TAKUMA CO., LTD. and Subsidiaries

Consolidated Financial Statements
For the Years ended March 31,
2023 and 2022
Together with Independent
Auditor's Report

KPMG AZSA LLC
June 2023

Independent auditor's report

To the Board of Directors of TAKUMA Co., Ltd.:

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

Reasonableness of the estimate of provision for loss on construction contracts in the Domestic Environment and Energy business

The key audit matter	How the matter was addressed in our audit
A provision for loss on construction contracts of ¥625 million was recognized in the consolidated balance sheet of Takuma Co, Ltd. (the "Company") and its consolidated	The primary procedures we performed to assess the reasonableness of the estimate of provision for loss on construction contracts in the Domestic Environment and Energy business included the following:

subsidiaries (the “Group”) for the fiscal year ended March 31, 2023.

In order to account for the possibility of losses on contracted work, the Group posts a provision for loss on construction contracts it expects to sustain during or after the next consolidated fiscal year in the event it determines that estimated construction costs for contracts included in the order backlog at the end of the current fiscal year will significantly exceed the value of underlying orders. In providing a provision for loss on construction contracts, total construction costs to be incurred in the future should be reasonably estimated at the end of the fiscal year.

Core businesses of the Domestic Environment and Energy business, for which a provision for loss on construction contracts was recognized, include construction of municipal solid waste/sewage treatment plants and industrial biomass power generation plants (EPC business), and after-sales services for them including maintenance, operational management, and operation. The estimate of total construction costs for projects in the Domestic Environment and Energy business includes assumptions of possible material effects on the estimate of total construction costs involving a high degree of uncertainty as following:

- Conditions and specifications for construction of new plants and after-sales services for them are different in each project. As some projects need long time from receiving orders to the completion of delivery and after-services, there may be a time lag between the timing of estimating total construction costs and receiving orders. Therefore, changes in economic situations during the time could lead to changes in prices of necessary materials or construction costs.
- Additional expenses will incur when deficiency in performance, late delivery or material accidents that may cause injuries/property damage happen due to

(1) Internal control testing

We tested the design and operating effectiveness of certain of the Company’s internal controls relevant to the estimation of provision for loss on construction contracts.

In this assessment, we focused on the Company’s internal controls to ensure completeness of items to be aggregated and other reasonableness in estimating total construction costs.

(2) Assessment of the reasonableness of the estimate of provision for loss on construction contracts

To assess the reasonableness of the estimate of provision for loss on construction contracts, we:

- identified projects of which estimate of total construction costs involved a relatively high level of uncertainty based on our understanding of terms of construction outsourcing agreements; details of the projects; cost structure; and conditions for estimate of total construction costs;
- compared total construction costs with actual costs of past similar projects in the business to which projects we identified belonged, and assessed their variances and the accuracy of the estimate of past total construction costs;
- inquired of the personnel responsible for the project about the progress toward completion of the construction we identified, including their judgment as to whether the total construction costs should be updated considering the status of the consumption of the project budget, and inspected materials that served as the basis for their responses to our inquiries;
- compared total construction costs of the identified construction projects with underlying documents of purchase orders and worksheets to calculate costs to assess the appropriateness of the assumption of the total construction costs; and
- with respect to the construction projects where total construction costs were updated, inspected approval documents for updating the total construction costs and evidence of the estimation, and inquired of the personnel responsible for the projects to challenge the appropriateness of the assumption of the updates of the total construction costs from a professional viewpoint.

problems in designs or construction works. We, therefore, determined that our assessment of the reasonableness of the estimate of provision for loss on construction contracts in the Domestic Environment and Energy business was the most significant in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.	

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 the Audit and supervisory committee 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.

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

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2023 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

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

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

松山和弘

Kazuhiro Matsuyama

Designated Engagement Partner

Certified Public Accountant

Miho Shibasaki

Designated Engagement Partner

Certified Public Accountant

柴崎美帆

KPMG AZSA LLC

Osaka Office, Japan

June 27, 2023

TAKUMA CO., LTD. and Consolidated Subsidiaries

FINANCIAL HIGHLIGHTS
(Years Ended March 31, 2023 and 2022)

	Millions of yen				Thousands of U.S. dollars	
	2023		2022		2023	
For the year:						
Net sales	¥	142,652	¥	134,093	$	1,068,311
Operating profit		13,814		9,929		103,449
Ordinary income		14,684		10,647		109,969
Profit before income taxes		14,103		10,789		105,615
Profit attributable to owners of parent		9,622		7,435		72,058
As of year-end:						
Total assets		179,689		174,536		1,345,682
Total net assets		101,168		94,355		757,641
Per share data:	Yen				U.S. dollars	
Profit	¥	120.22	¥	91.53	$	0.90
Diluted profit		–		–		–
Net assets		1,258.24		1,162.87		9.42
Cash dividends applicable to the year		43.00		36.00		0.32

Note: 1. U.S. dollar amounts are shown solely for the convenience of readers and are translated at the rate of ¥133.53 to U.S.$1.00, the exchange rate prevailing at March 31, 2023.

2. Ordinary income is a measure of accounting profit that equals operating profit plus other income minus other expenses, except for extraordinary items under Japanese GAAP.

Consolidated Balance Sheets

TAKUMA CO., LTD. and Consolidated Subsidiaries
As of March 31, 2023 and 2022

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2023	2022	2023
Current assets:			
Cash and deposits (Notes 4 and 6)	¥ 65,243	¥ 42,979	$ 488,600
Notes and accounts receivable			
Notes receivable - trade	3,175	3,066	23,780
Accounts receivable - trade	32,829	30,546	245,852
Contract assets	24,371	48,185	182,515
Unconsolidated subsidiaries and affiliated companies	507	393	3,795
Other	188	140	1,408
Allowance for doubtful accounts	(16)	(16)	(117)
Total	61,054	82,314	457,233
Inventories (Note 5)	6,012	4,605	45,022
Other	1,941	4,418	14,533
Total current assets	134,250	134,316	1,005,388
Property, plant and equipment:			
Land	2,605	2,394	19,509
Buildings and structures	19,028	13,743	142,500
Machinery, equipment, lease assets and construction in progress	13,685	14,091	102,489
	35,318	30,228	264,498
Less accumulated depreciation	(16,882)	(17,881)	(126,429)
Total property, plant and equipment	18,436	12,347	138,069
Investments and other assets:			
Investment securities (Notes 6 and 7)	16,274	14,485	121,877
Investments in:			
Unconsolidated subsidiaries and affiliated companies	2,255	3,250	16,888
Other	3,872	5,188	28,993
Allowance for doubtful accounts	(136)	(135)	(1,015)
Total	5,991	8,303	44,866
Deferred tax assets (Note 15)	4,160	4,748	31,153
Net defined benefit asset	38	39	284
Other	540	298	4,045
Total investments and other assets	27,003	27,873	202,225
Total assets	¥ 179,689	¥ 174,536	$ 1,345,682

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen 2023	Millions of yen 2022	Thousands of U.S. dollars (Note 1) 2023
Current liabilities:			
Short-term loans payable (Notes 6 and 9)	¥ 220	¥ 220	$ 1,648
Current portion of long-term borrowings (Notes 6 and 9)	-	80	-
Notes and accounts payable (Note 6):			
Trade	41,078	49,260	307,630
Unconsolidated subsidiaries and affiliated companies	291	316	2,186
Other	1,623	2,337	12,153
Total	42,992	51,913	321,969
Income taxes payable	3,363	501	25,184
Contract liabilities	11,059	8,669	82,822
Provision for product warranties	216	53	1,614
Provision for loss on construction contracts	626	1,517	4,685
Other	8,365	5,751	62,646
Total current liabilities	66,841	68,704	500,568
Non-current liabilities:			
Provision for retirement benefits for directors (and other officers)	267	246	1,998
Retirement benefit liability (Note 10)	10,980	10,792	82,232
Other	433	439	3,243
Total non-current liabilities	11,680	11,477	87,473
Total liabilities	78,521	80,181	588,041
Contingent liabilities (Note 11)			
Net assets (Note 12):			
Share capital	13,367	13,367	100,108
Authorized: 321,840,000 shares			
Issued: 83,000,000 shares			
Capital surplus	3,874	3,872	29,008
Retained earnings	82,046	75,508	614,437
Treasury shares	(3,917)	(2,765)	(29,331)
3,047,184 shares in 2023 and			
2,243,777 shares in 2022			
Total shareholders' equity	95,370	89,982	714,222
Valuation difference on available-for-sale securities	5,227	3,957	39,148
Deferred gains or losses on hedges	49	110	366
Foreign currency translation adjustment	92	80	687
Remeasurements of defined benefit plans	(138)	(220)	(1,035)
Total accumulated other comprehensive income	5,230	3,927	39,166
Non-controlling interests	568	446	4,253
Total net assets	101,168	94,355	757,641
Liabilities and net assets	¥ 179,689	¥ 174,536	$ 1,345,682

See accompanying notes.

Consolidated Statements of Operations

TAKUMA CO., LTD. and Consolidated Subsidiaries
For the years ended March 31, 2023 and 2022

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Net sales (Note 18)	¥ 142,652	¥ 134,093	$ 1,068,311
Cost of sales (Notes 10, 13, 14 and 18)	111,097	107,910	831,997
Gross profit	31,555	26,183	236,314
Selling, general and administrative expenses (Notes 10, 14 and 18)	17,741	16,254	132,865
Operating profit (Note 18)	13,814	9,929	103,449
Other income (expenses):			
Interest and dividend income	570	453	4,266
Interest expenses	(3)	(5)	(21)
Gain on sales of investment securities (Note 7)	195	197	1,461
Loss on valuation of investment securities	(178)	(22)	(1,331)
Commitment fees	(28)	(46)	(213)
Loss on disposal of non-current assets	(20)	(66)	(150)
Share of profit of entities accounted for using equity method	145	179	1,087
Insurance claim income	−	300	−
New factory construction expenses	(599)	(355)	(4,485)
Other, net	207	225	1,552
Other income (expenses), net	289	860	2,166
Profit before income taxes	14,103	10,789	105,615
Income taxes (Note 15):			
Current	4,412	618	33,041
Deferred	9	2,697	64
Total income taxes	4,421	3,315	33,105
Profit	9,682	7,474	72,510
Profit attributable to non-controlling interests in consolidated subsidiaries	60	39	452
Profit attributable to owners of parent	¥ 9,622	¥ 7,435	$ 72,058

	Yen	Yen	U.S. dollars (Note 1)
Per share:			
Profit	¥ 120.22	¥ 91.53	$ 0.90
Diluted profit	−	−	−
Cash dividends applicable to the year	43.00	36.00	0.32

See accompanying notes.

Consolidated Statements of Comprehensive Income

TAKUMA CO., LTD. and Consolidated Subsidiaries
For the years ended March 31, 2023 and 2022

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Profit	¥ 9,682	¥ 7,474	$ 72,510
Other comprehensive income:			
Valuation difference on available-for-sale securities	1,271	(505)	9,519
Deferred gains or losses on hedges	(62)	74	(462)
Foreign currency translation adjustment	16	68	119
Remeasurements of defined benefit plans	82	136	612
Total other comprehensive income	1,307	(227)	9,788
Comprehensive income (Note 17)	¥ 10,989	¥ 7,247	$ 82,298
Comprehensive income attributed to:			
Owners of the parent	¥ 10,925	¥ 7,189	$ 81,817
Non-controlling interests	64	58	481

See accompanying notes.

Consolidated Statements of Changes in Net Assets

TAKUMA CO., LTD. and Consolidated Subsidiaries
For the years ended March 31, 2023 and 2022

	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains and losses on hedges	Foreign currency translation adjust-ments	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
	Millions of yen											
For the year ended March 31, 2023												
Balance at the beginning of current period	¥ 13,367	¥ 3,872	¥ 75,508	¥ (2,765)	¥ 89,982	¥ 3,957	¥ 110	¥ 80	¥ (220)	¥ 3,927	¥ 446	¥ 94,355
Cash dividends (¥43.00 per share)	−	−	(2,973)	−	(2,973)	−	−	−	−	−	−	(2,973)
Profit attributable to owners of parent	−	−	9,622	−	9,622	−	−	−	−	−	−	9,622
Change in scope of consolidation	−	−	(111)	−	(111)	−	−	−	−	−	−	(111)
Purchase of treasury shares	−	−	−	(1,253)	(1,253)	−	−	−	−	−	−	(1,253)
Disposal of treasury shares	−	2	−	101	103	−	−	−	−	−	−	103
Other changes during the year, net	−	−	−	−	−	1,270	(61)	12	82	1,303	122	1,425
Balance at the end of current period	¥ 13,367	¥ 3,874	¥ 82,046	¥ (3,917)	¥ 95,370	¥ 5,227	¥ 49	¥ 92	¥ (138)	¥ 5,230	¥ 568	¥ 101,168
For the year ended March 31, 2022												
Balance at the beginning of current period	¥ 13,367	¥ 3,841	¥ 70,851	¥ (2,088)	¥ 85,971	¥ 4,462	¥ 36	¥ 30	¥ (356)	¥ 4,172	¥ 412	¥ 90,555
Cash dividends (¥36.00 per share)	−	−	(2,925)	−	(2,925)	−	−	−	−	−	−	(2,925)
Profit attributable to owners of parent	−	−	7,435	−	7,435	−	−	−	−	−	−	7,435
Change in scope of consolidation	−	−	147	−	147	−	−	−	−	−	−	147
Purchase of treasury shares	−	−	−	(747)	(747)	−	−	−	−	−	−	(747)
Disposal of treasury shares	−	31	−	70	101	−	−	−	−	−	−	101
Other changes during the year, net	−	−	−	−	−	(505)	74	50	136	(245)	34	(211)
Balance at the end of current period	¥ 13,367	¥ 3,872	¥ 75,508	¥ (2,765)	¥ 89,982	¥ 3,957	¥ 110	¥ 80	¥ (220)	¥ 3,927	¥ 446	¥ 94,355
	Thousands of U.S. dollars (Note 1)											
For the year ended March 31, 2023												
Balance at the beginning of current period	$ 100,108	$ 28,997	$ 565,474	$ (20,709)	$ 673,870	$ 29,631	$ 828	$ 596	$ (1,648)	$ 29,407	$ 3,338	$ 706,615
Cash dividends ($0.32 per share)	−	−	(22,263)	−	(22,263)	−	−	−	−	−	−	(22,263)
Profit attributable to owners of parent	−	−	72,058	−	72,058	−	−	−	−	−	−	72,058
Change in scope of consolidation	−	−	(832)	−	(832)	−	−	−	−	−	−	(832)
Purchase of treasury shares	−	−	−	(9,380)	(9,380)	−	−	−	−	−	−	(9,380)
Disposal of treasury shares	−	11	−	758	769	−	−	−	−	−	−	769
Other changes during the year, net	−	−	−	−	−	9,517	(462)	91	613	9,759	915	10,674
Balance at the end of current period	$ 100,108	$ 29,008	$ 614,437	$ (29,331)	$ 714,222	$ 39,148	$ 366	$ 687	$ (1,035)	$ 39,166	$ 4,253	$ 757,641

See accompanying notes.

Consolidated Statements of Cash Flows

TAKUMA CO., LTD. and Consolidated Subsidiaries
For the years ended March 31, 2023 and 2022

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Cash flows from operating activities:			
Profit before income taxes	¥ 14,103	¥ 10,789	$ 105,615
Adjustments to reconcile profit before income taxes to net cash provided by (used in) operating activities:			
Depreciation	1,136	962	8,508
Loss (gain) on sale of investment securities	(195)	(197)	(1,461)
Loss (gain) on valuation of investment securities	178	22	1,331
Loss (gain) on disposal of non-current assets	20	66	150
Increase (decrease) in provision for bonuses	413	8	3,094
Increase (decrease) in provision for loss on construction contracts	(891)	(2,430)	(6,673)
Increase (decrease) in provision for loss on liquidation of subsidiaries and associates	−	(1,003)	−
Increase (decrease) in retirement benefit liability	306	536	2,295
Interest and dividend income	(570)	(453)	(4,265)
Interest expenses	3	5	21
Share of loss (profit) of entities accounted for using equity method	(145)	(179)	(1,087)
Decrease (increase) in trade receivables	23,796	1,458	178,206
Decrease (increase) in inventories	(1,380)	(138)	(10,333)
Decrease (increase) in other current assets	701	(108)	5,249
Increase (decrease) in trade payables	(10,990)	3,746	(82,307)
Increase (decrease) in other current liabilities	2,618	(2,633)	19,610
Other	2,228	2,669	16,683
Subtotal	31,331	13,120	234,636
Interest and dividends received	619	522	4,636
Interest paid	(3)	(8)	(22)
Income taxes refund (paid)	245	(4,634)	1,833
Net cash provided by (used in) operating activities	32,192	9,000	241,083
Cash flows from investing activities:			
Net decrease (increase) in time deposits	411	(246)	3,080
Purchase of property, plant and equipment	(5,809)	(1,510)	(43,500)
Sale of property, plant and equipment	99	117	740
Purchase of intangible assets	(101)	(61)	(758)
Purchase of investment securities	(323)	(353)	(2,419)
Proceeds from sale of investment securities	390	377	2,923
Loan advances	−	(611)	−
Collection of loans receivable	51	171	378
Other	(323)	(279)	(2,417)
Net cash provided by (used in) investing activities	(5,605)	(2,395)	(41,973)
Cash flows from financing activities:			
Net increase (decrease) in short-term borrowings	−	(5,200)	−
Repayments of long-term borrowings	(80)	(182)	(599)
Purchase of treasury shares	(1,253)	(747)	(9,380)
Dividends paid	(2,973)	(2,925)	(22,263)
Dividends paid to non-controlling interests	(32)	(25)	(240)
Other	57	(33)	426
Net cash provided by (used in) financing activities	(4,281)	(9,112)	(32,056)
Effect of exchange rate change on cash and cash equivalents	17	46	125
Net increase (decrease) in cash and cash equivalents	22,323	(2,461)	167,179
Cash and cash equivalents at beginning of period	41,244	42,958	308,878
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	345	747	2,575
Cash and cash equivalents at end of period (Note 4)	¥ 63,912	¥ 41,244	$ 478,632

See accompanying notes.

Notes to Consolidated Financial Statements

TAKUMA CO., LTD. and Consolidated Subsidiaries

1. Basis of presenting financial statements

The accompanying consolidated financial statements 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, which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. However, necessary adjustments are made upon consolidation. The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of TAKUMA CO., LTD. (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 Japanese Financial Instruments and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

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

2. Summary of significant accounting policies

(1) Principles of consolidation
The consolidated financial statements include the accounts of the Company and its 37 significant subsidiaries (the "Companies").
TechnoLinks Co., Ltd., which was unconsolidated subsidiaries, has been included in the consolidation from the consolidated fiscal year ended March 31, 2023 because of the increased significance. Okinoshima High Trust Co., Ltd., and Kohoku High Trust Co., Ltd., which were newly established subsidiaries, have also been included in the consolidation from the consolidated fiscal year ended March 31, 2023. All significant intercompany transactions and unrealized profits among the Companies have been eliminated in consolidation. Investments in certain significant affiliates over which the Company and/or its subsidiaries are able to exert influence to a material degree with regard to financial and operating decision making, other than consolidated subsidiaries, are accounted for by the equity method after the elimination of unrealized intercompany profits.

Investments in the remaining unconsolidated subsidiaries and affiliated companies are not accounted for by the equity method because of the immaterial effect on the consolidated financial statements. Therefore, such investments are carried at cost, adjusted for any substantial and non-recoverable decline in value. Income from those unconsolidated subsidiaries and affiliated companies is recognized only when the Companies receive dividends therefrom.

(2) Foreign currency translation
Revenue and expense are translated at the rates of exchange prevailing on the transaction date. Assets and liabilities denominated in foreign currencies are generally translated at the rate of exchange prevailing at the balance sheet date, and the resulting translation gains and losses are included in earnings.

The financial statements of a consolidated overseas subsidiary are translated into Japanese yen at the year-end rate, except that net asset accounts are translated at historical rates and income statement items resulting from transactions with the Company are translated at rates used by the Company. The resulting translation adjustments are shown as "Foreign currency translation adjustment," a separate component of net assets.

(3) Cash and cash equivalents
In preparing the consolidated statements of cash flows, cash and cash equivalents include cash on hand, readily available deposits and short-term investments with maturities not exceeding three months from the date of acquisition and which have high liquidity and low risk of price fluctuation.

(4) Securities
Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at cost determined by moving average cost. Available-for-sale securities with available fair market value are stated at fair market value, and unrealized gains and 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 computed at cost using moving average cost. Available-for-sale securities with no available fair market value are stated at cost determined by moving average cost.

If the market value of equity securities issued by unconsolidated subsidiaries and affiliated companies or available-for-sale securities declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as a loss in the period of the decline. If the fair market value of such securities is not readily available, such securities should be written down to net asset value with a corresponding charge in the income statement in the event the 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.

(5) Allowance for doubtful accounts
The Companies provide an allowance for doubtful accounts by estimating the uncollectible amounts of certain individual accounts and by applying a percentage based on collection experience to the remaining receivables.

(6) Inventories
Merchandise and finished goods are stated at cost using the moving average method. Work-in-process is stated at cost determined by the identified cost method. Materials and supplies are stated at cost using the average method. For these inventories, the carrying amounts on the balance sheet are written down to reflect decreases in profitability.

(7) Property, plant and equipment
Property, plant and equipment are depreciated principally using the declining balance method over the estimated useful life of the asset. However, buildings acquired after March 31, 1998 and facilities attached to buildings and structures acquired after March 31, 2016 are depreciated using the straight-line method. The range of useful lives is principally from 3 to 60 years for buildings and structures and from 2 to 20 years for machinery, equipment and other. Maintenance and repairs, including minor renewals and improvements, are charged to income as incurred.

Lease assets under finance leases in which the ownership of the lease assets is not transferred to the lessee are depreciated using the straight-line method over the lease term with an assumption of no residual value.

(8) Provision for loss on construction contracts
For sales orders on hand at the balance sheet date for projects in which the estimated cost is expected to exceed the price of the order by a wide margin, a provision for loss on construction contracts is recognized at the estimated aggregate amount.

(9) Provision for product warranties
Provision for product warranties is based on estimated amounts of expenditure in the warranty period after products are delivered.

(10) Provision for retirement benefits for directors (and other officers)
Directors are generally entitled to receive retirement benefits based on the Companies' internal rules. The Companies provide an allowance for directors' retirement benefits based on the amount that would be required if all directors retired at the balance sheet date.

(11) Retirement benefit liability
In calculating retirement benefit obligations, the method of attributing expected benefits to periods employs principally a benefit formula basis. Actuarial gains and losses are recognized in expenses using the straight-line method principally over 10 years commencing with the following period. Prior service costs are recognized in expenses using the straight-line method principally over 10 years.

(12) Revenue recognition
For construction contracts, that met one of the following criteria, it is determined that the performance obligations in such contracts are satisfied over time. The progress rate for fulfillment of the performance obligation is estimated and revenue is recognized based on the progress, rate over time.

I. By fulfilling the obligations in the contract with the customer, the asset arises or the value of the asset increases and the customer obtains control of the asset as the asset arises or the value of the asset increases,
II. By fulfilling obligations in a contract with a customer, the asset that cannot be diverted to another use arises, and also the company has the enforceable right to receive compensation for the portion of the contract with the customer that has fulfilled its obligations.

Estimates of the progress is measured on the basis of the construction costs incurred by the end of each reporting period relative to the total expected construction costs. However, adopting alternative treatment, for construction contracts for which the period from the commencement date of the contract to the date when it is expected that the performance obligation will be fully satisfied is very short, revenue is not recognized over a certain period of time, and revenue is recognized at the time the performance obligation is judged to be satisfied. Incidentally, the consideration for the transaction is mainly received in stages during the contract period separately from the fulfillment of the performance obligation, and the remaining amount is received within approximately one year after all the performance obligations are satisfied, and the important financial factor is not included.

For Operation control and O&M contracts, the customer receives the benefits as we fulfill the obligations in the contract with the customer, therefore it is determined that the performance obligations in such contracts are satisfied over time. Since we have the right to receive from the customer the amount of consideration that directly corresponds to the value to the customer for the portion that has been fulfilled so far, we recognize the revenue by the amount that we have the right to claim.
Incidentally, the consideration for the transaction is received within approximately one year after the performance obligation is satisfied, and does not include important financial factors.

(13) Income taxes
The Companies are subject to corporation tax, inhabitants tax and enterprise tax based on taxable income. The Companies recognize the tax effects of the temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting. The provision for income taxes is computed based on the pretax income of each of the Companies, with certain required adjustments. The asset-liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

The Companies have adopted the group taxation system.

(14) Net income and cash dividends per share
Net income per share is computed based on the weighted average number of shares of share capital outstanding during each period. Diluted net income per share is computed with the assumption that all convertible bonds were converted into share capital at the beginning of each period. Cash dividends per share represent interim dividends declared by the Board of Directors during each year and year-end dividends approved by the shareholders at the annual meeting held subsequent to the end of the fiscal year.

(15) Derivatives and hedge accounting
The Companies generally state derivative financial instruments at fair value and recognize changes in the fair value as gains or losses unless the derivative financial instruments are used for hedging purposes. If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies generally defer recognition of gain or loss resulting from a change in the fair value of the derivative financial instrument until the related loss or gain on the hedged item is recognized.

The Companies use currency forward contracts to hedge accounts receivable and payable denominated in foreign currencies (mainly U.S. dollars) against the risk of fluctuation in exchange rates that comes from foreign currency transactions.
Certain foreign exchange contracts are subject to appropriation if they satisfy the requirements of appropriation treatment. Interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not re-measured at market value.

(16) Amortization of goodwill
Goodwill is amortized evenly over the reasonably estimated effective duration recognized. However, when de-minimis, it is charged in full during the fiscal year it arose.

(17) Reclassifications
Certain prior year amounts have been reclassified to conform to the 2023 presentation.

3.Significant accounting estimates

(Net sales where the performance obligations in construction contracts are satisfied over a certain period of time and provision for loss on construction contracts)

(1) Carrying amounts in the current year's financial statements
Net sales where the performance obligations in construction contracts are satisfied over a certain period amounted to ¥ 30,977 million ($ 231,982 thousand) for the year ended March 31, 2023 and amounted to ¥ 44,277 million for the year ended March 31, 2022.
Provision for loss on construction contracts amounted to ¥ 626 million ($ 4,685 thousand) for the year ended March 31, 2023 and amounted to ¥ 1,517 million for the year ended March 31, 2022.

(2) Information on the nature of significant accounting estimates for identified items
The performance obligations in such construction contracts are satisfied over time, therefore revenue in The Takuma Group is recognized based on the progress towards complete satisfaction of the performance obligation. Estimates of the progress is measured on the basis of the construction costs incurred by the end of each reporting period relative to the total expected construction costs. In addition, in order to prepare for the loss of order construction, the estimated amount of construction costs generated significantly exceeds the order amount. Excess amounts that are expected to occur after the consolidated fiscal year are recorded as provision for loss on construction contracts. In calculating the estimated cost of construction, information and conditions available as of the end of the current consolidated fiscal year for each individual project (materials and equipment, construction prices, labor costs, specifications, construction methods, etc.) are the basis for calculation.
However, after-sales service for various construction and delivery plants provided by the Group, the specifications, and some periods from order to delivery and service delivery are long-term. Therefore, changes in the basis of calculations due to construction issues and changes in economic conditions will have a significant impact on consolidated financial statements for the next consolidated fiscal year.

(Deferred tax assets)

(1) Carrying amounts in the current year's financial statements
Deferred tax assets was amounted to ¥ 4,160 million ($ 31,152 thousand) for the year ended March 31, 2023 and amounted to ¥ 4,748 million for the year ended March 31, 2022.

(2) Information on the nature of significant accounting estimates for identified items
The Takuma Group reasonably estimates future taxable income based on business plans for deferred tax assets and the amount that is expected to be recoverable.
Each group company determines the classification based on accounting standards, and the expected amount recoverable is calculated based on future taxation within a reasonable estimate period according to the classification and the scheduling of income and one-time difference in future subtraction.
However, due to changes in the business environment because of a decrease in demand, etc., the estimated period based on the classification and the estimated amount of future taxable income and deferred tax assets will be increased or reduced, which will have a material impact on the consolidated financial statements for the next consolidated fiscal year.

4. Cash and cash equivalents

Amounts of cash and cash equivalents as of March 31, 2023 and 2022 were reconciled with cash and deposits as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Cash and deposits	¥ 65,243	¥ 42,979	$ 488,600
Time deposits with maturities exceeding three months from the date of acquisition	(1,331)	(1,735)	(9,968)
Total cash and cash equivalents	¥ 63,912	¥ 41,244	$ 478,632

5. Inventories

Inventories were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Merchandise and finished goods	¥ 840	¥ 834	$ 6,288
Work-in-process	3,247	2,140	24,320
Materials and supplies	1,925	1,631	14,414
Total inventories	¥ 6,012	¥ 4,605	$ 45,022

6. Financial instruments

(1) Status of financial instruments

(a) Financial instruments policy
Under the Group policy, investments in financial instruments are limited primarily to short-term deposits and bank loans for raising funds. Derivative transactions are used to hedge risks of fluctuations in foreign exchange and interest rates and the Companie's do not conduct speculative transactions.

(b) Financial instruments, risks and risk management structure
The Companies are working to reduce customer credit risk associated with notes and accounts receivable and contract assets through customer based due dates and other balance controls in accordance with the Companies' regulations. Investment securities consist mainly of stocks and are periodically checked for the fair value of the listed shares.
Notes and accounts payables, or operating payables, are due within one year.
Short-term loans payable is primarily for operating funds while long-term borrowings is for capital investment.

To cope with operating receivables and loans exposed to liquidity risk, each Group company prepares monthly cash-flow plans and enters into loan commitment agreements with several financial institutions for raising working capital flexibly and stably.

(c) Supplementary remarks on fair values of financial instruments
The fair values of financial instruments do not reflect the market risks concerning the derivative trading.

(2) Fair value of financial instruments
Amounts recognized on the consolidated balance sheets, fair values and any differences between them as of March 31, 2023 and 2022, except items for which no fair value was obtainable, were as follows:

The following summary excludes cash, and deposits, notes and accounts receivable - trade, notes and accounts payable, income taxes payable and short-term loans payable are not included because the fair values of these instruments approximate their carrying amounts as they are expected to be settled shortly.

(Investment securities)

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Amounts recognized on the consolidated balance sheets	¥ 16,110	¥ 14,341	$ 120,647
Fair value	16,110	14,341	120,647
Difference	¥ -	¥ -	$ -

Equity securities without market price are not included in (Investment securities).
(Non-listed equity securities)

	Millions of yen		Thousands of U.S. dollars
Amounts recognized on the consolidated balance sheets	2023	2022	2023
Equity securities	¥ 2,170	¥ 2,672	$ 16,254

(Derivative transactions)
Derivative transactions recorded in other assets and liabilities are presented as a lump sum.
Net claims and debts that arise from derivative transactions are presented on a net basis.

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Amounts recognized on the consolidated balance sheets	¥ 70	¥ 159	$ 527
Fair value	70	159	527
Difference	¥ -	¥ -	$ -

(3) Redemption schedule of monetary assets with contractual maturities and repayment schedule of short-term loans payable and long-term borrowings

As of March 31, 2023

	Millions of yen					
	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
Cash and deposits	¥ 65,243	¥ –	¥ –	¥ –	¥ –	¥ –
Notes receivable	3,175	–	–	–	–	–
Accounts receivable	33,305	–	–	–	–	–
Investment securities	–	–	–	–	–	800
Total	¥ 101,723	¥ –	¥ –	¥ –	¥ –	¥ 800
Short-term loans payable	¥ 220	¥ –	¥ –	¥ –	¥ –	¥ –
Total	¥ 220	¥ –	¥ –	¥ –	¥ –	¥ –

As of March 31, 2022

	Millions of yen					
	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
Cash and deposits	¥ 42,979	¥ –	¥ –	¥ –	¥ –	¥ –
Notes receivable	3,066	–	–	–	–	–
Accounts receivable	30,851	–	–	–	–	–
Investment securities	–	–	–	–	–	800
Total	¥ 76,896	¥	¥	¥	¥ –	¥ 800
Short-term loans payable	¥ 220	¥ –	¥ –	¥ –	¥ –	¥ –
Long-term borrowings	80	–	–	–	–	–
Total	¥ 300	¥	¥ –	¥ –	¥ –	¥ –

As of March 31, 2023

	Thousands of U.S. dollars					
	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
Cash and deposits	$ 488,600	$ –	$ –	$ –	$ –	$ –
Notes receivable	23,779	–	–	–	–	–
Accounts receivable	249,419	–	–	–	–	–
Investment securities	–	–	–	–	–	5,991
Total	$ 761,798	$ –	$ –	$	$ –	$ 5,991
Short-term loans payable	$ 1,648	$ –	$ –	$ –	$ –	$ –
Total	$ 1,648	$ –	$ –	$ –	$ –	$ –

(4) Fair value information of financial instruments by level of inputs

Based on the observability and the significance of the inputs used to determine fair values, fair value information of financial instruments is presented by categorizing measurements into the following three levels:

Level 1 fair value: the fair value measured by quoted prices of identical assets or liabilities in active markets.
Level 2 fair value: the fair value measured using observable inputs other than Level 1.
Level 3 fair value: fair values measured using unobservable inputs.

When multiple inputs of different categories are used in measuring fair value, the Company and its subsidiaries classified fair values into a category to which the lowest priority is assigned.

(a) financial instruments measured at fair values in the consolidated balance sheet

As of March 31, 2023

	Millions of yen			
	Level 1	Level 2	Level 3	Total
Investment securities				
Other investments in securities				
Equity securities	¥ 15,322	¥ –	¥ –	¥ 15,322
Corporate bonds	–	788	–	788
Derivative transactions				
Currency related	–	70	–	70
Total assets	¥ 15,322	¥ 858	¥ –	¥ 16,180

As of March 31, 2022

	Millions of yen			
	Level 1	Level 2	Level 3	Total
Investment securities				
Other investments in securities				
Equity securities	¥ 13,536	¥ –	¥ –	¥ 13,536
Corporate bonds	–	804	–	804
Derivative transactions				
Currency related	–	160	–	160
Total assets	¥ 13,536	¥ 964	¥ –	¥ 14,500

As of March 31, 2023

	Thousands of U.S. dollars			
	Level 1	Level 2	Level 3	Total
Investment securities				
Other investments in securities				
Equity securities	$ 114,748	$ –	$ –	$ 114,748
Corporate bonds	–	5,899	–	5,899
Derivative transactions				
Currency related	–	527	–	527
Total assets	$ 114,748	$ 6,426	$ –	$ 121,174

(b) Financial instruments other than those measured at fair values in the consolidated balance sheet
Not appliciable
(Note) Valuation techniques and inputs used in measuring fair values

Investments in securities classified as current or non-current
Listed equity securities and corporate bonds are measured using quoted prices. The fair value of listed equity securities are classified as level 1, because they are exchanged in active markets. The fair value of corporate bonds are classified as level 2, because their quoted prices are not considered to be a quoted price in active markets due to their low frequency of transactions.

Derivative transactions
Derivatives are classified in Level 2 since they are measured at fair value using observable market inputs obtained from financial institutions.

7. Securities

(1) Acquisition costs and book values of available-for-sale securities with available fair values as of March 31, 2023 and 2022 were as follows:

	Millions of yen		
As of March 31, 2023	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities	¥ 7,216	¥ 14,866	¥ 7,650
Subtotal	7,216	14,866	7,650
Securities with book values not exceeding acquisition costs:			
Equity securities	531	456	(75)
Debt securities	829	788	(41)
Subtotal	1,360	1,244	(116)
Total	¥ 8,576	¥ 16,110	¥ 7,534

	Millions of yen		
As of March 31, 2022	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities	¥ 6,517	¥ 12,542	¥ 6,025
Subtotal	6,517	12,542	6,025
Securities with book values not exceeding acquisition costs:			
Equity securities	1,301	995	(306)
Debt securities	828	804	(24)
Subtotal	2,129	1,799	(330)
Total	¥ 8,646	¥ 14,341	¥ 5,695

	Thousands of U.S. dollars		
As of March 31, 2023	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities	$ 54,042	$ 111,334	$ 57,292
Subtotal	54,042	111,334	57,292
Securities with book values not exceeding acquisition costs:			
Equity securities	3,978	3,414	(564)
Debt securities	6,202	5,899	(303)
Subtotal	10,180	9,313	(867)
Total	$ 64,222	$ 120,647	$ 56,425

(2) Available-for-sale securities sold for the years ended March 31, 2023 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Total sales amount	¥ 390	¥ 377	¥ 2,923
Gains	195	197	1,461

8. Pledged assets

The following assets were pledged to secure short-term loans payable, long-term borrowings, and contingent liabilities under guarantees for bank loans of affiliated companies and fulfillment of contracts as of March 31, 2023 and 2022:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Time deposits as construction contract guarantees	¥ 83	¥ 64	$ 623
Total	¥ 83	¥ 64	$ 623

9. Short-term loans payable and long-term borrowings

Short-term loans payable as of March 31, 2023 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Secured	¥ －	¥ －	$ －
Unsecured	220	220	1,648
	¥ 220	¥ 220	$ 1,648

Current portion of long-term borrowings as of March 31, 2023 and 2022 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Secured	¥ －	¥ －	$ －
Unsecured	－	80	－
	¥ －	¥ 80	$ －

The annual average interest rate applicable to bank loans at March 31, 2023 and 2022 was as follows:

	2023	2022
Short-term loans payable	1.1%	0.8%
Current portion of long-term borrowings	1.0%	2.2%

10. Employees' retirement benefits

(1) Outline of adopted retirement benefit scheme

The Company and a part of consolidated subsidiaries provide three types of post-employment benefit plans, unfunded lump-sum payment plans, funded non-contributory pension plans and defined contribution plan. A part of consolidated subsidiaries which provide funded non-contributory pension plans and unfunded lump-sum payment plans, calculate retirement benefit liability and retirement benefit costs applying the simplified method.

(2) Defined benefit plans

Movement in retirement benefit obligations (except plans applying the simplified method) for the years ended March 31, 2023 and 2022 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Balance at April 1, 2023 and 2022	¥ 10,026	¥ 9,738	$ 75,087
Service cost	657	633	4,920
Interest cost	55	52	409
Actuarial loss (gain)	(8)	(67)	(64)
Benefits paid	(533)	(330)	(3,990)
Balance at March 31, 2023 and 2022	¥ 10,197	¥ 10,026	$ 76,362

Movement in retirement benefit liability of plans applying the simplified method for the years ended March 31, 2023 and 2022 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Balance at April 1, 2023 and 2022	¥ 726	¥ 665	$ 5,440
Retirement benefit costs	114	120	855
Contributions paid by the employer	(29)	(30)	(214)
Benefits paid	(46)	(39)	(355)
Other	(19)	10	(140)
Balance at March 31, 2023 and 2022	¥ 746	¥ 726	$ 5,586

Reconciliation from retirement benefit obligations and plan assets to retirement benefit liability as of March 31, 2023 and 2022 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Funded retirement benefit obligations	¥ 629	¥ 619	$ 4,708
Plan assets	(435)	(435)	(3,258)
	194	184	1,450
Unfunded retirement benefit obligations	10,749	10,569	80,498
Total retirement benefit liability (asset) at March 31, 2023 and 2022	10,943	10,753	81,948
Retirement benefit liability	10,980	10,792	82,232
Net defined benefit asset	(37)	(39)	(284)
Total retirement benefit liability (asset) at March 31, 2023 and 2022	¥ 10,943	¥ 10,753	$ 81,948

(Note)Including plans applying the simplified method

Retirement benefit costs for the years ended March 31, 2023 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Service cost	¥ 657	¥ 633	$ 4,920
Interest cost	55	52	409
Amortization of actuarial differences	109	129	818
Retirement benefit costs based on the simplified method	114	120	855
Total retirement benefit costs for the fiscal years ended March 31, 2023 and 2022	¥ 935	¥ 934	$ 7,002

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

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Actuarial gains and losses	¥ 118	¥ 195	$ 882
Total remeasurements of defined benefit plans for the fiscal years ended March 31, 2023 and 2022	¥ 118	¥ 195	$ 882

Accumulated remeasurements of defined benefit plans as of March 31, 2023 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Actuarial gains and losses yet to be recognized	¥ (199)	¥ (317)	$ (1,491)
Total balance at March 31, 2023 and 2022	¥ (199)	¥ (317)	$ (1,491)

The principal actuarial assumptions at March 31, 2023 and 2022 were as follows:

	2023	2022
Discount rate	principally 0.64%	principally 0.64%
Expected rate of salary increase	principally 5.3%	principally 5.4%

(3) Defined contribution plan

The amount of contribution required for the defined contribution plans of the Companies for the years ended March 31, 2023 and 2022 was ¥152 million ($1,140 thousand) and ¥154 million, respectively.

11. Contingent liabilities

The Companies were contingently liable under guarantees for bank loans of affiliated companies and other companies as of March 31, 2023 and 2022 as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Unsecured	¥ 89	¥ 119	$ 667

12. Net assets

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as share capital. 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.

Under the Japanese Corporate Law (the "Law"), 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 share capital 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.

Under the Law, legal earnings reserve and additional paid-in capital can be used to eliminate or reduce a deficit or be capitalized by a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Law, 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.

The appropriation of retained earnings with respect to a given financial year is made by resolution of the shareholders at a general meeting held subsequent to the close of such financial year. The accounts for that year do not, therefore, reflect such appropriations.

13. Provision for losses on sales contracts

Provision for losses on sales contracts included in cost of sales for the years ended March 31, 2023 and 2022 was as follows:

Millions of yen		Thousands of U.S. dollars
2023	2022	2023
¥ 30	¥ 28	$ 225

14. Research and development expenses

Research and development expenses are charged to income as incurred. Such expenses included in cost of sales and selling, general and administrative expenses for the years ended March 31, 2023 and 2022 were as follows:

Millions of yen		Thousands of U.S. dollars
2023	2022	2023
¥ 1,151	¥ 1,006	$ 8,619

15. Income taxes

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

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Deferred tax assets:			
Retirement benefit liability	¥ 3,384	¥ 3,323	$ 25,343
Accrued cost of sales	2,420	1,871	18,125
Provision for bonuses	1,169	1,034	8,750
Unrealized income on Non-current assets	672	645	5,030
Loss on valuation of inventories	268	251	2,007
Accrued enterprise tax	210	88	1,570
Provision for loss on construction contracts	200	472	1,501
Other	1,432	2,253	10,727
Deferred tax assets - subtotal	9,755	9,937	73,053
Valuation reserves	(2,991)	(3,035)	(22,399)
Total deferred tax assets	¥ 6,764	¥ 6,902	$ 50,654
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	¥ (2,292)	¥ (1,724)	$ (17,165)
Other	(328)	(443)	(2,456)
Total deferred tax liabilities	(2,620)	(2,167)	(19,621)
Net deferred tax assets	¥ 4,144	¥ 4,735	$ 31,033

There was no significant difference between the normal effective statutory tax rates and the effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2022 and March 31, 2023.

Accounting for corporation tax and local corporation tax and tax effect accounting
The Company and some of its domestic consolidated subsidiaries have adopted the group tax sharing system from the fiscal year ended March 31, 2023. In addition, corporation tax and local corporation tax, as well as their tax effects, are accounted for and disclosed under Practical Solution on the Accounting and Disclosure under the Group Tax Sharing System (PITF No.42, August 12, 2021).

16. Revenue

Disaggregated revenue by business unit is as follows:

As of March 31, 2023

Millions of yen

	Reportable segments							Total
	Domestic Environment and Energy Business				Overseas Environment and Energy Business	Package Boiler Business	Equipment and System Business	
	Municipal Solid Waste Plants	Energy Plants	Other	Subtotal				
Net sales	70,027	33,551	12,116	115,694	1,327	17,286	8,345	142,652

As of March 31, 2022

Millions of yen

	Reportable segments							Total
	Domestic Environment and Energy Business				Overseas Environment and Energy Business	Package Boiler Business	Equipment and System Business	
	Municipal Solid Waste Plants	Energy Plants	Other	Subtotal				
Net sales	70,669	29,110	8,348	108,127	931	16,468	8,567	134,093

As of March 31, 2023

Thousands of U.S. dollars

	Reportable segments							Total
	Domestic Environment and Energy Business				Overseas Environment and Energy Business	Package Boiler Business	Equipment and System Business	
	Municipal Solid Waste Plants	Energy Plants	Other	Subtotal				
Net sales	524,429	251,263	90,734	866,426	9,940	129,452	62,493	1,068,311

Information about the relationship between the fulfillment of performance obligations based on the contract with the customer and the cash flow generated from the contract, and the amount and timing of revenue expected to be recognized from the contract with the customer existing at the end of the current consolidated fiscal year after the next consolidated fiscal year.

(1) Balance of contract assets and contract liabilities, etc.

	Millions of yen 2023	Millions of yen 2022	Thousands of U.S. dollars 2023
Receivables arising from contracts with customers (beginning balance)	¥ 33,916	¥ 42,313	$ 253,999
Receivables arising from contracts with customers (balance at the end of the period)	36,480	33,916	273,198
Contract assets (beginning balance)	48,185	41,910	360,857
Contract assets (balance at the end of the period)	24,371	48,185	182,515
Contract liabilities (beginning balance)	8,669	9,349	64,923
Contract liabilities (balance at the end of the period)	11,059	8,669	82,822

Contract assets consist of the rights to receive consideration in exchange for the fulfilled portion of contractual obligations, which is measured based on the progress of such obligations for construction contracts at the end of the reporting period, and when they become unconditional, the rights to the consideration are transferred to receivables arising from contracts with customers.
Contract liabilities are advances received from customers for construction contracts, used for expenditures as revenue is recognized.
In revenue recognized at the current consolidated fiscal year, which was included in contract liabilities at the beginning of the years ended March 31,2023 and 2022 was ¥6,551 million ($49,059 thousand) and ¥5,684 million, respectively.
Incidentally, the amount of revenue recognized from performance obligations satisfied in the previous periods is not material for the current fiscal year.

(2) Transaction price allocated to remaining performance obligation

The aggregate amount of the transaction price allocated to the performance obligations that were unsatisfied (or partially unsatisfied) were ¥447,646 million ($3,352,402 thousand) and ¥ 433,351 million for the years ended March 31,2023 and 2022, respectively. These performance obligations are related to construction, operational control and O&M contracts in the Domestic Environment and Energy Business and expected to be recognized as revenue within approximately 5 years in construction contracts and 20 years in operational control and O&M contracts.
There is no significant variable consideration which is not included in transaction price in the amount of consideration from contracts with customers.

17. Comprehensive income

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

	Millions of yen 2023	Millions of yen 2022	Thousands of U.S. dollars 2023
Valuation difference on available-for-sale securities			
Increase (decrease) during the year	¥ 1,856	¥ (547)	$ 13,903
Reclassification adjustments	(17)	(188)	(130)
Subtotal, before tax	1,839	(735)	13,773
Tax (expense) or benefit	(568)	230	(4,254)
Subtotal, net of tax	¥ 1,271	¥ (505)	$ 9,519
Deferred gains or losses on hedges			
Increase (decrease) during the year	¥ (89)	¥ 107	$ (665)
Reclassification adjustments	–	–	–
Subtotal, before tax	(89)	107	(665)
Tax (expense) or benefit	27	(33)	203
Subtotal, net of tax	¥ (62)	¥ 74	$ (462)
Foreign currency translation adjustment			
Increase (decrease) during the year	¥ 16	¥ 68	$ 119
Reclassification adjustments	–	–	–
Subtotal, before tax	16	68	119
Tax (expense) or benefit	–	–	–
Subtotal, net of tax	¥ 16	¥ 68	$ 119
Remeasurements of defined benefit plans			
Increase (decrease) during the year	¥ 9	¥ 67	$ 64
Reclassification adjustments	109	129	818
Subtotal, before tax	118	196	882
Tax (expense) or benefit	(36)	(60)	(270)
Subtotal, net of tax	¥ 82	¥ 136	$ 612
Total other comprehensive income	¥ 1,307	¥ (227)	$ 9,788

18. Segment information

(Supplemental information - Accounting Standard for Disclosures about Segments of an Enterprise and Related Information)
(1) General information about reportable segments

In the Group, businesses for which separate financial information is available are grouped into the following four reportable segments in accordance with the similarity of products and services of the respective business. The results of each reportable segment are reviewed periodically by the Board of Directors to assess the segment's business performance.

Domestic Environment and Energy Business
General waste treatment plants, industrial waste treatment plants, waste recycling plants, wastewater treatment plants, sludge combustion plants and biomass power plants

Overseas Environment and Energy Business
Waste combusting power plants and biomass power plants

Package Boiler Business
Compact through-flow boilers and vacuum water heating systems

Equipment and System Business
Construction equipment, equipment for semi-conductor industry and cleaning systems

(2) Basis of measurement about reportable segment profit or loss and other material items
Accounting methods used for reportable segments are the same those explained in Note 2, "Summary of significant accounting policies."

Profits of reportable units are operating profit. Internal revenue and transfers between reportable segments are recorded using prevailing market prices.

(3) Information about reportable segment profit or loss and other material items
Reportable segment information for the years ended March 31, 2023 and 2022 was as follows:

	Millions of yen						
Year ended March 31, 2023	Domestic Environment and Energy Business	Overseas Environment and Energy Business	Package Boiler Business	Equipment and System Business	Total	Adjustment	Consolidated
Sales:							
Outside customers	¥ 115,694	¥ 1,327	¥ 17,286	¥ 8,345	¥ 142,652	¥ –	¥ 142,652
Intersegment	292	25	27	15	359	(359)	–
Total	115,986	1,352	17,313	8,360	143,011	(359)	142,652
Reportable segment income (loss)	¥ 14,875	¥ (173)	¥ 915	¥ 826	¥ 16,443	¥ (2,629)	¥ 13,814
Others:							
Depreciation	¥ 948	¥ 3	¥ 150	¥ 32	¥ 1,133	¥ 3	¥ 1,136

	Millions of yen						
Year ended March 31, 2022	Domestic Environment and Energy Business	Overseas Environment and Energy Business	Package Boiler Business	Equipment and System Business	Total	Adjustment	Consolidated
Sales:							
Outside customers	¥ 108,127	¥ 931	¥ 16,468	¥ 8,567	¥ 134,093	¥ –	¥ 134,093
Intersegment	530	74	31	24	659	(659)	–
Total	108,657	1,005	16,499	8,591	134,752	(659)	134,093
Reportable segment income (loss)	¥ 10,906	¥ (219)	¥ 674	¥ 656	¥ 12,017	¥ (2,088)	¥ 9,929
Others:							
Depreciation	¥ 770	¥ 3	¥ 162	¥ 22	¥ 957	¥ 5	¥ 962

	Thousands of U.S. dollars						
Year ended March 31, 2023	Domestic Environment and Energy Business	Overseas Environment and Energy Business	Package Boiler Business	Equipment and System Business	Total	Adjustment	Consolidated
Sales:							
Outside customers	$ 866,426	$ 9,940	$ 129,452	$ 62,493	$1,068,311	$ –	$1,068,311
Intersegment	2,186	182	201	117	2,686	(2,686)	–
Total	868,612	10,122	129,653	62,610	1,070,997	(2,686)	1,068,311
Reportable segment income (loss)	$ 111,401	$ (1,295)	$ 6,856	$ 6,187	$ 123,149	$ (19,700)	$ 103,449
Others:							
Depreciation	$ 7,099	$ 22	$ 1,122	$ 240	$ 8,483	$ 25	$ 8,508

Adjustments in reportable segment income (loss) include eliminations of transactions between segments and corporate expenses not allocated to reportable segment expenses, including selling, general and administrative expenses not attributable to reportable segments.

Total reportable segment income is adjusted with operating profit reported on the Consolidated Statements of Operations.

Disclosure of information related to segment assets is omitted since assets are not allocated to business segments.

(Related information)
Reportable segment information for the years ended March 31, 2023 and 2022 was as follows:
(1) Information about products and services
Disclosure of this information is omitted since similar information is disclosed in Note 18, "Segment information."

(2) Information about geographic areas
Revenues
Since over 90% of net sales reported on the Consolidated Statements of Operations were sales to outside customers within Japan, disclosure of this information is omitted.
Tangible fixed assets
Since 90% of tangible noncurrent assets reported on the consolidated balance sheet (in terms of values) were located within Japan, disclosure of this information is omitted.

(3) Information about major customers
Since no outside customer accounted for 10% or more of net sales reported on the income statement, disclosure of this information is omitted.

(Information related to noncurrent asset impairment loss by reportable segment)
Not applicable

(Information related to amortization and unamortized balance of goodwill)
The note is omitted because it is not important.

(Information related to gain on negative goodwill by reportable segment)
Not applicable