

HITACHI Zosen CORPORATION
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
Years Ended March 31, 2023 and 2024



Independent auditor's report

To the Board of Directors of Hitachi Zosen Corporation:

Report on the Audit of the Consolidated Financial Statements

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, 2024 and 2023, 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, 2024 and 2023, 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, w) 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 ¥388,602 million, representing approximately 70% 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.

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.

Fee-related Information

Fees paid or payable to our firm and to other firms within the same network as our firm for audit and non-audit services provided to the Company and its subsidiaries are described in "Accounting Fees" included in Note 32, "Supplemental Information" of the consolidated financial statements.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2024 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

KPMG AZSA LLC
Osaka Office, Japan
July 26, 2024

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, 2023 and 2024

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2024	2024
ASSETS			
Current assets:			
Cash and deposits (Note 20)	¥ 86,404	¥ 71,605	\$ 472,927
Receivables:			
Trade notes and accounts, contract assets(Note 5):			
Nonconsolidated subsidiaries and affiliates	2,015	3,783	24,985
Other	196,362	231,023	1,525,812
Other	11,841	8,949	59,105
Allowance for doubtful receivables	(3,864)	(1,049)	(6,934)
	206,355	242,705	1,602,969
Inventories (Note 4)	17,186	19,905	131,468
Prepaid expenses and other current assets (Note 5)	8,907	12,859	84,930
Total current assets	318,853	347,076	2,292,295
Property, plant and equipment, at cost (Note 5):			
Land (Notes 7 and 28)	40,223	40,257	265,882
Buildings and structures (Note 28)	83,084	83,196	549,476
Machinery and equipment	117,668	124,397	821,594
Lease assets (Note 21)	1,053	1,166	7,703
Right of use assets	6,974	12,081	79,795
Construction in progress	1,022	3,067	20,262
	250,028	264,167	1,744,713
Less accumulated depreciation	(151,775)	(159,689)	(1,054,679)
Property, plant and equipment, net	98,253	104,478	690,034
Intangible assets:			
Goodwill	1,079	4,259	28,132
Other intangible assets	10,048	14,999	99,062
Total intangible assets	11,127	19,258	127,194
Investments and other noncurrent assets:			
Investments in nonconsolidated subsidiaries and affiliates (Notes 3 and 5)	14,003	16,751	110,637
Investments securities (Notes 3 and 5)	6,243	6,859	45,304
Long-term loans receivable (Note 5)	25	889	5,874
Net defined benefit assets (Note 24)	1,283	8,781	57,999
Deferred tax assets (Note 25)	19,355	17,711	116,976
Other investments and noncurrent assets	11,107	12,450	82,231
Allowance for doubtful receivables	(638)	(705)	(4,658)
Total investments and other noncurrent assets	51,379	62,738	414,364
Deferred assets	67	41	276
Total assets	¥ 479,682	¥ 533,593	\$ 3,524,165

See the accompanying Notes to the Consolidated Financial Statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2024	2024
LIABILITIES			
Current liabilities:			
Notes and accounts payable:			
Nonconsolidated subsidiaries and affiliates	¥ 104	¥ 184	\$ 1,217
Other	73,179	57,749	381,412
Short-term borrowings (Note 5)	3,056	7,482	49,418
Current portion of long-term debt	13,561	22,106	146,002
Accrued expenses	70,138	84,084	555,341
Accrued income taxes	4,021	2,681	17,713
Contract liabilities	41,355	48,741	321,916
Reserve for product warranties	14,572	18,587	122,760
Reserve for losses on construction contracts (Note 4)	6,819	6,490	42,864
Provision for demolition and removal	—	568	3,751
Lease liabilities (Note 21)	1,341	1,746	11,534
Other current liabilities	12,659	23,260	153,624
Total current liabilities	240,811	273,682	1,807,558
Long-term liabilities:			
Long-term debt, less current portion (Note 5)	65,876	54,443	359,574
Asset retirement obligations (Note 27)	3,081	3,097	20,460
Deferred tax liabilities (Note 25)	415	449	2,968
Net defined benefit liability (Note 24)	21,354	20,985	138,601
Directors' and corporate auditors' severance and retirement benefits	63	53	354
Lease liabilities (Note 21)	2,630	5,664	37,412
Provision for demolition and removal	—	290	1,920
Other noncurrent liabilities	4,136	5,979	39,490
Total long-term liabilities	97,559	90,964	600,784
Total liabilities	338,370	364,647	2,408,342
CONTINGENT LIABILITIES (Note 6)			
NET ASSETS (Note 8):			
Common stock			
Authorized — 400,000,000 shares			
Issued — 170,214,843 shares at March 31, 2023 and 2024	45,442	45,442	300,127
Capital surplus	8,176	7,805	51,552
Retained earnings	84,685	100,651	664,764
Treasury stock, at cost (Note 19) — 1,687,175 shares in 2023			
— 1,692,716 shares in 2024	(1,029)	(1,034)	(6,832)
Net unrealized holding gains (losses) on securities	986	1,114	7,361
Net unrealized holding gains (losses) on hedging derivatives	77	737	4,867
Land revaluation difference (Note 7)	(7)	(7)	(52)
Foreign currency translation adjustments	426	2,194	14,491
Remeasurements of defined benefit plans	863	5,755	38,009
Non-controlling interests in consolidated subsidiaries	1,691	6,288	41,531
Total net assets	141,311	168,946	1,115,823
Total liabilities and net assets	¥ 479,682	¥ 533,592	\$ 3,524,164

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, 2023 and 2024

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2024	2024
Net sales	¥ 492,692	¥ 555,844	\$ 3,671,124
Cost of sales (Note 9)	409,334	460,543	3,041,699
Gross profit	83,358	95,301	629,425
Selling, general and administrative expenses	63,301	70,977	468,778
Operating income	20,056	24,323	160,646
Other income (expenses):			
Interest and dividend income	455	976	6,446
Foreign exchange gain (loss)	(128)	1,275	8,424
Share of profit of entities accounted for using equity method	423	1,687	11,143
Gain on sale of investments in capital of affiliates	—	740	4,887
Gain on government grants (Note 12)	358	344	2,277
Interest expense	(788)	(854)	(5,642)
Loss on net monetary position	—	(1,345)	(8,889)
Guarantee commission	(350)	(480)	(3,174)
Arbitration settlements	(870)	(317)	(2,098)
Gain on sale of property (Note 10)	1,020	—	—
Gain on sale of shares of subsidiaries and affiliates (Note 11)	1,430	—	—
Gain on subsidy income	1,798	—	—
Impairment loss (Note 13)	(341)	(448)	(2,958)
Provision for reserve on demolition and removal (Note 14)	—	(858)	(5,672)
Provision for loss on liquidation (Note 15)	(729)	—	—
Provision for loss on litigation (Note 16)	(688)	(258)	(1,704)
Loss on using the reduction entry (Note 17)	(1,798)	—	—
Other, net	(1,322)	(702)	(4,639)
Total other expenses	(1,530)	(242)	(1,599)
Profit before income taxes and non-controlling interests	18,526	24,081	159,047
Income taxes (Note 25)			
Current	4,088	4,123	27,232
Deferred	(1,177)	877	5,797
Profit	15,615	19,080	126,016
Profit (loss) attributable to non-controlling interests	38	80	530
Profit attributable to shareholders of Hitachi Zosen	¥ 15,577	¥ 18,999	\$ 125,486

	Yen		U.S. dollars (Note 1)
	2023	2024	2024
Amounts per share (Note 2)			
Net income	¥ 92.43	¥ 112.74	\$ 0.74
Cash dividends	18.00	23.00	0.15

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, 2023 and 2024

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2024	2024
Profit	¥ 15,615	¥ 19,080	\$ 126,016
Other comprehensive income			
Net unrealized holding gains (losses) on securities	(182)	(128)	(846)
Net unrealized holding gains (losses) on hedging derivatives	97	633	4,181
Foreign currency translation adjustments	(380)	1,327	8,769
Remeasurements of defined benefit plans	(4,216)	4,892	32,310
accounted for using equity method	(157)	737	4,868
Total other comprehensive income (Note 18)	(4,838)	7,461	49,283
Total comprehensive income	10,777	26,542	175,299
Comprehensive income attributable to			
Shareholders of Hitachi Zosen	10,733	26,445	174,658
Non-controlling interests	44	97	641

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, 2023 and 2024

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, 2024

(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	¥ 8,176	¥ 84,685	¥ (1,029)	¥ 137,274
Changes of items during the period					
Cash dividends			(3,033)		(3,033)
Profit attributable to shareholders of Hitachi Zosen			18,999		18,999
Treasury stock disposed, net					—
Treasury stock purchased, net				(4)	(4)
Change in equity interest		(370)			(370)
Changes due to increase/decrease in consolidated subsidiaries					—
Deferred tax adjustment due to change in equity of prior year					—
Net changes of items other than shareholders' equity					
Total changes during the period	—	(370)	15,966	(4)	15,590
Balance at end of year	¥ 45,442	¥ 7,805	¥ 100,651	¥ (1,034)	¥ 152,865

	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	¥ 986	¥ 77	¥ (7)	¥ 426	¥ 863	¥ 2,345	¥ 1,691	¥ 141,311
Changes of items during the period								
Cash dividends								(3,033)
Profit attributable to shareholders of Hitachi Zosen								18,999
Treasury stock disposed, net								—
Treasury stock purchased, net								(4)
Change in equity interest								(370)
Changes due to increase/decrease in consolidated subsidiaries								—
Deferred tax adjustment due to change in equity of prior year								—
Net changes of items other than shareholders' equity	128	659	—	1,767	4,891	7,447	4,596	12,044
Total changes during the period	128	659	—	1,767	4,891	7,447	4,596	27,635
Balance at end of year	¥ 1,114	¥ 737	¥ (7)	¥ 2,194	¥ 5,755	¥ 9,792	¥ 6,288	¥ 168,946

See the accompanying Notes to the Consolidated Financial Statements.

For the year ended March 31, 2024

(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	\$ 300,127	\$ 53,999	\$ 559,312	\$ (6,799)	\$ 906,640
Changes of items during the period					
Cash dividends			(20,034)		(20,034)
Profit attributable to shareholders of Hitachi Zosen			125,486		125,486
Treasury stock disposed, net					—
Treasury stock purchased, net				(32)	(32)
Change in equity interest		(2,446)			(2,446)
Changes due to increase/decrease in consolidated subsidiaries					—
Deferred tax adjustment due to change in equity of prior year					—
Net changes of items other than shareholders' equity					
Total changes during the period	—	(2,446)	105,451	(32)	102,971
Balance at end of year	\$ 300,127	\$ 51,552	\$ 664,764	\$ (6,832)	\$ 1,009,612

	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	\$ 6,515	\$ 508	\$ (52)	\$ 2,818	\$ 5,700	\$ 15,490	\$ 11,174	\$ 933,305
Changes of items during the period								
Cash dividends								(20,034)
Profit attributable to shareholders of Hitachi Zosen								125,486
Treasury stock disposed, net								—
Treasury stock purchased, net								(32)
Change in equity interest								(2,446)
Changes due to increase/decrease in consolidated subsidiaries								—
Deferred tax adjustment due to change in equity of prior year								—
Net changes of items other than shareholders' equity	845	4,359	—	11,673	32,309	49,187	30,357	79,545
Total changes during the period	845	4,359	—	11,673	32,309	49,187	30,357	182,517
Balance at end of year	\$ 7,361	\$ 4,867	\$ (52)	\$ 14,491	\$ 38,009	\$ 64,678	\$ 41,532	\$ 1,115,823

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, 2023 and 2024

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2024	2024
Cash flows from operating activities:			
Profit before income taxes and non-controlling interests	¥ 18,526	¥ 24,081	\$ 159,047
Adjustments to reconcile profit before income taxes and non-controlling interests to net cash provided by operating activities:			
Depreciation	10,515	11,134	73,535
Impairment loss	341	448	2,958
Increase (decrease) in provision for loss on liquidation	729	—	—
Increase (decrease) in provision for loss on litigation	688	258	1,704
Increase (decrease) in provision for dismantlement	—	858	5,672
Loss on using the reduction entry	1,798	—	—
Loss (gain) on sales of property	(1,020)	—	—
Gain on sale of shares of subsidiaries and associates	(1,430)	—	—
Gain on subsidy income	(1,798)	—	—
Amortization of goodwill	458	350	2,315
Increase (decrease) of net defined benefit liability	504	481	3,180
Increase (decrease) in allowance for doubtful receivables	(540)	(2,817)	(18,610)
Increase (decrease) in reserve for losses on construction contracts	1,003	(424)	(2,804)
Increase (decrease) in provision for product warranty	2,160	2,635	17,407
Interest and dividend income	(455)	(976)	(6,446)
Interest expense	788	854	5,642
Loss on net monetary position	—	1,345	8,889
Foreign exchange loss (gain)	128	(1,275)	(8,424)
Equity in net loss (gain) of nonconsolidated subsidiaries and affiliates	(423)	(1,687)	(11,143)
Gain on sale of investments in capital of affiliates	—	(740)	(4,887)
Decrease (increase) in trade receivables and contract assets	(7,535)	(27,643)	(182,572)
Decrease (increase) in inventories	(3,769)	(802)	(5,298)
Decrease (increase) in other current assets	2,567	(660)	(4,365)
Increase (decrease) in trade payables	1,760	(18,244)	(120,496)
Increase (decrease) in accrued expenses	(3,861)	8,705	57,495
Increase (decrease) in contract liabilities	12,358	3,301	21,804
Increase (decrease) in other current liabilities	(2,833)	9,905	65,421
Other	113	(3,426)	(22,631)
Subtotal	30,773	5,661	37,393
Interest and dividends received	702	1,263	8,346
Gain on government grants	1,447	—	—
Interest paid	(788)	(883)	(5,834)
Income taxes paid	(4,125)	(5,563)	(36,745)
Net cash and cash equivalents provided by operating activities	28,008	478	3,160
Cash flows from investing activities:			
Increase in time deposits	(1,966)	(29,360)	(193,913)
Decrease in time deposits	1,779	29,161	192,602
Purchase of property, plant and equipment	(6,574)	(7,770)	(51,319)
Proceeds from sales of property, plant and equipment	3,283	250	1,655
Purchase of intangible assets	(2,067)	(4,331)	(28,608)
Purchase of investments in securities	(631)	(186)	(1,228)
Proceeds from sales of investments in securities	1,444	41	274
Purchase of shares of subsidiaries and associates	(499)	(44)	(291)
Proceeds from sales of investments in capital of affiliates	—	1,078	7,121
Payments for investments in capital of affiliates	(2,333)	(888)	(5,870)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(282)	(2,535)	(16,743)
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	5,287	—	—
Payments for transfer of business	—	(6,035)	(39,859)
Increase in long term loans receivable	(2)	(829)	(5,475)
Other	101	(42)	(283)
Net cash and cash equivalents used in investing activities	(2,462)	(21,491)	(141,939)
Cash flows from financing activities:			
Increase (decrease) in short-term borrowings, net	1,343	4,322	28,550
Proceeds from long-term debt	20,665	9,867	65,173
Payment of long-term debt	(26,642)	(13,290)	(87,776)
Cash dividends paid	(2,022)	(3,033)	(20,034)
Other	(1,185)	(473)	(3,129)
Net cash and cash equivalents used in financing activities	(7,841)	(2,606)	(17,216)
Effect of exchange rate changes on cash and cash equivalents	1,213	5,019	33,150
Net increase in cash and cash equivalents	18,918	(18,599)	(122,845)
Cash and cash equivalents at beginning of year	65,956	84,874	560,563
Increase in cash and cash equivalents resulting from new consolidations	—	3,500	23,116
Cash and cash equivalents at end of year (Note 20)	¥ 84,874	¥ 69,774	\$ 460,834

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, 2024 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, 2024, which was ¥151.41 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 131 significant subsidiaries that meet the control requirements for consolidation. Intercompany transactions and accounts have been eliminated in the consolidation.

Investments in 31 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) Provision for loss on liquidation

Provision for loss on liquidation is recorded for the expected losses associated with business reorganization.

r) Provision for loss on litigation

Provision for loss on litigation is recorded for the expected losses from ongoing litigations.

s) Provision for demolition and removal

Provision for demolition and removal is recorded for the anticipated future costs of removing fixed assets.

t) 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 ¥8,581 million and ¥11,246 million (\$74,281 thousand) for the years ended March 31, 2023 and 2024, respectively.

u) 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 inhabitant taxes.

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

From the beginning of the year ending March 31, 2023, the Group Tax Sharing System is applied.

v) 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.

w) Significant Accounting Estimates

(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) 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 and the net amount after deducting deferred tax liabilities of ¥415 million was ¥18,939 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, 2024)

① Revenue recognition of construction contracts

(1) Amounts recorded in the consolidated financial statements for the fiscal year ended March 31, 2024

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 ¥388,602 million (\$2,566,559 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, 2024

The amount of deferred tax assets for the consolidated fiscal year ended March 31, 2024, was ¥17,711 million (\$116,976 thousand) and the net amount after deducting deferred tax liabilities of ¥449 million (\$2,968 thousand) was ¥17,261 million (\$114,007 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.

x) Reclassifications

Certain reclassifications were made to previously reported amounts for the fiscal year ended March 31, 2023 to conform to the fiscal year ended March 31, 2024, 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, 2023 and 2024:

Available-for-sale securities:

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)

At March 31, 2024

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

	Millions of yen		
	Book value	Acquisition cost	Difference
Equity securities	¥ 2,432	¥ 1,610	¥ 821
Bonds	30	30	0
Total	¥ 2,462	¥ 1,640	¥ 821

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

	Millions of yen		
	Book value	Acquisition cost	Difference
Equity securities	¥ 1	¥ 1	¥ (0)
Others	513	534	(21)
Total	¥ 514	¥ 536	¥ (21)

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

Thousands of U.S. dollars			
	Book value	Acquisition cost	Difference
Equity securities	\$ 16,064	\$ 10,638	\$ 5,426
Bonds	199	198	1
Total	<u>\$ 16,264</u>	<u>\$ 10,836</u>	<u>\$ 5,428</u>

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

Thousands of U.S. dollars			
	Book value	Acquisition cost	Difference
Equity securities	\$ 7	\$ 10	\$ (2)
Others	3,392	3,532	(140)
Total	<u>\$ 3,399</u>	<u>\$ 3,542</u>	<u>\$ (143)</u>

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, 2023 and 2024 were as follows:

Year ended March 31, 2023

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

Year ended March 31, 2024

Millions of yen			
	Sales	Gains on sales	Losses on sales
Equity securities	¥ 5	¥ —	¥ —
Others	35	18	(0)
Total	<u>¥ 41</u>	<u>¥ 18</u>	<u>¥ (0)</u>

Thousands of U.S. dollars			
	Sales	Gains on sales	Losses on sales
Equity securities	\$ 39	\$ —	\$ —
Others	235	125	(0)
Total	<u>\$ 274</u>	<u>\$ 125</u>	<u>\$ (0)</u>

4. Inventories

Inventories at March 31, 2023 and 2024 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Merchandise and finished goods	¥ 1,461	¥ 2,297	\$ 15,176
Work in progress	7,391	7,039	46,491
Raw material and supplies	8,332	10,568	69,799
Total	¥ 17,185	¥ 19,906	\$ 131,468

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, 2023 and 2024 were ¥72 million and ¥327 million (\$2,162 thousand), respectively, all of which represented work in progress.

5. Short-term Borrowings and Long-term Debt

Shor-term borrowings that represented bank borrowings bearing average interest rates of 0.50% and 0.43 % as of March 31, 2023 and 2024, respectively, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Secured (or partly secured)	¥ —	¥ —	\$ —
Unsecured	3,056	7,482	49,418
Total	¥ 3,056	¥ 7,482	\$ 49,418

As of March 31, 2023 and 2024, the Company had line-of-credit agreements for short-term borrowings with financial institutions totaling ¥30,000 million and ¥30,000 million (\$198,137 thousand). The used amounts were zero as of March 31, 2023 and zero as of March 31, 2024.

Long-term debt as of March 31, 2023 and 2024 consisted of the followings:

	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Borrowings from banks and other financial institutions at 0.57% to 1.19%, due through 2082:			
Secured (or partly secured)	¥ 1,627	¥ 2,079	\$ 13,733
Unsecured	47,810	44,469	293,705
Straight bonds at 0.57% due 2024	10,000	10,000	66,045
Straight bonds at 0.59% due 2025	10,000	10,000	66,045
Straight bonds at 0.43% due 2026	10,000	10,000	66,045
Lease liabilities	3,971	7,411	48,947
Less current portion included in current liabilities	(14,903)	(23,852)	(157,536)
Total	¥ 68,507	¥ 60,107	\$ 396,987

The following assets were pledged as collateral mainly for secured long-term debt of ¥1,627 million at March 31, 2023 and ¥2,079 million (\$13,733 thousand) at March 31, 2024:

	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Trade notes and accounts	¥ 7,486	¥ 9,484	\$ 62,640
Prepaid expenses and other current assets	1	1	12
Property, plant and equipment, net	1,030	1,105	7,302
Investments in nonconsolidated subsidiaries and affiliates	25	25	165
Investments in securities	76	76	501
Long-term loans receivable	10	8	55
Other non-current assets	—	807	5,333
Total	¥ 8,630	¥ 11,508	\$ 76,011

The aggregate annual maturities of long-term debt outstanding at March 31, 2024 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2026	¥ 16,835	\$ 111,191
2027	11,308	74,686
2028	798	5,276
2029	9,692	64,017
2030 and thereafter	21,472	141,816
Total	¥ 60,107	\$ 396,987

6. Contingent Liabilities

Contingent liabilities at March 31, 2023 and 2024 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Guarantees of bank borrowings and other indebtedness	¥ 4,341	¥ 5,760	38,046
Total	¥ 4,341	¥ 5,760	\$ 38,046

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 ¥71 million (\$475 thousand) lower than the revalued book amount at March 31, 2023 and 2024, 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 20, 2024, the shareholders approved cash dividends of ¥3,876 million (\$25,599 thousand). The appropriation has not been accrued in the consolidated financial statements as of March 31, 2024. 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 ¥3,037 million and ¥1,669 million (\$11,027 thousand) for the years ended March 31, 2023 and 2024, respectively.

10. 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 due to the sales of 90 building in Osaka city.

11. 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 due to the sales of shares of the subsidiary, OHNAMI Corporation.

12. 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 due to the receipt of government grants from Ohdate City.

13. Impairment loss

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

Kompogas SLO LLC

In regard 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) under other expenses.

Location	Use	Type of Assets	Millions of yen
Kompogas SLO LLC (Sun Luis Obispo, California, USA)	Kompogas plant	Machinery, equipment and vehicles	¥ 341
Total			¥ 341

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.

The asset on which the Companies recognized impairment loss in the year ended March 31, 2024 was as follows:

Dormitories, welfare facilities

The Company determined that there were indicators of impairment for fixed assets due to the decision to dismantle and remove some of the dormitories and welfare facilities owned by the Company in the future. As a result of examining the future recoverability, the book value of fixed assets was reduced to the recoverable amount, and the reduction of ¥448 million (\$2,958 thousand) was recorded as impairment loss.

Location	Use	Type of Assets	Millions of yen	Thousands of U.S. dollars
Japan	Dormitories, welfare facilities	Buildings and structures	¥ 296	\$ 1,956
		Machinery, equipment and vehicles	4	30
		Land	147	972
Total			¥ 448	\$ 2,958

The recoverable amount of these dormitories and welfare facilities was measured based on the net sales value and was evaluated based on the value after reasonably adjusting for the assessed value of fixed asset tax.

14. Provision for reserve on demolition and removal

Provision for reserve on demolition and removal for the fiscal year ended March 31, 2024, was recorded in the amount of ¥858 million (\$5,672 thousand) for the anticipated future costs of removing fixed assets.

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 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, and 2024, were recorded in the amount of ¥688 million and ¥258 million (\$1,704 thousand), respectively, due to pending litigation for the fiscal year ended March 31, 2023 and 2024, respectively.

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 due to the application of direct reduction method regarding government grants (Note.12).

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
	2023	2024	2024
Net unrealized holding gains (losses) on securities			
Increase (decrease) during the year	¥ (180)	¥ (151)	\$ (1,003)
Reclassification adjustments	(60)	(18)	(125)
Subtotal before tax	(240)	(170)	(1,128)
Tax benefit (expenses)	57	42	281
Subtotal net of tax	<u>(182)</u>	<u>(128)</u>	<u>(846)</u>
Net unrealized holding gains (losses) on hedging derivatives			
Increase (decrease) during the year	¥ 213	¥ 1,253	\$ 8,278
Reclassification adjustments	(154)	(373)	(2,469)
Subtotal before tax	58	879	5,809
Tax benefit (expenses)	38	(246)	(1,628)
Subtotal net of tax	<u>97</u>	<u>633</u>	<u>4,181</u>
Foreign currency translation adjustments			
Increase (decrease) during the year	¥ (365)	¥ 1,341	\$ 8,858
Reclassification adjustments	(14)	(13)	(89)
Subtotal	<u>(380)</u>	<u>1,327</u>	<u>8,769</u>
Remeasurements of defined benefit plans			
Increase (decrease) during the year	¥ (4,554)	¥ 8,260	\$ 54,556
Reclassification adjustments	(678)	(2,124)	(14,033)
Subtotal before tax	(5,233)	6,135	40,522
Tax benefit (expenses)	1,016	(1,243)	(8,211)
Subtotal net of tax	<u>(4,216)</u>	<u>4,892</u>	<u>32,310</u>
Equity of nonconsolidated subsidiaries and affiliates accounted for using equity method			
Increase (decrease) during the year	¥ (157)	¥ 737	\$ 4,868
Reclassification adjustments	—	—	—
Subtotal	<u>(157)</u>	<u>737</u>	<u>4,868</u>
Total other comprehensive income	<u>¥ (4,838)</u>	<u>¥ 7,461</u>	<u>\$ 49,283</u>

19. Treasury Stock

Treasury stock for the years ended March 31, 2023 and 2024 consisted of the following:

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

Year ended March 31, 2024

Number of shares of common stock	Thousands
At March 31, 2023	1,687
Increase	5
Decrease	—
At March 31, 2024	1,692

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, 2023 and 2024 were reconciled as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Cash and deposits in the balance sheets	¥ 86,404	¥ 71,605	\$ 472,927
Time deposits with maturities over three months	(1,529)	(1,831)	(12,093)
Cash and cash equivalents in cash flow statements	¥ 84,874	¥ 69,774	\$ 460,834

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 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
Current assets	¥ 4,185
Noncurrent assets	8,590
Total assets	¥ 12,775
Current liabilities	¥ (2,740)
Noncurrent liabilities	(2,886)
Total liabilities	¥ (5,627)

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, 2023 and 2024 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, 2023 and 2024 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Payments due within one year	¥ 671	¥ 694	\$ 4,590
Payments due after one year	9,702	9,399	62,080
Total	¥ 10,373	¥ 10,094	\$ 66,670

c) Right of use assets as lessee

Right of use assets at March 31, 2023 and 2024 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, 2023 and 2024 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Lease payments receivable	¥ 19	¥ 50	\$ 334
Interest	(1)	(2)	(18)
Total	¥ 18	¥ 47	\$ 315

Lease investment assets receivable after March 31, 2023 and 2024 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Within one year	¥ 7	¥ 15	\$ 105
Over one year but within two years	5	15	99
Over two years but within three years	5	9	64
Over three years but within four years	1	8	53
Over four years but within five years	0	1	10
Over five years	—	0	1

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 58 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 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, 2023 and 2024 are set forth in the tables below.

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)	694
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	¥ —

*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, 2024:

Millions of yen			
	Book value	Fair value	Difference
(1) Trade notes and accounts	117,575		
Allowance for doubtful receivables *2	(689)		
	116,885	116,930	45
(2) Securities and investment securities	6,631	6,313	(317)
Total assets	¥ 123,516	¥ 123,244	¥ (272)
(1) Short-term borrowings	(7,482)	(7,482)	—
(2) Current portion of long-term debt	(22,106)	(21,810)	295
(3) Long-term debt, less current portion	(54,443)	(55,190)	(747)
Total liabilities	¥ (84,031)	¥ (84,482)	¥ (451)
Derivative transactions *3			
Derivative transactions for which hedge accounting has not been applied	(608)	(608)	—
Derivative transactions for which hedge accounting has been applied	1,307	1,307	—
Total derivative transactions	¥ 698	¥ 698	¥ —

Thousands of U.S. dollars			
	Book value	Fair value	Difference
(1) Trade notes and accounts	776,536		
Allowance for doubtful receivables *2	(4,556)		
	771,979	772,277	298
(2) Securities and investment securities	43,796	41,700	(2,095)
Total assets	\$ 815,775	\$ 813,978	\$ (1,797)
(1) Short-term borrowings	(49,418)	(49,418)	—
(2) Current portion of long-term debt	(146,002)	(144,048)	1,954
(3) Long-term debt, less current portion	(359,574)	(364,507)	(4,933)
Total liabilities	\$ (554,995)	\$ (557,974)	\$ (2,979)
Derivative transactions *3			
Derivative transactions for which hedge accounting has not been applied	(4,020)	(4,020)	—
Derivative transactions for which hedge accounting has been applied	8,633	8,633	—
Total derivative transactions	\$ 4,613	\$ 4,613	\$ —

*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
	2023	2024	2024
Stock of nonconsolidated subsidiaries and affiliates	¥ 13,200	¥ 13,097	\$ 86,505
Non-listed equity securities, etc.	3,217	3,882	25,640
Total	¥ 16,418	¥ 16,980	\$ 112,146

They are not included in "(2) Securities and investment securities". Investments in partnerships and other similar entities in which are recorded the net amount of equity as of March 31, 2023 and 2024 are booked at ¥448 million and ¥632 million (\$4,178 thousand), which are 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, 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

At March 31, 2024:

	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	¥ 71,605	¥ —	¥ —	¥ —
Trade notes and accounts	115,325	551	721	287
Securities and investment securities				
Available-for-sale securities with maturities				
(1) Bond securities	—	—	30	—
(2) Others	—	—	513	—
Total	¥ 186,931	¥ 551	¥ 1,265	¥ 287

	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	\$ 472,927	\$ —	\$ —	\$ —
Trade notes and accounts	761,675	3,639	4,764	1,899
Securities and investment securities				
Available-for-sale securities with maturities				
(1) Bond securities	—	—	199	—
(2) Others	—	—	3,392	—
Total	<u>\$ 1,234,603</u>	<u>\$ 3,639</u>	<u>\$ 8,356</u>	<u>\$ 1,899</u>

(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, 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	<u>¥ 17,960</u>	<u>¥ 22,586</u>	<u>¥ 11,960</u>	<u>¥ 11,039</u>	<u>¥ 859</u>	<u>¥ 22,060</u>

At March 31, 2024:

	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	¥ 7,482	¥ —	¥ —	¥ —	¥ —	¥ —
Long-term debt	22,106	13,154	10,702	471	9,412	20,703
Lease Liabilities	1,746	3,681	606	327	280	768
Total	<u>¥ 31,335</u>	<u>¥ 16,835</u>	<u>¥ 11,308</u>	<u>¥ 798</u>	<u>¥ 9,692</u>	<u>¥ 21,472</u>

	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	\$ 49,418	\$ —	\$ —	\$ —	\$ —	\$ —
Long-term debt	146,002	86,879	70,683	3,110	62,162	136,738
Lease Liabilities	11,534	24,312	4,002	2,165	1,855	5,077
Total	<u>\$ 206,955</u>	<u>\$ 111,191</u>	<u>\$ 74,686</u>	<u>\$ 5,276</u>	<u>\$ 64,017</u>	<u>\$ 141,816</u>

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, 2023:

	Fair value (Millions of yen)			Total
	Level 1	Level 2	Level 3	
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

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

At March 31, 2024:

	Fair value (Millions of yen)			Total
	Level 1	Level 2	Level 3	
Investment securities				
Equity securities	532	—	1,931	2,463
Total assets	¥ 532	¥ —	¥ 1,931	¥ 2,463
Derivative transactions				
Related to currencies	—	698	—	698
Total assets	¥ —	¥ 698	¥ —	¥ 698

	Fair value (Thousands of dollars)			Total
	Level 1	Level 2	Level 3	
Investment securities				
Equity securities	3,514	—	12,757	16,271
Total assets	\$ 3,514	\$ —	\$ 12,757	\$ 16,271
Derivative transactions				
Related to currencies	—	4,613	—	4,613
Total assets	\$ —	\$ 4,613	\$ —	\$ 4,613

(Notes) Investment trusts are not included in the table above. The amount of such investment trusts in the consolidated balance sheets are ¥513 million (\$3,392 thousand).

② Financial Instruments booked at fair value on the balance sheets

At March 31, 2023:

	Fair value (Millions of yen)			Total
	Level 1	Level 2	Level 3	
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

At March 31, 2024:

	Fair value (Millions of yen)			Total
	Level 1	Level 2	Level 3	
Trade notes and accounts	—	107,280	9,649	116,930
Investment securities				
Investments in nonconsolidated subsidiaries and affiliates	3,336	—	—	3,336
Total assets	¥ 3,336	¥ 107,280	¥ 9,649	¥ 120,267
Current portion of long-term debt	—	29,292	—	29,292
Long-term debt, less current portion	—	55,190	—	55,190
Total liabilities	¥ —	¥ 84,482	¥ —	¥ 84,482

	Fair value (Thousands of dollars)			Total
	Level 1	Level 2	Level 3	
Trade notes and accounts	—	708,543	63,733	772,277
Investment securities				
Investments in nonconsolidated subsidiaries and affiliates	22,036	—	—	22,036
Total assets	\$ 22,036	\$ 708,543	\$ 63,733	\$ 794,313
Current portion of long-term debt	—	193,466	—	193,466
Long-term debt, less current portion	—	364,507	—	364,507
Total liabilities	\$ —	\$ 557,974	\$ —	\$ 557,974

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

Assets

(1) Trade notes and accounts

The fair values which are 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

At March 31, 2023:

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%

At March 31, 2024:

Classification	Evaluation methodology	Significant unobservable input	Input range
Securities and investment securities			
Available-for-sale securities			
Equity securities	Discounted present value method	Discount rate	6.85%~8.68%

(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 decreased by ¥65million (\$433 thousand). This is due to increasing acquisition cost and measurement of fair value. A decrease by ¥202million (\$1,338 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, 2023 and 2024 for derivative transactions for which hedge accounting had not been applied.

a) Currency related derivatives

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.

At March 31, 2024:

	Millions of yen			
	Notional amount	Over one year	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts:				
Type of contracts:				
Sell				
Receive in japanese yen, pay in australian dollars	¥ 737	¥ 415	¥ (67)	¥ (67)
Receive in japanese yen, pay in Canadian dollars	2,283	2,283	(335)	(335)
Receive in japanese yen, pay in swiss franc	6,623	—	(64)	(64)
Receive in japanese yen, pay in thai bahts	404	213	(22)	(22)
Receive in japanese yen, pay in euro	8,835	8,835	(43)	(43)
Receive in japanese yen, pay in U.S. dollars	1,626	—	(77)	(77)
Receive in swiss franc, pay in euro	620	64	(18)	(18)
Receive in U.S. dollars, pay in euro	51	—	(2)	(2)
Receive in euro, pay in U.S. dollars	374	—	(5)	(5)
Purchase				
Receive in U.S. dollars, pay in japanse yen	2,347	39	23	23
Receive in euro, pay in japanese yen	116	2	26	26
Receive in CNY, pay in japanese yen	32	30	2	2
Receive in canadian dollars, pay in japanese yen	188	—	31	31
Receive in euro, pay in swiss franc	710	—	(56)	(56)
Receive in euro, pay in U.S. dollars	374	—	5	5
Receive in U.S. dollars, pay in euro	51	—	2	2
Receive in U.S. dollars, pay in swiss franc	101	—	4	4
Currency swaps:				
Sell				
Receive in euro, pay in Canadian dollars	31	—	(1)	(1)
Receive in swiss franc, pay in Canadian dollars	355	—	(4)	(4)
Receive in swiss franc, pay in swedish krona	594	—	1	1
Receive in swiss franc, pay in U.S. dollars	4,024	—	(59)	(59)
Receive in euro, pay in U.S. dollars	195	—	(4)	(4)
Receive in swiss franc, pay in australian dollars	96	—	(1)	(1)
Purchase				
Receive in euro, pay in swiss franc	2,794	—	(10)	(10)
Receive in euro, pay in Canadian dollars	31	—	1	1
Receive in euro, pay in U.S. dollars	195	—	5	5
Receive in GBP, pay in swiss franc	6,921	—	61	61
Total	¥ 40,719	¥ 11,884	¥ (608)	¥ (608)

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, 2024:

	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 japanese yen, pay in australian dollars	\$ 4,870	\$ 2,744	\$ (445)	\$ (445)
Receive in japanese yen, pay in Canadian dollars	15,080	15,080	(2,213)	(2,213)
Receive in japanese yen, pay in swiss franc	43,747	—	(423)	(423)
Receive in japanese yen, pay in thai bahts	2,669	1,406	(150)	(150)
Receive in japanese yen, pay in euro	58,354	58,354	(285)	(285)
Receive in japanese yen, pay in U.S. dollars	10,742	—	(511)	(511)
Receive in swiss franc, pay in euro	4,099	426	(122)	(122)
Receive in U.S. dollars, pay in euro	338	—	(15)	(15)
Receive in euro, pay in U.S. dollars	2,475	—	(34)	(34)
Purchase				
Receive in U.S. dollars, pay in japanse yen	15,503	263	153	153
Receive in euro, pay in japanese yen	767	15	176	176
Receive in CNY, pay in japanese yen	214	198	16	16
Receive in Canadian dollars, pay in japanese yen	1,244	—	205	205
Receive in euro, pay in swiss franc	4,690	—	(376)	(376)
Receive in euro, pay in U.S. dollars	2,475	—	35	35
Receive in U.S. dollars, pay in euro	338	—	16	16
Receive in U.S. dollars, pay in swiss franc	671	—	32	32
Currency swaps:				
Sell				
Receive in euro, pay in Canadian dollars	204	—	(9)	(9)
Receive in swiss franc, pay in Canadian dollars	2,347	—	(31)	(31)
Receive in swiss franc, pay in swedish krona	3,926	—	12	12
Receive in swiss franc, pay in U.S. dollars	26,578	—	(395)	(395)
Receive in euro, pay in U.S. dollars	1,290	—	(30)	(30)
Receive in swiss franc, pay in australian dollars	640	—	(6)	(6)
Purchase				
Receive in euro, pay in swiss franc	18,457	—	(68)	(68)
Receive in euro, pay in Canadian dollars	204	—	9	9
Receive in euro, pay in U.S. dollars	1,290	—	34	34
Receive in GBP, pay in swiss franc	45,711	—	407	407
Total	<u>\$ 268,937</u>	<u>\$ 78,491</u>	<u>\$ (4,020)</u>	<u>\$ (4,020)</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, 2023 and 2024 for derivative transactions for which hedge accounting had been applied.

a) Currency related derivatives

At March 31, 2023:

		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	¥ 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.

At March 31, 2024:

		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	¥ 4,404	¥ 401	¥ (913)
Receive in japanese yen, pay in CNY	Trade receivable	830	225	(68)
Receive in swiss franc, pay in euro	Trade receivable	5,918	652	241
Purchase				
Receive in U.S. dollars, pay in japanese yen	Trade payable	3,656	293	501
Receive in euro, pay in japanese yen	Trade payable	5,705	3,175	655
Receive in swiss franc, pay in japanese yen	Trade payable	1,040	741	183
Receive in CNY, pay in japanese yen	Trade payable	5,441	1,005	604
Receive in Canadian dollars, pay in japanese yen	Trade payable	181	—	29
Receive in euro, pay in swiss franc	Trade payable	4,196	2,419	(20)
Receive in U.S. dollars, pay in swiss franc	Trade payable	1,507	—	10
Alternative treatment *2:				
Forward foreign exchange contracts:				
Type of contracts:				
Sell				
Receive in japanese yen, pay in U.S. dollars	Trade receivable	289	5	(25)
Receive in japanese yen, pay in CNY	Trade receivable	54	37	(2)
Receive in japanese yen, pay in euro	Trade receivable	48	—	(0)
Receive in japanese yen, pay in Thai Bahts	Trade receivable	108	24	(7)
Total		¥ 33,382	¥ 8,982	¥ 1,186

*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		
		Notional	Over one year	Fair value
		amount		*1
Hedged items				
Basic treatment:				
Forward foreign exchange contracts:				
Type of contracts:				
Sell				
Receive in japanese yen, pay in U.S. dollars	Trade receivable	\$ 29,088	\$ 2,649	\$ (6,032)
Receive in japanese yen, pay in CNY	Trade receivable	5,483	1,490	(452)
Receive in swiss franc, pay in euro	Trade receivable	39,086	4,311	1,594
Purchase				
Receive in U.S. dollars, pay in japanese yen	Trade payable	24,148	1,941	3,309
Receive in euro, pay in japanese yen	Trade payable	37,681	20,974	4,331
Receive in swiss franc, pay in japanese yen	Trade payable	6,869	4,894	1,213
Receive in CNY, pay in japanese yen	Trade payable	35,942	6,640	3,993
Receive in Canadian dollars, pay in japanese yen	Trade payable	1,199	—	194
Receive in euro, pay in swiss franc	Trade payable	27,718	15,981	(137)
Receive in U.S. dollars, pay in swiss franc	Trade payable	9,953	—	68
Alternative treatment *2:				
Forward foreign exchange contracts:				
Type of contracts:				
Sell				
Receive in japanese yen, pay in U.S. dollars	Trade receivable	1,911	35	(170)
Receive in japanese yen, pay in CNY	Trade receivable	357	249	(17)
Receive in japanese yen, pay in euro	Dividends	317	—	(4)
Receive in japanese yen, pay in Thai Bahts	Trade receivable	717	160	(52)
Total		<u>\$ 220,475</u>	<u>\$ 59,328</u>	<u>\$ 7,837</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, 2023 and 2024:

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, 2023 and 2024 were as follows:

(a) Movements in projected benefit obligations for the years ended March 31, 2023 and 2024.

	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Balance at April 1, 2022 and 2023	¥ 58,880	¥ 59,957	\$ 395,996
Service cost	2,702	2,553	16,867
Interest cost	619	1,103	7,289
Actuarial differences	(3,204)	5,731	37,855
Benefits paid	(2,790)	(1,473)	(9,733)
Other	3,749	7,012	46,315
Balance at March 31, 2023 and 2024	¥ 59,957	¥ 74,885	\$ 494,590

Note. Some consolidated subsidiaries have adopted the alternative treatment.

(b) Movements in fair value of pension assets for the years ended March 31, 2023 and 2024.

	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Balance at April 1, 2022 and 2023	¥ 47,237	¥ 54,187	\$ 357,888
Expected return on pension assets	673	1,349	8,912
Actuarial differences	544	5,616	37,092
Contributions paid by the employer etc.	2,054	1,464	9,673
Benefits paid	(1,216)	(204)	(1,350)
Other	4,893	9,063	59,863
Balance at March 31, 2023 and 2024	¥ 54,187	¥ 71,477	\$ 472,080

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
	2023	2024	2024
Funded projected benefit obligations	¥ 40,398	¥ 55,727	\$ 368,058
Fair value of pension assets	(54,187)	(71,477)	(472,080)
	(13,789)	(15,750)	(104,022)
Unfunded projected benefit obligations	19,559	19,158	126,532
Adjustment due to asset ceiling	14,300	8,795	58,091
Total net liability (asset) for projected benefits at March 31, 2023 and 2024	¥ 20,070	¥ 12,203	\$ 80,601
Net defined benefit liability	¥ 21,354	¥ 20,985	\$ 138,601
Net defined benefit asset	(1,283)	(8,781)	(57,999)
Total net liability (asset) for projected benefits at March 31, 2023 and 2024	¥ 20,070	¥ 12,203	\$ 80,601

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, 2023 and 2024.

	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Service cost	¥ 2,702	¥ 2,495	\$ 16,481
Interest cost	619	1,103	7,289
Expected return on pension assets	(673)	(1,349)	(8,912)
Amortization of actuarial differences	(512)	(2,119)	(13,998)
Amortization of past service cost	(9)	(5)	(35)
Severance and retirement benefit expenses based on the alternative treatment	249	186	1,234
Others	(297)	375	2,482
Severance and retirement benefit expenses	¥ 2,079	¥ 687	\$ 4,541

(e) Remeasurements of defined benefit plans (before tax) for the years ended March 31, 2023 and 2024.

	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Past service cost	¥ (9)	¥ (5)	\$ (35)
Actuarial differences	(5,343)	17,322	114,407
Other	120	(11,181)	(73,850)
Total	¥ (5,233)	¥ 6,135	\$ 40,522

(f) Remeasurements of defined benefit plans (before tax) for the years ended March 31, 2023 and 2024.

	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Unrecognized past service cost	¥ 21	¥ 15	\$ 105
Unrecognized actuarial differences	(579)	16,899	111,613
Other	1,678	(9,502)	(62,761)
Total	¥ 1,120	¥ 7,412	\$ 48,956

(g) Pension assets

(1) Pension assets comprise:

	2023	2024
Stocks	29 %	30 %
Bonds	14 %	16 %
Cash and deposits	4 %	1 %
Real estate	45 %	45 %
Other	8 %	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, 2023 and 2024 (expressed as weighted averages) were as follows:

	2023	2024
Discount rate	1.61 %	1.35 %
Long-term expected rate of return	1.03 %	1.51 %
Expected rate of increase in salary	2.37 %	2.15 %

(i) Contributions to the defined contributions pension plan

For the years ended March 31, 2023 and 2024, the Companies made contributions to the defined contributions pension plan in the amount of ¥1,524 million and ¥1,165 million (\$7,697 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, 2023 and 2024, 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, 2023 and 2024 were as follows:

	2023	2024
Statutory tax rate	30.6 %	30.6 %
Nondeductible expenses	2.4 %	1.8 %
Nontaxable dividend income	(4.6) %	(5.6) %
Fluctuation in deferred tax assets valuation allowance account	(6.6) %	(6.0) %
Elimination of dividend income	3.5 %	3.2 %
Effect of tax credit	(3.9) %	(3.9) %
Difference in effective tax rate between the Companies' and subsidiaries	(4.6) %	(3.4) %
Corporate tax in overseas	0.0 %	3.0 %
Other	(1.1) %	1.1 %
Effective tax rate	15.7 %	20.8 %

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2023 and 2024 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2023	2024	2024	
Deferred tax assets:				
Tax loss carryforwards (*1)	¥ 15,256	¥ 16,378	\$ 108,169	
Employees' retirement benefits	6,461	6,472	42,748	
Other reserves	5,871	5,650	37,320	
Impairment loss	5,479	5,348	35,326	
Allowance for doubtful receivables	2,211	1,413	9,334	
Research and development expenses	744	696	4,599	
Loss on devaluation of securities	136	68	455	
Other	8,033	10,015	66,148	
Total deferred tax assets	44,196	46,044	304,102	
Valuation allowance due to tax loss carryforwards (*1)	(10,714)	(11,615)	(76,714)	
Valuation allowance due to temporary differences between financial and tax reporting purposes other than tax loss carryforwards	(11,094)	(10,166)	(67,144)	
Subtotal of valuation allowance	(21,808)	(21,781)	(143,858)	
Deferred tax assets, net	22,387	24,261	160,243	
Deferred tax liabilities:				
Prepaid pension assets	(321)	(1,902)	(12,562)	
Intangible assets	(976)	(1,250)	(8,255)	
Asset retirement obligations	(553)	(520)	(3,435)	
Land valuation difference	(224)	(224)	(1,485)	
Net unrealized holding gains on securities	(68)	(78)	(516)	
Other	(1,302)	(3,022)	(19,965)	
Total deferred tax liabilities	(3,447)	(7,000)	(46,236)	
Net deferred tax assets	¥ 18,939	¥ 17,260	\$ 114,007	

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

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)

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

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

Year ended March 31, 2024

Millions of yen				
		Tax loss carryforwards (*1)	Valuation allowance	Deferred tax assets
2025	¥	57 ¥	(57) ¥	0
2026		492	(39)	453
2027		2,027	(114)	1,912
2028		375	(375)	—
2029		95	(95)	0
2030 and after		13,329	(10,933)	2,396
Total	¥	16,378 ¥	(11,615) ¥	4,762 (*2)

Thousands of U.S. dollars				
		Tax loss carryforwards (*1)	Valuation allowance	Deferred tax assets
2025	\$	381 \$	(379) \$	2
2026		3,254	(261)	2,992
2027		13,392	(758)	12,634
2028		2,477	(2,477)	—
2029		630	(629)	0
2030 and after		88,034	(72,208)	15,826
Total	\$	108,169 \$	(76,714) \$	31,455 (*2)

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

(*2) See Note 2(w) ②, "Significant Accounting Policies - Significant Accounting Estimates -

Recoverability of deferred tax assets".

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

The Company and some of its domestic consolidated subsidiaries applied consolidated taxation system to the group tax sharing system and accounted for and disclosed corporation and local taxes and tax effect accounting under the group tax sharing system according to the Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System (PITF No. 42, August 12, 2021).

26. Business Combinations

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 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 (\$100,369 thousand)

Liabilities: ¥7,638 million (\$50,449 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 (\$155,756 thousand), Operating loss of ¥927 million (\$6,123 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

(The representative was changed to Tatsuji Kamaya on April 1, 2024)

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

Capital at incorporation: ¥65,000 (\$429)

After the Capital Increase through Third-party Allotment ¥1,750,065,000 (\$11,558,450)

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 (\$11,558,021)

(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 (\$198,137 thousand)

Date of establishment: January 15, 1942

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, 2023 and 2024:

	Millions of yen		Thousands of U.S.dollars
	2023	2024	2024
Balance at the beginning of the fiscal year	¥ 3,092	¥ 3,081	\$ 20,354
Adjustment with passing of time	17	16	106
Decrease in change in scope of consolidations	(29)	—	—
Balance at the end of the fiscal year	<u>¥ 3,081</u>	<u>¥ 3,097</u>	<u>\$ 20,460</u>

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, 2023 and 2024, rental income was ¥114 million and ¥170 million (\$1,126 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
	2023	2024	2024
Book value			
Balance at the beginning of the fiscal year	¥ 12,804	¥ 11,994	\$ 79,217
Decrease and increase for this fiscal year, net	(810)	(15)	(104)
Balance at the end of the fiscal year	<u>¥ 11,994</u>	<u>¥ 11,978</u>	<u>\$ 79,112</u>
Fair value			
at the end of the fiscal year	¥ 8,760	¥ 8,883	\$ 58,674

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

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).

. For the fiscal year ended March 31, 2024, the decrease was due mainly to depreciation (in the amount of ¥93 million (\$618 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 recognized 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								
	2023								
	Environmental systems		Machinery and Infra-structure		Carbon Neutral 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	¥	—	¥	—	¥	23,549	¥	—	¥ 23,549
Process equipment	¥	—	¥	—	¥	18,852	¥	—	¥ 18,852
Carbon neutral equipment	¥	—	¥	—	¥	3,212	¥	—	¥ 3,212
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

(Notes) From the current consolidated fiscal year, the Company has changed the types of goods or services in the Carbon Neutral Solution segment, from “Marine equipment”, “Process equipment”, “PtG system” and “Wind Power” to “Marine equipment”, “Process equipment”, “Carbon neutral equipment” and “Wind Power”. As a result, the Company has reclassified the information for “Marine equipment”, “Process equipment”, “Carbon neutral equipment” and “Wind Power” of the previous consolidated fiscal year, based on the classification after the change.

Millions of yen						
2024						
	Environmental systems	Machinery and Infra-structure	Carbon Neutral Solution	Other businesses	Total	
EPC(new construction)	¥ 232,515	¥ —	¥ —	¥ —	¥	232,515
Operation and Maintenance	¥ 174,767	¥ —	¥ —	¥ —	¥	174,767
Press machines	¥ —	¥ 19,453	¥ —	¥ —	¥	19,453
Precision equipment	¥ —	¥ 28,016	¥ —	¥ —	¥	28,016
Infrastructure	¥ —	¥ 30,648	¥ —	¥ —	¥	30,648
Other machinery	¥ —	¥ 12,869	¥ —	¥ —	¥	12,869
Marine equipment	¥ —	¥ —	¥ 24,177	¥ —	¥	24,177
Process equipment	¥ —	¥ —	¥ 21,847	¥ —	¥	21,847
Carbon neutral equipment	¥ —	¥ —	¥ 4,420	¥ —	¥	4,420
Wind power	¥ —	¥ —	¥ 4,814	¥ —	¥	4,814
Other	¥ —	¥ —	¥ —	¥ 2,321	¥	2,321
Revenue from Contracts with customers	¥ 407,281	¥ 90,984	¥ 55,257	¥ 2,321	¥	555,844
Net sales to external customers	¥ 407,281	¥ 90,984	¥ 55,257	¥ 2,321	¥	555,844

Thousands of U.S.dollars						
2024						
	Environmental systems	Machinery and Infra-structure	Carbon Neutral Solution	Other businesses	Total	
EPC(new construction)	\$ 1,535,659	\$ —	\$ —	\$ —	\$	1,535,659
Operation and Maintenance	\$ 1,154,263	\$ —	\$ —	\$ —	\$	1,154,263
Press machines	\$ —	\$ 128,478	\$ —	\$ —	\$	128,478
Precision equipment	\$ —	\$ 185,028	\$ —	\$ —	\$	185,028
Infrastructure	\$ —	\$ 202,417	\$ —	\$ —	\$	202,417
Other machinery	\$ —	\$ 84,994	\$ —	\$ —	\$	84,994
Marine equipment	\$ —	\$ —	\$ 159,675	\$ —	\$	159,675
Process equipment	\$ —	\$ —	\$ 144,290	\$ —	\$	144,290
Carbon neutral equipment	\$ —	\$ —	\$ 29,192	\$ —	\$	29,192
Wind power	\$ —	\$ —	\$ 31,794	\$ —	\$	31,794
Other	\$ —	\$ —	\$ —	\$ 15,333	\$	15,333
Revenue from Contracts with customers	\$ 2,689,922	\$ 600,917	\$ 364,951	\$ 15,333	\$	3,671,124
Net sales to external customers	\$ 2,689,922	\$ 600,917	\$ 364,951	\$ 15,333	\$	3,671,124

(2) The breakdown of the business by geographical area

Millions of yen						
2023						
	Environmental systems	Machinery and Infra-structure	Carbon Neutral 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

Millions of yen						
2024						
	Environmental systems	Machinery and Infra-structure	Carbon Neutral Solution	Other businesses	Total	
Japan	¥ 196,792	¥ 75,365	¥ 34,432	¥ 1,668	¥	308,258
Europe	¥ 174,959	¥ 588	¥ 653	¥ —	¥	176,201
Asia	¥ 3,118	¥ 11,740	¥ 3,135	¥ 652	¥	18,648
North-America	¥ 8,065	¥ 2,543	¥ 15,769	¥ —	¥	26,377
Middle East	¥ 15,855	¥ 44	¥ 647	¥ —	¥	16,546
Other	¥ 8,489	¥ 701	¥ 620	¥ —	¥	9,811
Revenue from Contracts with customers	¥ 407,281	¥ 90,984	¥ 55,257	¥ 2,321	¥	555,844
Net sales to external customers	¥ 407,281	¥ 90,984	¥ 55,257	¥ 2,321	¥	555,844

Thousands of U.S.dollars					
2024					
	Environmental systems	Machinery and Infra-structure	Carbon Neutral Solution	Other businesses	Total
Japan	\$ 1,299,729	\$ 497,758	\$ 227,409	\$ 11,021	\$ 2,035,919
Europe	\$ 1,155,533	\$ 3,889	\$ 4,312	\$ —	\$ 1,163,735
Asia	\$ 20,599	\$ 77,542	\$ 20,711	\$ 4,311	\$ 123,166
North-America	\$ 53,267	\$ 16,800	\$ 104,147	\$ —	\$ 174,215
Middle East	\$ 104,719	\$ 292	\$ 4,274	\$ —	\$ 109,285
Other	\$ 56,072	\$ 4,634	\$ 4,094	\$ —	\$ 64,801
Revenue from Contracts with customers	\$ 2,689,922	\$ 600,917	\$ 364,951	\$ 15,333	\$ 3,671,123
Net sales to external customers	\$ 2,689,922	\$ 600,917	\$ 364,951	\$ 15,333	\$ 3,671,123

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:

	Millions of yen		Thousands of U. S. dollars	
	2023	2024	2024	
Receivables arising from contracts with customers (opening balance)				
Notes	¥ 10,358	¥ 9,912	\$ 65,465	
Accounts	¥ 99,762	¥ 96,770	\$ 639,129	
Total	¥ 110,120	¥ 106,682	\$ 704,595	
Receivables arising from contracts with customers (ending balance)				
Notes	¥ 9,912	¥ 7,154	\$ 47,249	
Accounts	¥ 96,770	¥ 110,421	\$ 729,286	
Total	¥ 106,682	¥ 117,575	\$ 776,536	
Contract assets (opening balance)	¥ 79,655	¥ 91,696	\$ 605,614	
Contract assets (ending balance)	¥ 91,696	¥ 117,231	\$ 774,262	
Contract liabilities (opening balance)	¥ 29,128	¥ 41,355	\$ 273,136	
Contract liabilities (ending balance)	¥ 41,355	¥ 48,741	\$ 321,916	

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 ¥19,715 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 ¥3,269 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 ¥33,143 million (\$218,896 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 ¥-934 million (\$-6,172 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					
2023					
	Environmental systems	Machinery and Infra-structure	Carbon Neutral Solution	Other businesses	Total
residual performance obligation	¥ 1,150,388	¥ 87,278	¥ 79,622	¥ 424	¥ 1,317,714

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.

Millions of yen					
2024					
	Environmental systems	Machinery and Infra-structure	Carbon Neutral Solution	Other businesses	Total
residual performance obligation	¥ 1,363,857	¥ 77,821	¥ 100,809	¥ 988	¥ 1,543,477

Thousands of U.S.dollars					
2024					
	Environmental systems	Machinery and Infra-structure	Carbon Neutral Solution	Other businesses	Total
residual performance obligation	\$ 9,007,711	\$ 513,981	\$ 665,805	\$ 6,527	\$ 10,194,026

Of such performance obligations, approximately 26% will be recognized as revenue within one year after the balance sheet date and approximately 27% within more than one year to three years.

The remaining approximately 47% 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, carbon neutral equipment and wind farms.

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

(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								
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	

Millions of yen								
2024								
	Environmental systems	Machinery and Infra-structure	Carbon Neutral Solution	Other businesses	Total	Eliminations and corporate	Consoli- dated	
Net sales								
Outside customers	¥ 407,281	¥ 90,984	¥ 55,257	¥ 2,321	¥ 555,844	¥ —	¥ 555,844	
Intersegment	211	1,722	291	480	2,707	(2,707)	—	
Total	407,492	92,707	55,548	2,802	558,552	(2,707)	555,844	
Segment income (loss)	¥ 19,124	¥ 2,973	¥ 1,805	¥ 442	¥ 24,346	¥ (22)	¥ 24,323	
Segment assets	¥ 280,379	¥ 103,263	¥ 65,945	¥ 56,916	¥ 506,505	¥ 27,088	¥ 533,593	
Others								
Depreciation	¥ 4,462	¥ 2,657	¥ 1,900	¥ 2,113	¥ 11,134	¥ —	¥ 11,134	
Investment in affiliates accounted for using equity method	¥ 2,214	¥ 1,985	¥ 5,035	¥ 12,761	¥ 21,997	¥ —	¥ 21,997	
Increase in assets and intangible assets	¥ 5,381	¥ 2,219	¥ 2,636	¥ 1,864	¥ 12,101	¥ —	¥ 12,101	

Thousands of U.S.dollars								
2024								
	Environmental systems and industrial plants	Machinery and Infra-structure	Carbon Neutral Solution	Other businesses	Total	Eliminations and corporate	Consoli- dated	
Net sales								
Outside customers	\$ 2,689,922	\$ 600,917	\$ 364,951	\$ 15,333	\$ 3,671,124	\$ —	\$ 3,671,124	
Intersegment	1,399	11,378	1,925	3,176	17,880	(17,880)	—	
Total	2,691,321	612,295	366,876	18,509	3,689,004	(17,880)	3,671,124	
Segment income (loss)	\$ 126,309	\$ 19,638	\$ 11,925	\$ 2,923	\$ 160,796	\$ (150)	\$ 160,646	
Segment assets	\$ 1,851,788	\$ 682,012	\$ 435,545	\$ 375,908	\$ 3,345,255	\$ 178,910	\$ 3,524,165	
Others								
Depreciation	\$ 29,474	\$ 17,549	\$ 12,551	\$ 13,960	\$ 73,535	\$ —	\$ 73,535	
Investment in affiliates accounted for using equity method	\$ 14,627	\$ 13,115	\$ 33,260	\$ 84,282	\$ 145,286	\$ —	\$ 145,286	
Increase in assets and intangible assets	\$ 35,541	\$ 14,660	\$ 17,410	\$ 12,315	\$ 79,928	\$ —	\$ 79,928	

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, 2023 and 2024 were ¥47,608 million and ¥ 27,088 million (\$ 178,910 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, 2023 and 2024 were as follows:

	Millions of yen		Thousands of U. S. dollars
	2023	2024	2024
Japan	¥ 303,367	¥ 308,258	\$ 2,035,919
Asia	20,748	18,648	123,166
North America	21,919	26,377	174,215
Middle East	31,008	16,546	109,285
Europe	106,549	176,201	1,163,735
Other	9,098	9,811	64,801
Total	¥ 492,692	¥ 555,844	\$ 3,671,124

(*)In the last fiscal year, sales in the Europe segment include sales of ¥72,324 million in the U.K., which accounts for more than 10% of the sales in the Consolidated Statements of Income. In the current fiscal year, sales in the Europe segment include sales of ¥130,083 million (\$859,145 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, 2023 and 2024, tangible fixed assets by region were as follows:

	Millions of yen		Thousands of U. S. dollars
	2023	2024	2024
Japan	¥ 83,468	¥ 81,904	\$ 540,942
Other	14,785	22,574	149,092
Total	¥ 98,253	¥ 104,478	\$ 690,034

(3) Information about major customers

For the year ended March 31, 2023 and 2024, 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, 2023:

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

Year ended March 31, 2024:

There were no significant transactions with related parties in the year ended March 31, 2024.

32. Supplemental Information

Accounting Fees

a) Fees of the auditor

	Millions of yen				Thousands of U.S. dollars	
	2023		2024		2024	
	Fees of audit services	Fees of non- audit services	Fees of audit services	Fees of non-audit services	Fees of audit services	Fees of non-audit services
The Company	¥ 94	¥ 10	¥ 106	¥ 52	¥ 702	¥ 344
Consolidated subsidiaries	68	—	73	—	484	—
Total	¥ 162	¥ 10	¥ 179	¥ 52	¥ 1,186	¥ 344

b) Fees of the network firms to which the auditor belongs (KPMG LLP), excluding fees of the auditor

	Millions of yen				Thousands of U.S. dollars			
	2023		2024		2024			
	Fees of audit services	Fees of non-audit services	Fees of audit services	Fees of non-audit services	Fees of audit services	Fees of non-audit services		
	¥	— ¥	¥	— ¥	¥	— ¥		
The Company								
Consolidated subsidiaries	137	65	151	66	998	440		
Total	¥ 137	¥ 66	¥ 151	¥ 72	¥ 998	¥ 477		