥ (397)	¥ —

*1 "Cash and cash equivalents", "Notes and accounts payable", "Accrued expenses" and "Accrued income taxes" are omitted as the fair values approximate their book value because they are cash or settled in a short period of time.

*2 Allowance for doubtful receivables was deducted from trade notes and accounts.

*3 Liabilities were indicated in parenthesis (). Assets and liabilities arising from derivative transactions were offset and indicated by parenthesis () when the offset amount was a liability.

At March 31, 2023:

	Millions of yen		
	Book value	Fair value	Difference
(1) Trade notes and accounts	106,682		
Allowance for doubtful receivables *2	(3,335)		
	103,347	103,400	53
(2) Securities and investment securities	3,827	3,827	—
Total assets	¥ 107,174	¥ 107,228	¥ 53
(1) Short-term borrowings	(3,056)	(3,056)	—
(2) Current portion of long-term debt	(13,561)	(13,453)	107
(3) Long-term debt, less current portion	(65,876)	(65,182)	693
Total liabilities	¥ (82,495)	¥ (81,693)	¥ 802
Derivative transactions *3			
Derivative transactions for which hedge accounting has not been applied	(193)	(193)	—
Derivative transactions for which hedge accounting has been applied	409	409	—
Total derivative transactions	¥ 216	¥ 216	¥ —

	Thousands of U.S. dollars		
	Book value	Fair value	Difference
(1) Trade notes and accounts	798,942		
Allowance for doubtful receivables *2	(24,978)		
	773,963	774,363	399
(2) Securities and investment securities	28,663	28,663	—
Total assets	\$ 802,627	\$ 803,027	\$ 399
(1) Short-term borrowings	(22,893)	(22,893)	—
(2) Current portion of long-term debt	(101,562)	(100,753)	808
(3) Long-term debt, less current portion	(493,348)	(488,150)	5,198
Total liabilities	\$ (617,804)	\$ (611,797)	\$ 6,006
Derivative transactions *3			
Derivative transactions for which hedge accounting has not been applied	(1,446)	(1,446)	—
Derivative transactions for which hedge accounting has been applied	3,064	3,064	—
Total derivative transactions	\$ 1,618	\$ 1,618	\$ —

*1 "Cash and cash equivalents", "Notes and accounts payable", "Accrued expenses" and "Accrued income taxes" are omitted as the fair values approximate their book value because they are cash or settled in a short period of time.

*2 Allowance for doubtful receivables was deducted from trade notes and accounts.

*3 Liabilities were indicated in parenthesis (). Assets and liabilities arising from derivative transactions were offset and indicated by parenthesis () when the offset amount was a liability.

*4 The securities which don't have fair value decided in the market

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Stock of nonconsolidated subsidiaries and affiliates	¥ 8,572	¥ 13,200	\$ 98,858
Non-listed equity securities, etc.	3,403	3,217	24,098
Total	¥ 11,976	¥ 16,418	\$ 122,956

They are not included in "(2) Securities and investment securities". Investments in partnerships and other similar entities in which is recorded the net amount of equity is booked at ¥448 million (\$3,355 thousand), which is included in the above "Non-listed equity securities, etc.".

(Note.1) The expected redemption amounts of financial assets and securities with maturity dates after the consolidated fiscal year-end were as follows:

At March 31, 2022:

	Millions of yen			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and deposits	¥ 67,200	¥ —	¥ —	¥ —
Trade notes and accounts	107,674	540	593	400
Securities and investment securities				
Available-for-sale securities with maturities				
(1) Others	—	583	—	—
Total	¥ 174,875	¥ 1,124	¥ 593	¥ 400

At March 31, 2023:

	Millions of yen			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and deposits	¥ 86,404	¥ —	¥ —	¥ —
Trade notes and accounts	102,002	467	598	278
Securities and investment securities				
Available-for-sale securities with maturities				
(1) Others	—	561	—	—
Total	¥ 188,406	¥ 1,029	¥ 598	¥ 278

	Thousands of U.S. dollars			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and deposits	\$ 647,080	\$ —	\$ —	\$ —
Trade notes and accounts	763,888	3,501	4,484	2,088
Securities and investment securities				
Available-for-sale securities with maturities				
(1) Others	—	4,206	—	—
Total	\$ 1,410,968	\$ 7,707	\$ 4,484	\$ 2,088

(Note.2) The expected redemption amounts of short-term borrowings and long-term debt after the consolidated fiscal year-end were as follows:

At March 31, 2022:

Millions of yen						
	Within one year	Over one year but within two years	Over two years but within three years	Over three years but within four years	Over four years but within five years	Over five years
Short-term borrowings	¥ 2,210	¥ —	¥ —	¥ —	¥ —	¥ —
Long-term debt	24,505	14,441	21,566	11,448	10,937	2,784
Lease Liabilities	1,302	1,119	788	357	181	240
Total	¥ 28,017	¥ 15,560	¥ 22,355	¥ 11,805	¥ 11,118	¥ 3,024

At March 31, 2023:

Millions of yen						
	Within one year	Over one year but within two years	Over two years but within three years	Over three years but within four years	Over four years but within five years	Over five years
Short-term borrowings	¥ 3,056	¥ —	¥ —	¥ —	¥ —	¥ —
Long-term debt	13,561	21,502	11,361	10,847	635	21,529
Lease Liabilities	1,341	1,083	599	191	223	531
Total	¥ 17,960	¥ 22,586	¥ 11,960	¥ 11,039	¥ 859	¥ 22,060

Thousands of U.S. dollars						
	Within one year	Over one year but within two years	Over two years but within three years	Over three years but within four years	Over four years but within five years	Over five years
Short-term borrowings	\$ 22,893	\$ —	\$ —	\$ —	\$ —	\$ —
Long-term debt	101,562	161,033	85,083	81,238	4,762	161,230
Lease Liabilities	10,046	8,114	4,489	1,437	1,673	3,982
Total	\$ 134,501	\$ 169,148	\$ 89,573	\$ 82,675	\$ 6,436	\$ 165,212

c) Matters concerning fair value hierarchy by level of financial instruments

The fair value of financial instruments is classified into the following three levels according to the observability and significance of the input used to measure the fair value.

Level 1	Quoted prices in an active market for identical assets or liabilities
Level 2	Observable inputs other than quoted prices
Level 3	Unobservable inputs

In cases where multiple inputs are used that have a significant impact on fair value, the fair value level is classified into the lowest priority level amongst the inputs used in the fair value measurement.

① Financial Instruments booked at fair value on the balance sheets

At March 31, 2022:

Fair value (Millions of yen)				
	Level 1	Level 2	Level 3	Total
Investment securities				
Equity securities	404	—	1,393	1,798
Total assets	¥ 404	¥ —	¥ 1,393	¥ 1,798
Derivative transactions				
Related to currencies	—	397	—	397
Total liabilities	¥ —	¥ 397	¥ —	¥ 397

At March 31, 2023:

	Fair value (Millions of yen)			
	Level 1	Level 2	Level 3	Total
Investment securities				
Equity securities	466	—	1,997	2,463
Total assets	¥ 466	¥ —	¥ 1,997	¥ 2,463
Derivative transactions				
Related to currencies	—	216	—	216
Total assets	¥ —	¥ 216	¥ —	¥ 216

	Fair value (Thousands of dollars)			
	Level 1	Level 2	Level 3	Total
Investment securities				
Equity securities	3,492	—	14,957	18,449
Total assets	\$ 3,492	\$ —	\$ 14,957	\$ 18,449
Derivative transactions				
Related to currencies	—	1,618	—	1,618
Total liabilities	\$ —	\$ 1,618	\$ —	\$ 1,618

(Notes) Investment trusts are not included in the table above. The amount of such investment trusts in the consolidated balance sheets are ¥561 million (\$4,206 thousand).

② Financial Instruments booked at fair value on the balance sheets

At March 31, 2022:

	Fair value (Millions of yen)			
	Level 1	Level 2	Level 3	Total
Trade notes and accounts	—	107,550	1,721	109,271
Investment securities				
Investments in nonconsolidated subsidiaries and affiliates	810	—	—	810
Total assets	¥ 810	¥ 107,550	¥ 1,721	¥ 110,082
Current portion of long-term debt	—	26,800	—	26,800
Long-term debt, less current portion	—	60,998	—	60,998
Total liabilities	¥ —	¥ 87,798	¥ —	¥ 87,798

At March 31, 2023:

	Fair value (Millions of yen)			
	Level 1	Level 2	Level 3	Total
Trade notes and accounts	—	101,799	1,601	103,400
Investment securities				
Investments in nonconsolidated subsidiaries and affiliates	800	—	—	800
Total assets	¥ 800	¥ 101,799	¥ 1,601	¥ 104,201
Current portion of long-term debt	—	16,510	—	16,510
Long-term debt, less current portion	—	65,182	—	65,182
Total liabilities	¥ —	¥ 81,693	¥ —	¥ 81,693

	Fair value (Thousands of dollars)			Total
	Level 1	Level 2	Level 3	
Trade notes and accounts	—	762,370	11,992	774,363
Investment securities				
Investments in nonconsolidated subsidiaries and affiliates	5,996	—	—	5,996
Total assets	<u>\$ 5,996</u>	<u>\$ 762,370</u>	<u>\$ 11,992</u>	<u>\$ 780,360</u>
Current portion of long-term debt	—	123,646	—	123,646
Long-term debt, less current portion	—	488,150	—	488,150
Total liabilities	<u>\$ —</u>	<u>\$ 611,797</u>	<u>\$ —</u>	<u>\$ 611,797</u>

(Note 1) Explanation of valuation techniques and inputs used for measurement of fair value

Assets

(1) Trade notes and accounts

The fair values which is settled in a short period of time is measured their book value because the fair values approximate the book value. In case the fair values which is settled in a long period of time is classified as Level 3 fair value. Because the fair value is measured with the present value which we calculate by discounting the future cash flow at the interest rate obtained by adding the credit spread to an appropriate index such as the yield on government bonds.

(2) Investment securities

Listed equity securities are classified as Level 1 fair value, which is exchanged in active market. The non-listed equity carried at the fair value in accordance with IFRS 9 "financial instruments" is classified Level 3 fair value. Because the fair value is measured by discounting the future cash flows expected to be generated by the investee. When fair value is measured using only unobservable inputs, it is classified as Level 3 fair value.

Liabilities

(1) Current portion of long-term debt

The fair value of current portion of long-term borrowing is classified Level 2 fair value. Because the fair value is measured with the present value which we calculate by discounting sum of the principal and interest at the interest rate assumed for a new similar borrowing at this time.

(2) Long-term debt less current portion

The fair value of corporate bonds is classified as Level 2 fair value due to measurement based on market value.

The fair value of borrowing less current portion is classified as Level 2 fair value. Because the fair value is measured with the present value which we calculate by discounting sum of the principal and interest at the interest rate assumed for a new similar borrowing at this time.

Derivative transactions

The fair value of forward exchange contracts is classified as Level 2 fair value because forward exchanges rates are used.

The fair value of interest rate swaps that qualify for special treatment is included in the fair value of the relevant long-term borrowings because they are accounted for as an integral part of the long-term borrowings that are hedged.

(Note 2) Explanation of valuation techniques and inputs used for measurement of Level 3 fair value

(1) Quantitative information on significant unobservable inputs

Classification	Evaluation methodology	Significant unobservable input	Input range
Securities and investment securities			
Available-for-sale securities			
Equity securities	Discounted present value method	Discount rate	8.27%~9.45%

- (2) Reconciliation of the beginning balance to the end balance, valuation gains/losses recognized in profit/loss for the current fiscal year

The amount of Equity securities increased by ¥603million (\$4,521 thousand). This is due to increasing acquisition cost and measurement of fair value. A decrease by ¥137million (\$1,026 thousand) among a decrease due to measurement of fair value is including the "Net unrealized holding gains (losses) on securities" of "Other comprehensive income" in consolidated statements of comprehensive income.

- (3) Explanation of the fair value valuation process

In measurement of fair value of equity securities in accordance with general accepted accounting principle, the accounting department in the Company's subsidiaries determines the appropriateness of the discount rate after reviewing the details of similar companies, interest rate index, stock price index and other calculation basis against the discount rate obtained from an external valuation firm.

- (4) Explanation of the effect of changes in significant unobservable inputs on fair value

Significant unobservable inputs of the equity securities are discount rate. In measuring the fair value, the fair value increases (decreases) as discount rate decreases (increases).

23. Derivative Transactions

The Companies enter into forward foreign exchange contracts, currency swaps and interest rate swap contracts. Forward foreign exchange contracts and currency swaps are used to reduce the risk of fluctuations in future foreign currency exchange rates with respect to the difference between the foreign trade order balances and the future payments for foreign procurement. Interest rate swap contracts are used to avoid the risk of rising interest rates.

The following tables summarize fair value information as of March 31, 2022 and 2023 for derivative transactions for which hedge accounting had not been applied.

a) Currency related derivatives

At March 31, 2022:

	Millions of yen			
	Notional amount	Over one year	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts:				
Type of contracts:				
Sell				
Receive in swiss franc, pay in U.S. dollars	¥ 1,206	¥ —	¥ (18)	¥ (18)
Receive in swiss franc, pay in euro	40	—	1	1
Receive in euro, pay in U.S. dollars	128	—	(2)	(2)
Receive in japanese yen, pay in australian dollars	707	—	(81)	(81)
Receive in japanese yen, pay in swiss franc	9,416	—	(538)	(538)
Purchase				
Receive in australian dollars, pay in swiss franc	511	—	28	28
Receive in CNY, pay in japanese yen	19	—	1	1
Receive in euro, pay in U.S. dollars	128	—	(6)	(6)
Receive in U.S. dollars, pay in japanese yen	159	—	(0)	(0)
Currency swaps:				
Receive in euro, pay in U.S. dollars	298	—	1	1
Receive in euro, pay in swiss franc	2,990	—	3	3
Receive in GBP, pay in swiss franc	8,267	—	(72)	(72)
Receive in U.S. dollars, pay in swiss franc	1,231	—	(6)	(6)
Receive in swiss franc, pay in swedish krona	147	—	(2)	(2)
Receive in swiss franc, pay in Canadian dollars	146	—	0	0
Receive in swiss franc, pay in U.S. dollars	530	—	3	3
Total	¥ 25,930	¥ —	¥ (689)	¥ (689)

Note. The fair value of forward foreign exchange contracts is calculated using the forward exchange rate. The fair value of currency swaps is calculated using the price offered by transacting financial institutions.

At March 31, 2023:

	Millions of yen			
	Notional amount	Over one year	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts:				
Type of contracts:				
Sell				
Receive in euro, pay in Canadian dollars	¥ 256	¥ —	¥ 15	¥ 15
Receive in U.S. dollars, pay in Canadian dollars	45	—	3	3
Receive in euro, pay in U.S. dollars	65	—	3	3
Receive in Japanese yen, pay in Australian dollars	785	81	5	5
Receive in Japanese yen, pay in Swiss franc	10,774	—	(148)	(148)
Receive in Japanese yen, pay in U.S. dollars	1,458	—	(25)	(25)
Receive in Swiss franc, pay in euro	348	—	(7)	(7)
Receive in Swedish krona, pay in euro	342	—	—	—
Purchase				
Receive in euro, pay in Japanese yen	347	—	18	18
Receive in Canadian dollars, pay in Japanese yen	174	—	1	1
Receive in euro, pay in Swiss franc	1,321	—	(81)	(81)
Receive in euro, pay in Canadian dollars	256	—	3	3
Receive in euro, pay in U.S. dollars	65	—	0	0
Receive in Norwegian Krone, pay in Swiss franc	23	—	(1)	(1)
Receive in Swedish krona, pay in euro	342	—	(0)	(0)
Receive in U.S. dollars, pay in Canadian dollars	45	—	(3)	(3)
Receive in U.S. dollars, pay in Japanese yen	6	—	(0)	(0)
Currency swaps:				
Sell				
Receive in Swiss franc, pay in Swedish krona	475	—	(3)	(3)
Receive in Swiss franc, pay in Canadian dollars	130	—	2	2
Receive in Swiss franc, pay in U.S. dollars	2,014	—	17	17
Purchase				
Receive in euro, pay in Swiss franc	3,353	—	(4)	(4)
Receive in GBP, pay in Swiss franc	6,191	—	13	13
Receive in AED, pay in Swiss franc	731	—	(2)	(2)
Total	¥ 29,557	¥ 81	¥ (193)	¥ (193)

Note. The fair value of forward foreign exchange contracts is calculated using the forward exchange rate. The fair value of currency swaps is calculated using the price offered by transacting financial institutions.

	Thousands of U.S. dollars			
	Notional amount	Over one year	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts:				
Type of contracts:				
Sell				
Receive in euro, pay in Canadian dollars	\$ 1,917	\$ —	\$ 114	\$ 114
Receive in U.S. dollars, pay in Canadian dollars	343	—	25	25
Receive in euro, pay in U.S. dollars	492	—	28	28
Receive in Japanese yen, pay in Australian dollars	5,883	613	42	42
Receive in Japanese yen, pay in Swiss franc	80,690	—	(1,110)	(1,110)
Receive in Japanese yen, pay in U.S. dollars	10,923	—	(194)	(194)
Receive in Swiss franc, pay in euro	2,613	—	(56)	(56)
Receive in Swedish krona, pay in euro	2,564	—	—	—
Purchase				
Receive in euro, pay in Japanese yen	2,600	—	137	137
Receive in Canadian dollars, pay in Japanese yen	1,309	—	8	8
Receive in euro, pay in Swiss franc	9,893	—	(611)	(611)
Receive in euro, pay in Canadian dollars	1,917	—	26	26
Receive in euro, pay in U.S. dollars	492	—	6	6
Receive in Norwegian Krone, pay in Swiss franc	172	—	(8)	(8)
Receive in Swedish krona, pay in euro	2,564	—	(4)	(4)
Receive in U.S. dollars, pay in Canadian dollars	343	—	(24)	(24)
Receive in U.S. dollars, pay in Japanese yen	51	—	(0)	(0)
Currency swaps:				
Sell				
Receive in Swiss franc, pay in Swedish krona	3,562	—	(23)	(23)
Receive in Swiss franc, pay in Canadian dollars	975	—	19	19
Receive in Swiss franc, pay in U.S. dollars	15,088	—	130	130
Purchase				
Receive in euro, pay in Swiss franc	25,112	—	(35)	(35)
Receive in GBP, pay in Swiss franc	46,366	—	99	99
Receive in AED, pay in Swiss franc	5,477	—	(15)	(15)
Total	<u>\$ 221,356</u>	<u>\$ 613</u>	<u>\$ (1,446)</u>	<u>\$ (1,446)</u>

Note. The fair value of forward foreign exchange contracts is calculated using the forward exchange rate. The fair value of currency swaps is calculated using the price offered by transacting financial institutions.

The following tables summarize fair value information as of March 31, 2022 and 2023 for derivative transactions for which hedge accounting had been applied.

a) Currency related derivatives

At March 31, 2022:

		Millions of yen			
	Hedged items	Notional amount	Over one year	Fair value *1	
Basic treatment:					
Forward foreign exchange contracts:					
Type of contracts:					
Sell					
Receive in japanese yen, pay in U.S. dollars	Trade receivable	¥ 2,255	¥ 1,826	¥ (4)	
Receive in japanese yen, pay in CNY	Trade receivable	341	—	(71)	
Receive in japanese yen, pay in IDR	Trade receivable	100	—	(24)	
Receive in swiss franc, pay in euro	Trade receivable	2,946	2,088	175	
Receive in swiss franc, pay in U.S. dollars	Trade receivable	1,195	—	(7)	
Purchase					
Receive in U.S. dollars, pay in japanese yen	Trade payable	787	358	46	
Receive in euro, pay in japanese yen	Trade payable	7,314	4,779	371	
Receive in CNY, pay in japanese yen	Trade payable	747	111	37	
Receive in euro, pay in swiss franc	Trade payable	5,711	2,454	(176)	
Currency swaps:					
Receive in euro, pay in swiss franc	Trade receivable	271	—	0	
Alternative treatment *2:					
Forward foreign exchange contracts:					
Type of contracts:					
Sell					
Receive in japanese yen, pay in U.S. dollars	Trade receivable	293	20	(40)	
Receive in japanese yen, pay in euro	Trade receivable	198	—	(9)	
Receive in japanese yen, pay in GBP	Dividends	32	—	(0)	
Receive in japanese yen, pay in Thai Bahts	Trade receivable	65	—	(5)	
Total		¥ 22,260	¥ 11,640	¥ 291	

*1 The fair value of forward foreign exchange contracts is calculated based on the price provided by the financial institutions.

*2 For certain trade receivables and trade payables denominated in foreign currencies for which forward foreign exchange contracts are used to hedge the foreign currency fluctuation risk, the fair value of the derivative financial instruments is included in the fair value of the trade receivables and trade payables as hedged items.

At March 31, 2023:

		Millions of yen					
		Notional amount		Over one year		Fair value *1	
Hedged items							
Basic treatment:							
Forward foreign exchange contracts:							
Type of contracts:							
Sell							
Receive in Japanese yen, pay in U.S. dollars	Trade receivable	¥	4,985	¥	1,342	¥	(291)
Receive in Japanese yen, pay in CNY	Trade receivable		221		—		(27)
Receive in Swiss franc, pay in euro	Trade receivable		8,658		3,145		336
Purchase							
Receive in U.S. dollars, pay in Japanese yen	Trade payable		4,567		1,970		54
Receive in euro, pay in Japanese yen	Trade payable		6,321		1,918		481
Receive in euro, pay in Japanese yen	Accounts payable		441		—		22
Receive in Swiss franc, pay in Japanese yen	Trade payable		1,093		973		(12)
Receive in CNY, pay in Japanese yen	Trade payable		5,919		5,068		26
Receive in Canadian dollars, pay in Japanese yen	Trade payable		1,467		170		(17)
Receive in U.S. dollars, pay in Swiss franc	Trade payable		2,557		32		(42)
Receive in euro, pay in Swiss franc	Trade payable		1,899		463		(111)
Alternative treatment *2:							
Forward foreign exchange contracts:							
Type of contracts:							
Sell							
Receive in Japanese yen, pay in U.S. dollars	Trade receivable		389		40		(4)
Receive in Japanese yen, pay in GBP	Trade receivable		7		—		(0)
Receive in Japanese yen, pay in GBP	Dividends		31		—		(0)
Receive in Japanese yen, pay in CNY	Trade receivable		28		28		0
Receive in Japanese yen, pay in euro	Trade receivable		24		—		(0)
Receive in Japanese yen, pay in Thai Bahts	Trade receivable		116		64		(3)
Total		¥	38,733	¥	15,219	¥	409

*1 The fair value of forward foreign exchange contracts is calculated based on the price provided by the financial institutions.

*2 For certain trade receivables and trade payables denominated in foreign currencies for which forward foreign exchange contracts are used to hedge the foreign currency fluctuation risk, the fair value of the derivative financial instruments is included in the fair value of the trade

receivables and trade payables as hedged items.

		Thousands of U.S. dollars		
	Hedged items	Notional amount	Over one year	Fair value *1
Basic treatment:				
Forward foreign exchange contracts:				
Type of contracts:				
Sell				
Receive in japanese yen, pay in U.S. dollars	Trade receivable	\$ 37,333	\$ 10,057	\$ (2,179)
Receive in japanese yen, pay in CNY	Trade receivable	1,661	—	(203)
Receive in swiss franc, pay in euro	Trade receivable	64,844	23,557	2,520
Purchase				
Receive in U.S. dollars, pay in japanese yen	Trade payable	34,208	14,759	407
Receive in euro, pay in japanese yen	Trade payable	47,343	14,368	3,606
Receive in euro, pay in japanese yen	Accounts payable	3,306	—	167
Receive in swiss franc, pay in japanese yen	Trade payable	8,187	7,292	(97)
Receive in CNY, pay in japanese yen	Trade payable	44,334	37,954	196
Receive in Canadian dollars, pay in japanese yen	Trade payable	10,993	1,278	(134)
Receive in U.S. dollars, pay in swiss franc	Trade payable	19,154	240	(320)
Receive in euro, pay in swiss franc	Trade payable	14,226	3,469	(833)
Alternative treatment *2:				
Forward foreign exchange contracts:				
Type of contracts:				
Sell				
Receive in japanese yen, pay in U.S. dollars	Trade receivable	2,917	299	(32)
Receive in japanese yen, pay in GBP	Trade receivable	58	—	(2)
Receive in japanese yen, pay in GBP	Dividends	237	—	(4)
Receive in japanese yen, pay in CNY	Trade receivable	213	213	4
Receive in japanese yen, pay in euro	Trade receivable	181	—	(5)
Receive in japanese yen, pay in Thai Bahts	Trade receivable	874	482	(22)
Total		<u>\$ 290,074</u>	<u>\$ 113,974</u>	<u>\$ 3,064</u>

*1 The fair value of forward foreign exchange contracts is calculated based on the price provided by the financial institutions.

*2 For certain trade receivables and trade payables denominated in foreign currencies for which forward foreign exchange contracts are used to hedge the foreign currency fluctuation risk, the fair value of the derivative financial instruments is included in the fair value of the trade receivables and trade payables as hedged items.

b) Interest related derivatives

At March 31, 2022 and 2023:

Since there were no transactions with interest related derivatives, any description has been omitted.

24. Severance and Retirement Benefits

The Companies provide post-employment benefit plans, including unfunded lump-sum payment plans, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors. The Company and some consolidated subsidiaries provide defined contribution pension plans in addition to defined benefit pension plans.

The Companies occasionally make additional payments to employees for special retirement benefits.

The components of defined benefit plans for the years ended March 31, 2022 and 2023 were as follows:

(a) Movements in projected benefit obligations for the years ended March 31, 2022 and 2023.

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Balance at April 1, 2021 and 2022	¥ 55,042	¥ 58,880	\$ 440,955
Service cost	2,809	2,702	20,239
Interest cost	171	619	4,641
Actuarial differences	(1,759)	(3,204)	(23,995)
Benefits paid	(2,641)	(2,790)	(20,900)
Other	5,258	3,749	28,080
Balance at March 31, 2022 and 2023	¥ 58,880	¥ 59,957	\$ 449,020

Note. Some consolidated subsidiaries have adopted the alternative treatment.

(b) Movements in fair value of pension assets for the years ended March 31, 2022 and 2023.

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Balance at April 1, 2021 and 2022	¥ 39,059	¥ 47,237	\$ 353,760
Expected return on pension assets	139	673	5,041
Actuarial differences	2,902	544	4,078
Contributions paid by the employer etc.	1,685	2,054	15,386
Benfits paid	(1,609)	(1,216)	(9,106)
Other	5,059	4,893	36,650
Balance at March 31, 2022 and 2023	¥ 47,237	¥ 54,187	\$ 405,810

Note. Some consolidated subsidiaries have adopted the alternative treatment.

(c) Reconciliation of projected benefit obligations and fair value of pension assets to liability (asset) for retirement benefits

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Funded projected benefit obligations	¥ 38,589	¥ 40,398	\$ 302,541
Fair value of pension assets	(47,237)	(54,187)	(405,810)
	(8,647)	(13,789)	(103,268)
Unfunded projected benefit obligations	20,291	19,559	146,479
Adjustment due to asset ceiling	4,556	14,300	107,098
Total net liability (asset) for projected benefits at March 31, 2022 and 2023	¥ 16,199	¥ 20,070	\$ 150,308
Net defined benefit liability	¥ 21,859	¥ 21,354	\$ 159,922
Net defined benefit asset	(5,659)	(1,283)	(9,613)
Total net liability (asset) for projected benefits at March 31, 2022 and 2023	¥ 16,199	¥ 20,070	\$ 150,308

Note. Some consolidated subsidiaries have adopted the alternative treatment.

(d) Severance and pension costs of the Companies included the following components for the years ended March 31, 2022 and 2023.

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Service cost	¥ 2,809	¥ 2,702	\$ 20,239
Interest cost	171	619	4,641
Expected return on pension assets	(139)	(673)	(5,041)
Amortization of actuarial differences	(233)	(512)	(3,837)
Amortization of past service cost	(13)	(9)	(72)
Severance and retirement benefit expenses based on the alternative treatment	208	249	1,871
Others	32	(297)	(2,226)
Severance and retirement benefit expenses	¥ 2,835	¥ 2,079	\$ 15,573

(e) Remeasurements of defined benefit plans (before tax) for the years ended March 31, 2022 and 2023.

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Past service cost	¥ (13)	¥ (9)	\$ (72)
Actuarial differences	781	(5,343)	(40,018)
Other	173	120	900
Total	¥ 941	¥ (5,233)	\$ (39,189)

(f) Remeasurements of defined benefit plans (before tax) for the years ended March 31, 2022 and 2023.

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Unrecognized past service cost	¥ 30	¥ 21	\$ 158
Unrecognized actuarial differences	4,764	(579)	(4,339)
Other	1,522	1,678	12,573
Total	¥ 6,317	¥ 1,120	\$ 8,392

(g) Pension assets

(1) Pension assets comprise:

	2022	2023
Stocks	32 %	29 %
Bonds	20 %	14 %
Cash and deposits	2 %	4 %
Real estate	42 %	45 %
Other	4 %	8 %
Total	100 %	100 %

(2) Long-term expected rate of return

Current and target asset allocations, historical and expected returns on various categories of pension assets have been considered in determining the long-term expected rate of return.

(h) Actuarial assumptions

The principal actuarial assumptions at March 31, 2022 and 2023 (expressed as weighted averages) were as follows:

	2022	2023
Discount rate	0.99 %	1.61 %
Long-term expected rate of return	1.03 %	1.03 %
Expected rate of increase in salary	2.11 %	2.37 %

(i) Contributions to the defined contributions pension plan

For the years ended March 31, 2022 and 2023, the Companies made contributions to the defined contributions pension plan in the amount of ¥1,495 million and ¥1,524 million (\$11,420 thousand), respectively.

25. Income Taxes

The Companies are subject to a number of income taxes which, in the aggregate, indicate a statutory rate in Japan of approximately 30.6% and 30.6% for the years ended March 31, 2022 and 2023, respectively.

The significant differences between the statutory tax rate and the Companies' effective tax rate for financial statement purposes for the years ended March 31, 2022 and 2023 were as follows:

	2022	2023
Statutory tax rate	30.6 %	30.6 %
Nondeductible expenses	1.8 %	2.4 %
Nontaxable dividend income	(5.2) %	(4.6) %
Fluctuation in deferred tax assets valuation allowance account	15.2 %	(6.6) %
Elimination of dividend income	4.5 %	3.5 %
Effect of tax credit	(3.9) %	(3.9) %
Difference in effective tax rate between the Companies' and subsidiaries	(2.2) %	(4.6) %
Impact of negative goodwill generation	(9.7) %	0.0 %
Other	2.3 %	(1.1) %
Effective tax rate	33.4 %	15.7 %

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2022 and 2023 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Deferred tax assets:			
Tax loss carryforwards (*1)	¥ 13,211	¥ 15,256	\$ 114,257
Employees' retirement benefits	6,709	6,461	48,388
Other reserves	5,366	5,871	43,974
Impairment loss	5,736	5,479	41,037
Allowance for doubtful receivables	1,755	2,211	16,558
Research and development expenses	562	744	5,578
Loss on devaluation of securities	880	136	1,025
Other	8,189	8,033	60,161
Total deferred tax assets	42,411	44,196	330,983
Valuation allowance due to tax loss carryforwards (*1)	(8,430)	(10,714)	(80,236)
Valuation allowance due to temporary differences between financial and tax reporting purposes other than tax loss carryforwards	(11,511)	(11,094)	(83,089)
Subtotal of valuation allowance	(19,942)	(21,808)	(163,326)
Deferred tax assets, net	22,469	22,387	167,657
Deferred tax liabilities:			
Intangible assets	(1,107)	(976)	(7,312)
Asset retirement obligations	(586)	(553)	(4,144)
Prepaid pension assets	(1,242)	(321)	(2,409)
Land valuation difference	(537)	(224)	(1,683)
Net unrealized holding gains on securities	(270)	(68)	(511)
Other	(2,188)	(1,302)	(9,757)
Total deferred tax liabilities	(5,933)	(3,447)	(25,820)
Net deferred tax assets	¥ 16,535	¥ 18,939	\$ 141,837

(*1) The aggregate annual maturities of tax loss carryforwards, deferred tax assets due to tax loss carryforwards were as followings:

Year ended March 31, 2022

Millions of yen				
		Tax loss carryforwards (*1)	Valuation allowance	Deferred tax assets
2023	¥	11	¥ (9)	1
2024		2	(1)	0
2025		1,830	(40)	1,789
2026		1,587	(46)	1,540
2027		428	(427)	1
2028 and after		9,351	(7,905)	1,446
Total	¥	13,211	¥ (8,430)	4,780 (*2)

(*1) The amount of loss carryforwards was multiplied by statutory tax rate.

(*2) The main amount of "Deferred tax assets" was due to the Company's subsidiary, Hitachi Zosen Inova AG's (hereinafter, "Inova") tax loss carryforwards. The tax loss carryforwards were measured due to Inova's negative financial performance for fiscal years 2018 and 2019.

The Company determined that the amount of Deferred tax assets was collectable because Inova will recognize taxable income based on a recovery of profitability as a result of the completion of loss making project in the fiscal year 2019 and the mitigation of new projects' risk.

Year ended March 31, 2023

Millions of yen				
		Tax loss carryforwards (*1)	Valuation allowance	Deferred tax assets
2024	¥	14	¥ (12)	1
2025		1,206	(43)	1,163
2026		1,740	(39)	1,700
2027		400	(400)	0
2028		—	—	—
2029 and after		11,894	(10,217)	1,677
Total	¥	15,256	¥ (10,714)	4,542 (*2)

Thousands of U.S. dollars				
		Tax loss carryforwards (*1)	Valuation allowance	Deferred tax assets
2024	\$	109	\$ (95)	\$ 14
2025		9,035	(325)	8,709
2026		13,032	(296)	12,735
2027		3,002	(3,000)	1
2028		—	—	—
2029 and after		89,078	(76,518)	12,559
Total	\$	114,258	\$ (80,236)	\$ 34,020 (*2)

(*1) The amount of loss carryforwards was multiplied by statutory tax rate.

(*2) See Note 2(t)②, "Significant Accounting Policies - Significant Accounting Estimates - Recoverability of deferred tax assets".

Accounting for corporation tax and local corporation tax and tax effect accounting

From the year ending March 31, 2023, the Company and some of its domestic consolidated subsidiaries transited from the consolidated taxation system to the group tax sharing system. Accordingly the Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System (PITF No. 42, August 12, 2021), which sets out the accounting and disclosure of corporation and local taxes and tax effect accounting under the group tax sharing system, is applied from the beginning of the year ending March 31, 2023. The Company has deemed that there was no impact from the change in accounting policy according to Paragraph 32(1) of PITF No. 42.

26. Business Combinations

Partial transfer of shares of a consolidated subsidiary

On February 28, 2023, the Company transferred 66.6% of the outstanding shares of OHNAMI Corporation, a consolidated subsidiary of the Company, to SENKO Group Holdings Co., Ltd. As a result, The Company changed the classification of OHNAMI Corporation from a consolidated subsidiary to an affiliate accounted for by the equity method.

a) Overview of this business combination

(1) Name of the succeeding company

SENKO Group Holdings Co., Ltd.

(2) Scope of business

Warehousing & Loading/Unloading • Transportation • Export, import & Custom clearance • Domestic coastal service • Construction (Machinery installation) • Moving • Liability, life insurance agency • International multimodal transportation

(3) Purpose

Since its establishment in 1949, OHNAMI Corporation has developed a comprehensive logistics business for large structures, etc., as a subsidiary of the Company (the Company made it a wholly owned subsidiary in 2016) and has played a key role in the logistics business of the Group. The Company is promoting the optimization of its business portfolio in its current medium-term management plan. The business environment surrounding the logistics industry is becoming increasingly difficult. As a result of continued discussions about partnering with a logistics company that can promote the decarbonization and DX initiatives of OHNAMI Corporation, the decision to transfer the shares was made based on the judgment that collaboration with SENKO Group Holdings Co., Ltd. would lead to further expansion of business opportunities and the reinforcement of the

management base of OHNAMI Corporation.

(4) Effective date

February 28, 2023

(5) Legal form of business combination

Share transfers for which the consideration to be received was cash or other property only

b) Accounting method

(1) Gain or loss due to transfer

The Company recognized ¥1,430 million (\$10,712 thousand) as gain on sale of investments in subsidiaries.

(2) Statement of assets and liabilities regarding divested business

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 4,185	\$ 31,343
Noncurrent assets	8,590	64,333
Total assets	¥ 12,775	\$ 95,677
Current liabilities	¥ 2,740	\$ 20,525
Noncurrent liabilities	2,886	21,618
Total liabilities	¥ 5,627	\$ 42,143

(3) Accounting method

The difference between the book value of the transferred shares in the consolidated financial statements and the sale amount was recorded.

c) Segment

Other

d) Estimated gain (loss) on divested business reported in the consolidated statements of income

	Millions of yen	Thousands of
Net sales	11,036	\$ 82,652
Operating income	608	\$ 4,553

27. Asset Retirement Obligations

a) General information about asset retirement obligations

The Company and some consolidated subsidiaries have recognized asset retirement obligations associated with the removal of asbestos and other harmful substances in the some works and the restoration under certain real estate rental agreements.

b) Basis of measurement for asset retirement obligations

The Company and some consolidated subsidiaries estimate that the period of use is from 2 to 41 years, and calculate the obligations using discount rates of the yield in circulation on government bonds according to the remaining number of years.

Years ended March 31, 2022 and 2023:

	Millions of yen		Thousands of U.S.dollars
	2022	2023	2023
Balance at the beginning of the fiscal year	¥ 3,074	¥ 3,092	\$ 23,162
Adjustment with passing of time	18	17	134
Decrease in performance of asset retirement obligations	—	(29)	(217)
Balance at the end of the fiscal year	¥ 3,092	¥ 3,081	\$ 23,079

28. Investment and Rental Property

The Company and some consolidated subsidiaries own investment and rental property in Osaka and other areas. For the years ended March 31, 2022 and 2023, rental income was ¥194 million and ¥114 million (\$859 thousand), respectively. Rental income and rental expenses were counterbalanced and described mainly in other income and expenses.

Book value of investment and rental property stated in the consolidated balance sheet, the increase or decrease for the fiscal year and the corresponding fair values were as follows:

	Millions of yen		Thousands of U.S.dollars
	2022	2023	2023
Book value			
Balance at the beginning of the fiscal year	¥ 13,129	¥ 12,804	\$ 95,894
Decrease and increase for this fiscal year, net	(324)	(810)	(6,069)
Balance at the end of the fiscal year	¥ 12,804	¥ 11,994	\$ 89,825
Fair value			
at the end of the fiscal year	¥ 9,883	¥ 8,760	\$ 65,604

Note. Book value stated in the consolidated balance sheet was net of accumulated depreciation.

For the fiscal year ended March 31, 2022, the decrease was due mainly to transfers due to conversion to our use (in the amount of ¥413 million). For the fiscal year ended March 31, 2023, the decrease was due mainly to the sales of the share of OHNAMI Corporation (in the amount of ¥487 million (\$3,647 thousand)).

The fair value of major property at the end of the fiscal year was measured based on values in the appraisal reports prepared by external real estate appraisers. The fair value of other property was measured based on certain assessed values or indicators which could be considered to properly reflect the market price.

29. Revenue Recognition

a) Information on disaggregated revenues arising from contracts with customers

Sales of the Company and its consolidated subsidiaries represent the revenue recognised from contracts with customers. The breakdown of the business by type of goods or services and by geographical area is as follows:

(1) The breakdown of the business by type of goods or services

	Millions of yen									
	2022									
	Environmental systems		Machinery and Infra-structure		Carbon Nutral Solution		Other businesses		Total	
EPC(new construction)	¥	165,313	¥	—	¥	—	¥	—	¥	165,313
Operation and Maintenance	¥	141,863	¥	—	¥	—	¥	—	¥	141,863
Press machines	¥	—	¥	14,517	¥	—	¥	—	¥	14,517
Precision equipment	¥	—	¥	31,487	¥	—	¥	—	¥	31,487
Infrastructure	¥	—	¥	26,422	¥	—	¥	—	¥	26,422
Other machinery	¥	—	¥	13,949	¥	—	¥	—	¥	13,949
Marine equipment	¥	—	¥	—	¥	22,992	¥	—	¥	22,992
Process equipment	¥	—	¥	—	¥	13,406	¥	—	¥	13,406
PtG system	¥	—	¥	—	¥	1,863	¥	—	¥	1,863
Wind power	¥	—	¥	—	¥	1,627	¥	—	¥	1,627
Other	¥	—	¥	—	¥	—	¥	8,356	¥	8,356
Revenue from Contracts with customers	¥	307,176	¥	86,377	¥	39,887	¥	8,356	¥	441,797
Net sales to external customers	¥	307,176	¥	86,377	¥	39,887	¥	8,356	¥	441,797
	Millions of yen									
	2023									
	Environmental systems		Machinery and Infra-structure		Carbon Nutral Solution		Other businesses		Total	
EPC(new construction)	¥	183,574	¥	—	¥	—	¥	—	¥	183,574
Operation and Maintenance	¥	164,535	¥	—	¥	—	¥	—	¥	164,535
Press machines	¥	—	¥	15,670	¥	—	¥	—	¥	15,670
Precision equipment	¥	—	¥	32,513	¥	—	¥	—	¥	32,513
Infrastructure	¥	—	¥	26,196	¥	—	¥	—	¥	26,196
Other machinery	¥	—	¥	13,848	¥	—	¥	—	¥	13,848
Marine equipment	¥	—	¥	—	¥	24,718	¥	—	¥	24,718
Process equipment	¥	—	¥	—	¥	18,852	¥	—	¥	18,852
PtG system	¥	—	¥	—	¥	2,043	¥	—	¥	2,043
Wind power	¥	—	¥	—	¥	1,047	¥	—	¥	1,047
Other	¥	—	¥	—	¥	—	¥	9,695	¥	9,695
Revenue from Contracts with customers	¥	348,109	¥	88,227	¥	46,660	¥	9,695	¥	492,692
Net sales to external customers	¥	348,109	¥	88,227	¥	46,660	¥	9,695	¥	492,692

Thousands of U.S.dollars

	2023				
	Environmental systems	Machinery and Infra-structure	Carbon Nutral Solution	Other businesses	Total
EPC(new construction)	\$ 1,374,779	\$ —	\$ —	\$ —	\$ 1,374,777
Operation and Maintenance	\$ 1,232,195	\$ —	\$ —	\$ —	\$ 1,232,195
Press machines	\$ —	\$ 117,351	\$ —	\$ —	\$ 185,111
Precision equipment	\$ —	\$ 243,491	\$ —	\$ —	\$ 117,351
Infrastructure	\$ —	\$ 196,180	\$ —	\$ —	\$ 141,181
Other machinery	\$ —	\$ 103,707	\$ —	\$ —	\$ 243,488
Marine equipment	\$ —	\$ —	\$ 185,119	\$ —	\$ 103,707
Process equipment	\$ —	\$ —	\$ 141,181	\$ —	\$ 196,180
PtG system	\$ —	\$ —	\$ 15,299	\$ —	\$ 196,180
Wind power	\$ —	\$ —	\$ 7,840	\$ —	\$ 15,299
Other	\$ —	\$ —	\$ —	\$ 72,610	\$ 72,605
Revenue from Contracts with customers	\$ 2,606,974	\$ 660,729	\$ 349,439	\$ 72,610	\$ 3,689,754
Net sales to external customers	\$ 2,606,974	\$ 660,729	\$ 349,439	\$ 72,610	\$ 3,689,754

(2) The breakdown of the business by geographical area

Millions of yen

	2022				
	Environmental systems	Machinery and Infra-structure	Carbon Nutral Solution	Other businesses	Total
Japan	¥ 185,938	¥ 71,839	¥ 24,180	¥ 7,649	¥ 289,607
Europe	¥ 69,313	¥ 461	¥ 1,058	¥ 0	¥ 70,833
Asia	¥ 5,246	¥ 10,524	¥ 4,192	¥ 705	¥ 20,668
North-America	¥ 3,266	¥ 2,209	¥ 8,940	¥ 0	¥ 14,416
Middle East	¥ 36,737	¥ 60	¥ 1,442	¥ —	¥ 38,240
Other	¥ 6,674	¥ 1,282	¥ 73	¥ —	¥ 8,030
Revenue from Contracts with customers	¥ 307,176	¥ 86,377	¥ 39,887	¥ 8,356	¥ 441,797
Net sales to external customers	¥ 307,176	¥ 86,377	¥ 39,887	¥ 8,356	¥ 441,797

Millions of yen						
2023						
	Environmental systems	Machinery and Infra-structure	Carbon Nutral Solution	Other businesses	Total	
Japan	¥ 192,968	¥ 74,133	¥ 27,163	¥ 9,102	¥	303,367
Europe	¥ 105,126	¥ 513	¥ 908	¥ —	¥	106,549
Asia	¥ 5,972	¥ 9,918	¥ 4,264	¥ 593	¥	20,748
North-America	¥ 6,270	¥ 2,715	¥ 12,933	¥ —	¥	21,919
Middle East	¥ 29,505	¥ 200	¥ 1,302	¥ —	¥	31,008
Other	¥ 8,265	¥ 745	¥ 88	¥ —	¥	9,098
Revenue from Contracts with customers	¥ 348,109	¥ 88,227	¥ 46,660	¥ 9,695	¥	492,692
Net sales to external customers	¥ 348,109	¥ 88,227	¥ 46,660	¥ 9,695	¥	492,692

Thousands of U.S.dollars						
2023						
	Environmental systems	Machinery and Infra-structure	Carbon Nutral Solution	Other businesses	Total	
Japan	\$ 1,445,132	\$ 555,178	\$ 203,425	\$ 68,167	\$	2,271,904
Europe	\$ 787,288	\$ 3,848	\$ 6,805	\$ —	\$	797,942
Asia	\$ 44,728	\$ 74,277	\$ 31,938	\$ 4,443	\$	155,388
North-America	\$ 46,960	\$ 20,338	\$ 96,857	\$ —	\$	164,156
Middle East	\$ 220,967	\$ 1,502	\$ 9,751	\$ —	\$	232,221
Other	\$ 61,897	\$ 5,583	\$ 660	\$ —	\$	68,141
Revenue from Contracts with customers	\$ 2,606,974	\$ 660,729	\$ 349,439	\$ 72,610	\$	3,689,754
Net sales to external customers	\$ 2,606,974	\$ 660,729	\$ 349,439	\$ 72,610	\$	3,689,754

b) Basic information for understanding revenue

Basic information for understanding revenue is included in “Significant Accounting Policies, Revenue Recognition.”

c) Information to help understand the amount of revenue in the current and subsequent financial years

(1) Balances of contract assets and contract liabilities

The breakdown of receivables, contract assets and contract liabilities arising from contracts with customers are broken down as follows:

	Thousands of	
	Millions of yen	U. S. dollars
	2022	2023
Receivables arising from contracts with customers (opening balance)		
Notes	¥ 12,554	¥ 10,358
Accounts	¥ 89,444	¥ 99,762
Total	¥ 101,998	¥ 110,120
Receivables arising from contracts with customers (ending balance)		
Notes	¥ 10,358	¥ 9,912
Accounts	¥ 99,762	¥ 96,770
Total	¥ 110,120	¥ 106,682
Contract assets (opening balance)	¥ 72,193	¥ 79,655
Contract assets (ending balance)	¥ 79,655	¥ 91,696
Contract liabilities (opening balance)	¥ 24,203	¥ 29,128
Contract liabilities (ending balance)	¥ 29,128	¥ 41,355

Thousands of
U. S. dollars
2023

Contract assets relate to the rights of the Company and its consolidated subsidiaries to consideration completed but unclaimed at the balance sheet date. The contract asset is transferred to receivables arising from contracts with customers when the rights of the Company and its subsidiaries to the consideration become unconditional. The consideration for a transaction is received principally as progress is made in meeting the performance obligation or in stages in accordance with the contract with the customer. Contract liabilities mainly relate to advances received from customers, which are reversed on the recognition of income.

The amount of revenue recognized in the last financial year that was included in the contract liability balance at the beginning of the period amounted to ¥18,103 million. The change in contract assets mainly resulted from the recognition of revenue (increase in contract assets) and transfers to trade receivables (same, decrease).

The change in contract liabilities mainly arises from the receipt of advance payments (increase in contract liabilities) and from the recognition of revenue (same, decrease).

The amount of revenue recognized in the last financial year from performance obligations satisfied (or partially satisfied) in previous periods amounted to ¥2,505 million.

The amount of revenue recognized in the current financial year that was included in the contract liability balance at the beginning of the period amounted to ¥19,715 million (\$147,647 thousand). The change in contract assets mainly resulted from the recognition of revenue (increase in contract assets) and transfers to trade receivables (same, decrease).

The change in contract liabilities mainly arises from the receipt of advance payments (increase in contract liabilities) and from the recognition of revenue (same, decrease).

The amount of revenue recognized in the current financial year from performance obligations satisfied (or partially satisfied) in previous periods amounted to ¥3,269 million (\$24,487 thousand).

(2) Transaction price allocated to residual performance obligations

The total transaction price allocated to the residual performance obligation is as follows:

		Millions of yen				
		2022				
		Environmental systems	Machinery and Infra-structure	Carbon Nutral Solution	Other businesses	Total
residual performance obligation	¥	883,070	¥ 88,106	¥ 46,542	¥ 311	¥ 1,018,029
		Millions of yen				
		2023				
		Environmental systems	Machinery and Infra-structure	Carbon Nutral Solution	Other businesses	Total
residual performance obligation	¥	1,150,388	¥ 87,278	¥ 79,622	¥ 424	¥ 1,317,714
		Thousands of U.S.dollars				
		2023				
		Environmental systems	Machinery and Infra-structure	Carbon Nutral Solution	Other businesses	Total
residual performance obligation	\$	8,615,203	\$ 653,627	\$ 596,292	\$ 3,176	\$ 9,868,300

Of such performance obligations, approximately 31% will be recognized as revenue within one year after the balance sheet date and approximately 28% within more than one year to three years.

The remaining approximately 41% are long-term operating projects, mainly in the environmental business, which will be recognized as revenue after four years.

30. Segment Information

a) Reportable segments

(1) General Information about reportable segments

The Company's reportable segments are based on the organization into which the Company has classified the active conducting of business in order to evaluate performance by the Board of Directors.

The Company has set up the head offices according to products and services. Each head office has drafted strategies for handling products and services and has developed the active conducting of business.

The Companies' operations are classified into four reportable segments as follows:

Operations in the environmental systems segment include the production of waste incineration power generation and recycling systems, water treatment systems, biomass utilization systems and electricity wholesaling.

Operations in the machinery and infrastructure segment include the production of press machines, boilers, plastic machinery, food filling and packaging systems, the materials business, bridge construction, water gates, steel stacks, marine civil engineering, and shield tunneling machines.

Operations in the carbon neutral solution segment include the production of marine diesel engines, SCR systems, process equipment, nuclear equipment, PtG systems and wind farms.

Operations in the other businesses segment include the transportation business and warehousing business.

From the current consolidated fiscal year, the Company established a carbon neutral solution segment to promote innovation in global warming countermeasure technologies and work towards building a decarbonized society, with the aim of achieving growth and profitability. In line with this change, from the current consolidated fiscal year, the reporting segments were changed from the three segments of the environment segment, machinery and infrastructure segment and other businesses segment to four segments of the environment segment, machinery and infrastructure segment, carbon neutral solution segment and other businesses segment."

(2) Basis of measurement for reported segment income or loss, segment assets and other material items

The amounts of reported segment income or loss are based on operating income.

Intersegment sales, operating revenue and transfers are made with reference to prevailing market prices.

(3) Information about reported segment income or loss, segment assets and other material items

Information by reported segment of the Companies was as follows:

Millions of yen									
2022									
	Environmental systems	Machinery and Infra-structure	Carbon Neutral Solution	Other businesses	Total	Eliminations and corporate	Consoli- dated		
Net sales									
Outside customers	¥ 307,176	¥ 86,375	¥ 39,889	¥ 8,356	¥ 441,797	¥ —	¥ 441,797		
Intersegment	268	1,231	450	1,099	3,050	(3,050)	—		
Total	307,445	87,606	40,339	9,456	444,847	(3,050)	441,797		
Segment income (loss)	¥ 12,428	¥ 2,215	¥ 401	¥ 525	¥ 15,571	¥ (29)	¥ 15,541		
Segment assets	¥ 204,584	¥ 103,393	¥ 45,188	¥ 66,856	¥ 420,023	¥ 41,138	¥ 461,161		
Others									
Depreciation	¥ 3,736	¥ 3,359	¥ 728	¥ 2,838	¥ 10,663	¥ —	¥ 10,663		
Investment in affiliates accounted for using equity method	¥ 239	¥ 1,879	¥ 3,772	¥ 8,314	¥ 14,205	¥ —	¥ 14,205		
Increase in assets and intangible assets	¥ 3,424	¥ 2,844	¥ 400	¥ 2,890	¥ 9,559	¥ —	¥ 9,559		

Millions of yen									
2023									
	Environmental systems	Machinery and Infra-structure	Carbon Neutral Solution	Other businesses	Total	Eliminations and corporate	Consoli- dated		
Net sales									
Outside customers	¥ 348,109	¥ 88,227	¥ 46,660	¥ 9,695	¥ 492,692	¥ —	¥ 492,692		
Intersegment	141	1,596	543	1,074	3,356	(3,356)	—		
Total	348,250	89,823	47,204	10,770	496,049	(3,356)	492,692		
Segment income (loss)	¥ 15,047	¥ 3,444	¥ 413	¥ 1,072	¥ 19,978	¥ 78	¥ 20,056		
Segment assets	¥ 231,481	¥ 105,687	¥ 42,684	¥ 52,220	¥ 432,073	¥ 47,608	¥ 479,682		
Others									
Depreciation	¥ 3,580	¥ 2,609	¥ 1,651	¥ 2,674	¥ 10,515	¥ —	¥ 10,515		
Investment in affiliates accounted for using equity method	¥ 2,008	¥ 1,754	¥ 4,519	¥ 10,907	¥ 19,189	¥ —	¥ 19,189		
Increase in assets and intangible assets	¥ 2,609	¥ 2,742	¥ 879	¥ 2,410	¥ 8,642	¥ —	¥ 8,642		

Thousands of U.S.dollars							
2023							
	Environmental systems and industrial plants	Machinery and Infra-structure	Carbon Neutral Solution	Other businesses	Total	Eliminations and corporate	Consoli- dated
Net sales							
Outside customers	\$ 2,606,974	\$ 660,729	\$ 349,439	\$ 72,610	\$ 3,689,754	\$ —	\$ 3,689,754
Intersegment	1,061	11,952	4,072	8,048	25,135	(25,135)	—
Total	2,608,035	672,681	353,511	80,658	3,714,889	(25,135)	3,689,754
Segment income (loss)	\$ 112,689	\$ 25,796	\$ 3,095	\$ 8,034	\$ 149,616	\$ 589	\$ 150,205
Segment assets	\$ 1,733,554	\$ 791,487	\$ 319,659	\$ 391,080	\$ 3,235,782	\$ 356,536	\$ 3,592,315
Others							
Depreciation	\$ 26,815	\$ 19,540	\$ 12,365	\$ 20,026	\$ 78,747	\$ —	\$ 78,747
Investment in affiliates accounted for using equity method	\$ 15,040	\$ 13,139	\$ 33,847	\$ 81,684	\$ 143,711	\$ —	\$ 143,711
Increase in assets and intangible assets	\$ 19,541	\$ 20,542	\$ 6,583	\$ 18,055	\$ 64,722	\$ —	\$ 64,722

The amounts of segment income or loss are adjusted to operating income in the Consolidated Statements of Income.

Corporate amounts are mainly the common accounts of the head office that cannot be allocated to each segment. Corporate assets, which include mainly cash and deposits, at March 31, 2022 and 2023 were ¥41,138 million and ¥ 47,608 million (\$ 356,536 thousand), respectively.

b) Related information

(1) Information about products and services

Information about products and services is not shown because the classification of products and services is the same as the classification of reported segments.

(2) Information about geographic areas

Sales by region for the years ended March 31, 2022 and 2023 were as follows:

	Millions of yen		Thousands of U. S. dollars
	2022	2023	2023
Japan	¥ 289,607	¥ 303,367	\$ 2,271,904
Asia	20,668	20,748	155,388
North America	14,416	21,919	164,156
Middle East	38,240	31,008	232,221
Europe	70,833	106,549	797,942
Other	8,030	9,098	68,141
Total	¥ 441,797	¥ 492,692	\$ 3,689,754

(*)Sales in the Europe segment include sales of ¥72,324 million (\$541,632 thousand) in the U.K., which accounts for more than 10% of the sales in the Consolidated Statements of Income.

For the fiscal year ended March 31, 2022 and 2023, tangible fixed assets by region were as follows:

	Millions of yen		Thousands of U. S. dollars
	2022	2023	2023
Japan	¥ 96,570	¥ 83,468	\$ 625,088
Other	13,969	14,785	110,724
Total	¥ 110,539	¥ 98,253	\$ 735,813

(3) Information about major customers

For the year ended March 31, 2022 and 2023, information about major customers is not shown because there were no sales from transactions with a single external customer that amounted to 10% or more of sales in the Consolidated Statements of Income.

31. Related Party Information

Year ended March 31, 2022:

There were no significant transactions with related parties in the year ended March 31, 2022.

Year ended March 31, 2023:

There were no significant transactions with related parties in the year ended March 31, 2023.

32. Subsequent events

The Transfer of Marine Engine Business to Consolidated Subsidiary through Absorption-Type Company Split (Simple Split) and Third-Party Allotment of New Shares by that Company to Imabari Shipbuilding Co., Ltd.

Based on a resolution at the Board of Directors meeting held on December 14, 2022, the Company resolved to succeed our marine engine business (hereinafter referred as “the Business” covering new marine engine business and after-sales service business) to HITZ Marine Engine Preparatory Corporation, which is our wholly owned subsidiary established on November 24, 2022 (hereinafter the “New Company,” trade name changed to Hitachi Zosen Marine Engine Co., Ltd. on April 1, 2023) by means of an absorption-type company split (hereinafter the “Company Split”) and to conclude a general agreement which is a final agreement with legal binding force for the Third-party Allotment with respect to accept 35% capital participation (hereinafter referred as “the Third-party Allotment,” hereinafter the Company Split and the Third-party Allotment are generally referred to as “the Transaction”) from Imabari Shipbuilding Co., Ltd. (hereinafter “Imabari Shipbuilding”) by means of a third-party allotment of shares by the New Company.

We concluded the Absorption-Type Company Split agreement for the Company Split with the New Company and concluded the general agreement for the Third-party Allotment with Imabari Shipbuilding on December 14, 2022.

1. The purpose of the transfer

We started manufacturing marine engines from the 1940s and provided our marine engines to Japanese and overseas shipbuilders as the only double licensee of MAN Energy Solutions (Germany) and Winterthur Gas & Diesel Ltd.(Switzerland) in Japan.

But our the Business and the shipbuilding business of Imabari Shipbuilding are in a business environment with intense competition in Japanese and overseas markets, fluctuations in material prices (e.g. steel products, etc.) and expectations of higher and higher technology levels of the latest years to develop marine engine fuel conversion technology to be carbon neutral and develop zero emission ships.

In anticipation of the future market with the current severe business environment, the Company tried to increase our competitive power by restructuring our business and to improve profitability by efficient business operations.

However, we judged the Transaction would lead to stable marine engines supply and procurement for the Company and Imabari Shipbuilding. Moreover, we judged the Transaction to lead to sales increase by strengthening sales and providing a network and the cost reduction by the procurement power of Imabari Shipbuilding to lead to improving profitability, providing funds for investments and strengthening development power.

2. Company split (Absorption-type split)

(1) Overview of companies involved in the company split

① Description of business

New marine engine business and after-sales service business

② Effective date of the company split

April 1, 2023

③ The method of the company split

The Company Split is an absorption-type company split in which the Company is the splitting company and the new company is the succeeding company.

④ Details of allotment related to the company split

As the new company is a wholly-owned subsidiary of the Company, we allot no shares or otherwise provide no money or the like in connection with the company split. However, the new company has increased capital through a third-party allotment to Imabari Shipbuilding after this split.

⑤ Capital increase or decrease due to this company split

The Company's share capital does not change as a result of the company split.

⑥ Items and amounts of assets and liabilities to succeed to

Assets: ¥15,196 million (\$113,808 thousand)

Liabilities: ¥7,638 million (\$57,204 thousand)

Note. A part of building and machines needed to run the business are succeeded to by the new company. However, the land of Ariake Works which is the main factory of the business is not to be split. The Company and the new company have separate land rent agreements.

⑦ Operating results of divisions to be succeeded (as of March 31, 2023)

New marine engine business and after-sales service business:

Net sales of ¥23,583 million (\$176,612 thousand), Operating loss of ¥927 million (\$6,943 thousand)

⑧ Overview of the new company

Trade name: Hitachi Zosen Marine Engine Co., Ltd.

Head Office Address: 1, Ariake, Nagasu-machi, Tamana-gun, Kumamoto 869-0113, Japan

Title and name of representative: Representative Director and President, Jitsuhiro Yamaguchi

Business description: New marine engine business and after-sales service business

Capital at incorporation: ¥65,000 (\$486)

After the Capital Increase through Third-party Allotment ¥1,750,065,000 (\$13,106,155)

Fiscal Year-End: March 31

(2) Outline of the accounting

The Company intends to account for the transactions under common control according to the Accounting Standards for Business Combinations (Corporate Accounting Standards No. 21 of January 16, 2019) and the Guidelines on Application of Business Combination Accounting Standards and Business Split Accounting Standards (Corporate Accounting Standard Application Guidelines No. 10 of January 16, 2019).

3. Overview of this Third-Party Allotment

(1) Details of the share allocation related this third-party allotment

Number of shares: 35,000

Allocated to: Imabari Shipbuilding Co., Ltd.

Effective date: April 1, 2023

Capital injection: ¥1,750,000,000 (\$13,106,155)

(2) Details of Imabari Shipbuilding

Trade name: Imabari Shipbuilding Co., Ltd.

Head office address: 1-4-52 Koura-cho, Imabari, Ehime, 799-2195, Japan

Job title and name of representative: President and CEO, Yukito Higaki

Description of business: Shipbuilding
Share capital: ¥30,000 million (\$224,668 thousand)
Date of establishment: January 15, 1942