

# Consolidated Financial Statements FY2022

For the year ended March 31, 2023

# CORPORATE PHILOSOPHY

Enhance our business in aiming for harmony between energy and the environment and contribute to the sustainable development of a society as an integrated engineering company through the use of our collective wisdom and painstakingly developed technology.

Every Chiyoda Group employee engages in our corporate activities with this philosophy in mind as we strive for corporate group management that earns the trust and empathy of all of our stakeholders, including shareholders, customers, business partners, employees, and local communities.

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# Consolidated Balance Sheet

March 31, 2023

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2023 as Restated (Note 1)	2022	2023 as Restated (Note 1)
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents (Note 22)	¥ 59,682	¥ 59,099	\$ 445,391
Short-term investments (Note 22)	1,558	9,696	11,633
Notes and accounts receivable—trade (Notes 6 and 17)	22,741	29,973	169,711
Contract assets (Notes 6 and 17)	12,292	10,465	91,737
Costs of construction contracts in process	23,570	18,529	175,897
Accounts receivable—other (Note 22)	39,900	83,246	297,764
Jointly controlled assets of joint venture (Note 22)	161,643	141,438	1,206,293
Short-term loans receivable (Note 22)	47,578	11,402	355,064
Prepaid expenses and other	15,629	10,328	116,638
Allowance for doubtful accounts	(1,639)	(1,498)	(12,232)
Total current assets	<u>382,958</u>	<u>372,682</u>	<u>2,857,900</u>
<b>PROPERTY, PLANT AND EQUIPMENT:</b>			
Land (Notes 11 and 13)	5,041	5,100	37,619
Buildings and structures (Notes 11 and 13)	15,413	13,548	115,029
Machinery and equipment	1,837	1,659	13,711
Tools, furniture and fixtures (Note 11)	6,592	6,286	49,198
Construction in progress	33	11	253
Total	<u>28,918</u>	<u>26,607</u>	<u>215,811</u>
Accumulated depreciation	<u>(18,174)</u>	<u>(15,569)</u>	<u>(135,634)</u>
Net property, plant and equipment	<u>10,743</u>	<u>11,038</u>	<u>80,177</u>
<b>INVESTMENTS AND OTHER ASSETS:</b>			
Investment securities (Notes 7 and 22)	2,985	1,479	22,281
Investments in and advances to unconsolidated subsidiaries and associated companies (Notes 10 and 22)	3,456	4,032	25,793
Goodwill	217	251	1,626
Software	4,494	4,031	33,537
Asset for retirement benefits (Note 14)	167	633	1,251
Deferred tax assets (Note 16)	139	129	1,044
Other assets	1,442	1,137	10,763
Allowance for doubtful accounts	<u>(18)</u>	<u>(18)</u>	<u>(135)</u>
Total investments and other assets	<u>12,885</u>	<u>11,676</u>	<u>96,163</u>
<b>TOTAL</b>	<u><u>¥ 406,588</u></u>	<u><u>¥ 395,396</u></u>	<u><u>\$ 3,034,240</u></u>

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2023 as Restated (Note 1)	2022	2023 as Restated (Note 1)
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Notes and accounts payable—trade (Note 22)	¥ 129,370	¥ 96,084	\$ 965,455
Current portion of long-term debt (Notes 11, 13 and 22)	6,390	21,269	47,690
Accounts payable—other	17,461	44,022	130,309
Income taxes payable	2,046	978	15,271
Contract liability (Note 17)	163,347	143,431	1,219,014
Allowance for warranty costs for completed works	1,388	3,348	10,360
Allowance for losses on construction contracts (Note 3)	27,894	34,815	208,167
Accrued expenses and other	<u>8,356</u>	<u>6,724</u>	<u>62,364</u>
Total current liabilities	<u>356,256</u>	<u>350,675</u>	<u>2,658,633</u>
<b>LONG-TERM LIABILITIES:</b>			
Long-term debt (Notes 12 and 22)	24,869	25,631	185,592
Deferred tax liabilities (Note 16)	323	533	2,412
Provision for treatment of PCB waste	236	239	1,763
Liability for retirement benefits (Note 14)	804	773	6,006
Asset retirement obligations	1,753	1,733	13,089
Other	<u>33</u>	<u>48</u>	<u>249</u>
Total long-term liabilities	<u>28,021</u>	<u>28,960</u>	<u>209,114</u>
<b>EQUITY (Note 15):</b>			
Common stock—authorized, 1,500,000 thousand shares and 1,000,000 thousand shares; issued, 260,324 thousand shares in 2023 and 2022 and preferred stock—authorized, 175,000 thousand shares; issued, 175,000 thousand shares in 2023 and 2022	15,014	15,014	112,050
Capital surplus	142	142	1,064
Retained earnings (accumulated deficit)	13,797	(1,142)	102,964
Treasury stock—at cost, 1,353 thousand shares in 2023 and 1,357 thousand shares in 2022	(847)	(849)	(6,324)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	69	83	516
Deferred gain on derivatives under hedge accounting	1,707	1,656	12,740
Foreign currency translation adjustments	(7,587)	(6)	(56,623)
Defined retirement benefit plans	<u>(115)</u>	<u>755</u>	<u>(859)</u>
Total	<u>22,180</u>	<u>15,654</u>	<u>165,528</u>
Noncontrolling interests	<u>129</u>	<u>106</u>	<u>964</u>
Total equity	<u>22,310</u>	<u>15,761</u>	<u>166,492</u>
<b>TOTAL</b>	<u><u>¥ 406,588</u></u>	<u><u>¥ 395,396</u></u>	<u><u>\$ 3,034,240</u></u>

See notes to consolidated financial statements.

# Consolidated Statement of Income

Year Ended March 31, 2023

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2023</u>	<u>2022</u>	<u>2023</u>
REVENUE	¥ 430,163	¥ 311,115	\$ 3,210,176
COST OF REVENUE	<u>397,454</u>	<u>288,321</u>	<u>2,966,078</u>
Gross profit	32,709	22,794	244,098
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES (Note 18)	<u>14,592</u>	<u>12,249</u>	<u>108,898</u>
Operating income	<u>18,116</u>	<u>10,545</u>	<u>135,199</u>
OTHER INCOME (EXPENSES):			
Interest and dividend income	4,174	687	31,153
Equity in earnings of associated companies	30		224
Gain on liquidation of subsidiaries and associated companies	360	588	2,687
Gain on sales of investment securities	95	160	709
Gain on sales of shares of subsidiaries and associated companies (Note 19)	231		1,725
Interest expense	(897)	(879)	(6,699)
Equity in losses of associated companies	(443)	(321)	(3,308)
Settlement payments		(201)	
Project related loss due to settlements with customers (Note 20)		(20,374)	
Foreign exchange (loss) gain	(593)	1,406	(4,430)
Impairment loss (Note 9)		(426)	
Loss on retirement of fixed assets		(306)	
Loss on liquidation of subsidiaries and associated companies		(242)	(1)
Expenses on office consolidation related to the domestic business integration (Note 8)	(94)		(704)
Loss on valuation of shares of subsidiaries and associates	(61)		(455)
Loss on valuation of investment securities (Note 7)	(18)	(89)	(136)
Loss on sales of Investment securities	(5)		(38)
Other—net	<u>(64)</u>	<u>194</u>	<u>(481)</u>
Other income (expenses)—net	<u>2,712</u>	<u>(19,803)</u>	<u>20,242</u>
INCOME (LOSS) BEFORE INCOME TAXES	<u>20,829</u>	<u>(9,258)</u>	<u>155,442</u>
INCOME TAXES (Note 16):			
Current	5,511	3,509	41,131
Deferred	<u>117</u>	<u>59</u>	<u>876</u>
Total income taxes	<u>5,629</u>	<u>3,569</u>	<u>42,008</u>
NET INCOME (LOSS)—(Forward)	¥ 15,200	¥ (12,828)	\$ 113,433

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2023</u>	<u>2022</u>	<u>2023</u>
NET INCOME (LOSS)—(Forward)	¥ 15,200	¥ (12,828)	\$ 113,433
NET INCOME (LOSS) ATTRIBUTABLE TO NONCONTROLLING INTERESTS	<u>12</u>	<u>(198)</u>	<u>94</u>
NET INCOME (LOSS) ATTRIBUTABLE TO OWNERS OF THE PARENT	<u>¥ 15,187</u>	<u>¥ (12,629)</u>	<u>\$ 113,339</u>
	<u>Yen</u>		<u>U.S. Dollars</u>
PER SHARE OF COMMON STOCK (Notes 2.ab and 25):			
Basic net income (loss)	¥50.54	¥ (56.88)	\$0.38
Diluted net income	15.49		0.12
Cash dividends applicable to the year			

See notes to consolidated financial statements.

# Consolidated Statement of Comprehensive Income

Year Ended March 31, 2023

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2023</u>	<u>2022</u>	<u>2023</u>
NET INCOME (LOSS)	<u>¥ 15,200</u>	<u>¥ (12,828)</u>	<u>\$ 113,433</u>
OTHER COMPREHENSIVE INCOME (LOSS) (Note 24):			
Unrealized loss on available-for-sale securities	(14)	(119)	(107)
Deferred gain on derivatives under hedge accounting	50	1,625	380
Foreign currency translation adjustments	(7,914)	(5,350)	(59,064)
Defined retirement benefit plans	(871)	(678)	(6,500)
Share of other comprehensive income of associates	<u>343</u>	<u>79</u>	<u>2,560</u>
Total other comprehensive loss	<u>(8,406)</u>	<u>(4,444)</u>	<u>(62,731)</u>
COMPREHENSIVE INCOME (LOSS)	<u>¥ 6,794</u>	<u>¥ (17,272)</u>	<u>\$ 50,702</u>
TOTAL COMPREHENSIVE INCOME (LOSS)			
ATTRIBUTABLE TO:			
Owners of the parent	¥ 6,771	¥ (17,109)	\$ 50,534
Noncontrolling interests	22	(163)	167

See notes to consolidated financial statements.

# Consolidated Statement of Changes in Equity

Year Ended March 31, 2023

	Thousands		Millions of Yen										
	Outstanding Number of Shares of Common Stock	Outstanding Number of Shares of Preferred Stock	Common Stock and Preferred Stock	Capital Surplus	Retained Earnings (Accumulated Deficit)	Treasury Stock	Accumulated Other Comprehensive Income (Loss)						
							Unrealized Gain (Loss) on Available- for-Sale Securities	Deferred Gain on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling Interests	Total Equity
BALANCE, APRIL 1, 2021	258,967	175,000	¥15,014	¥142	¥15,708	¥(1,435)	¥203	¥ 30	¥ 5,300	¥1,434	¥36,399	¥348	¥36,747
Cumulative effects of changes in accounting policies					1						1		1
Net loss attributable to owners of the parent					(12,629)						(12,629)		(12,629)
Cash dividends, ¥20.78 per share					(3,636)						(3,636)		(3,636)
Purchase of treasury stock						(375)					(375)		(375)
Disposal of treasury stock				(585)		961					375		375
Transfer of loss on disposal of treasury stock				585	(585)								
Net change in the year							(119)	1,625	(5,306)	(678)	(4,479)	(241)	(4,720)
BALANCE, MARCH 31, 2022	258,967	175,000	15,014	142	(1,142)	(849)	83	1,656	(6)	755	15,654	106	15,761
Cumulative effects of changes in accounting policies (Note 4)					(247)						(247)		(247)
Net income attributable to owners of the parent					15,187						15,187		15,187
Disposal of treasury stock	4					2					2		2
Net change in the year							(14)	50	(7,581)	(871)	(8,415)	22	(8,393)
BALANCE, MARCH 31, 2023	<u>258,971</u>	<u>175,000</u>	<u>¥15,014</u>	<u>¥142</u>	<u>¥13,797</u>	<u>¥ (847)</u>	<u>¥ 69</u>	<u>¥1,707</u>	<u>¥(7,587)</u>	<u>¥ (115)</u>	<u>¥22,180</u>	<u>¥129</u>	<u>¥22,310</u>

	Thousands of U.S. Dollars (Note 1)										
					Accumulated Other Comprehensive Income (Loss)						
	Common Stock and Preferred Stock	Capital Surplus	Retained Earnings (Accumulated Deficit)	Treasury Stock	Unrealized Gain (Loss) on Available- for-Sale Securities	Deferred Gain on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling Interests	Total Equity
BALANCE, MARCH 31, 2022	\$ 112,050	\$ 1,064	\$ (8,527)	\$ (6,339)	\$ 623	\$ 12,360	\$ (47)	\$ 5,641	\$ 116,826	\$ 797	\$ 117,624
Cumulative effects of changes in accounting policies (Note 4)			(1,847)						(1,847)		(1,847)
Net income attributable to owners of the parent			113,339						113,339		113,339
Disposal of treasury stock				15					15		15
Net change in the year					(107)	380	(56,576)	(6,500)	(62,804)	167	(62,637)
BALANCE, MARCH 31, 2023	\$ 112,050	\$ 1,064	\$ 102,964	\$ (6,324)	\$ 516	\$ 12,740	\$ (56,623)	\$ (859)	\$ 165,528	\$ 964	\$ 166,492

See notes to consolidated financial statements.

# Consolidated Statement of Cash Flows

Year Ended March 31, 2023

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2023 as Restated (Note 1)	2022	2023 as Restated (Note 1)
OPERATING ACTIVITIES:			
Income (loss) before income taxes	¥20,829	¥ (9,258)	\$ 155,442
Adjustments for:			
Income taxes paid	(5,644)	(1,168)	(42,121)
Depreciation	3,195	3,060	23,843
Impairment loss		426	
Amortization of goodwill	33	33	252
Increase (decrease) in allowance for doubtful accounts	105	(86)	785
(Decrease) increase in allowance for warranty costs for completed works	(2,075)	2,475	(15,488)
Decrease in allowance for losses on construction contracts	(11,713)	(2,806)	(87,417)
Decrease in liability for retirement benefits	(848)	(362)	(6,333)
Foreign exchange gain—net	(929)	(1,072)	(6,940)
Decrease in provision for business structure improvement		(17)	
Equity in losses of associated companies	413	321	3,084
Loss on valuation of investment securities	18	89	136
Gain on sales of investment securities	(89)	(160)	(670)
Loss on valuation of shares of subsidiaries and associated companies	61		455
Gain on sales of subsidiaries and associated companies	(231)		(1,725)
Gain on liquidation of subsidiaries and associated companies	(359)	(326)	(2,686)
Loss on sales and disposals of fixed assets		319	
Expenses on office consolidation related to the domestic business integration	94		704
Changes in operating assets and liabilities:			
Decrease in trade notes and accounts receivable, and costs and estimated earnings on long-term construction contracts	5,914	8,380	44,135
Increase in costs of construction contracts in process	(4,259)	(9,744)	(31,785)
Increase (decrease) in trade notes and accounts payable	25,934	(25,028)	193,539
Increase in contract liabilities	14,536	65,506	108,481
Decrease (increase) in accounts receivable—other	47,837	(111)	356,996
(Decrease) increase in accounts payable—other	(26,582)	39,750	(198,373)
Increase in jointly controlled assets of joint venture	(16,639)	(82,678)	(124,174)
(Increase) decrease in interest and dividends receivable	(2,655)	15	(19,813)
Other—net	(2,786)	(13,148)	(20,798)
Total adjustments	23,327	(16,333)	174,087
Net cash provided by (used in) operating activities—(Forward)	¥44,157	¥ (25,591)	\$ 329,530

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2023 as Restated (Note 1)	2022	2023 as Restated (Note 1)
Net cash provided by (used in) operating activities—(Forward)	¥ 44,157	¥ (25,591)	\$ 329,530
INVESTING ACTIVITIES:			
Net decrease (increase) in time deposits	10,107	(576)	75,429
Purchases of property, plant and equipment	(948)	(515)	(7,082)
Proceeds from sales of property, plant and equipment	4	1	37
Purchases of intangible assets	(1,836)	(1,624)	(13,703)
Payments for purchases of investment securities	(2,001)	(720)	(14,940)
Proceeds from sales of investment securities	1,312	230	9,797
Proceeds from liquidation of subsidiaries and associated companies	21	79	164
Payments of loans receivable	(194)	(987)	(1,454)
Proceeds from collections of loans	1,424	326	10,631
Net cash provided by (used in) investing activities	7,889	(3,787)	58,879
FINANCING ACTIVITIES:			
Proceeds from long-term debt	3,600		26,865
Repayments of long-term debt	(20,130)	(126)	(150,230)
Payments of cash dividends		(3,636)	
Other—net	(526)	(433)	(3,929)
Net cash used in financing activities	(17,057)	(4,197)	(127,294)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	2,593	3,938	19,353
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	37,582	(29,638)	280,468
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	69,099	98,738	515,669
CASH AND CASH EQUIVALENTS, END OF YEAR	¥106,682	¥ 69,099	\$ 796,137

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Year Ended March 31, 2023

## 1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards ("IFRS").

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2022 consolidated financial statements to conform to the classifications used in 2023.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Chiyoda Corporation (the "Company" or "Chiyoda") is incorporated and principally operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥134 to \$1, the approximate rate of exchange at March 31, 2023. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

Japanese yen figures less than a million yen are rounded down to the nearest million, except for per share data.

U.S. dollar figures less than a thousand U.S. dollars are rounded down to the nearest thousand, except for per share data.

In the consolidated balance sheet as of March 31, 2023, there were errors in the amounts indicated as "Cash and cash equivalents" and "Short-term investments," and therefore the amounts in the current consolidated fiscal year have been restated to ¥59,682 million (\$445,391 thousand) and ¥1,558 million (\$11,633 thousand).

In the consolidated statement of cash flows for the year ended March 31, 2023, there were errors in the amounts indicated as "Cash and cash equivalents, beginning of year" and "Cash and cash equivalents, end of year," and therefore the amounts in the current consolidated fiscal year have been restated to ¥69,099 million (\$515,669 thousand) and ¥106,682 million (\$796,137 thousand).

In the Note 22, "Financial Instruments and Related Disclosures, (5) Maturity Analysis for Financial Assets and Securities with Contractual Maturities" as of March 31, 2022, there was an error in the amount indicated as "Total" amount of "Due in 1 Year or Less," and therefore the amount in the prior consolidated fiscal year has been restated to ¥333,318 million.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**a. Consolidation**—The consolidated financial statements as of March 31, 2023, include the accounts of the Company and its 15 (16 in 2022) significant subsidiaries (together, the "Group").

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in four (five in 2022) associated companies are accounted for by the equity method.

L&T Chiyoda (India) Limited was excluded from the scope of associated companies due to the sales of its shares.

Both investments in the remaining unconsolidated subsidiaries and associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

Most of the consolidated foreign subsidiaries have a December 31 year-end, which is different from that of the Company. As a result, adjustments have been made for any significant transactions which took place during the period between the year-end of these subsidiaries and the year-end of the Company.

The excess of the cost of acquisition over the fair value of the net assets of an acquired subsidiary at the date of acquisition is amortized over a period of 20 years.

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

**b. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements**—Under Accounting Standards Board of Japan ("ASBJ") Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements," the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either IFRS or generally accepted accounting principles in the United States of America (Financial Accounting Standards Board Accounting Standards Codification) tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting; and (e) recording a gain or loss through profit or loss on the sale of an investment in an equity instrument for the difference between the acquisition cost and selling price, and recording impairment loss through profit or loss for other-than-temporary declines in the fair value of an investment in an equity instrument, where a foreign subsidiary elects to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument.

**c. Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method**—ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments," requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method unless it is impracticable to determine such adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either IFRS or generally accepted accounting principles in the United States of America tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting; and (e) recording a gain or loss through profit or loss on the sale of an investment in an equity instrument for the difference between the acquisition cost and selling price, and recording impairment loss through profit or loss for other-than-temporary declines in the fair value of an investment in an equity instrument, where a foreign associate elects to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument.

- d. Revenue Recognition**—The Group provides the services of planning, engineering, procurement, construction, commissioning and maintenance of various plants, and also provides consulting for industrial facilities in the engineering business. Mainly long-term construction contracts are concluded. The guarantee that the plants satisfy the required specification defined in the construction contracts is not recognized as an independent performance obligation as it does not separately provide an independent service. The construction of plants follows the specification required by customers and the Group has a piece-work claim on the portion of the obligation that has been fulfilled. Therefore, the Group determines that the performance obligation is satisfied over time and recognizes revenue based on the progress in satisfying the performance obligation.

The percentage of completion is measured by the ratio of costs accrued on and before the end of reporting period in the estimated total construction cost, which is called the input method. If the period of construction from the beginning date defined in the contract to the estimated date of performance obligation completion is extremely short, the Group recognizes revenue at the time of performance obligation completion, adapting alternative treatment, instead of recognizing based on percentage of completion.

In addition, if liquidated damage defined in contracts for construction delays is expected, the estimated variable consideration is deducted from contract prices agreed in contracts with customers.

- e. Cash Equivalents**—Cash equivalents are short-term investments that are readily convertible into cash and exposed to insignificant risk of changes in value. Cash equivalents include time deposits, certificates of deposit and short-term loans receivable based on uncommitted line of credit loan agreement with an affiliated company of Mitsubishi Corporation, all of which mature or become due within three months of the date of acquisition.
- f. Short-Term Investments**—Short-term investments are time deposits which will mature within three months after the date of acquisition. Short-term investments are exposed to insignificant risk of changes in value.
- g. Inventories**—Costs on construction contracts in progress are stated at cost based on the specific identification method.
- h. Investment Securities**—All equity securities other than nonmarketable available-for-sale equity securities are classified as available-for-sale equity securities and are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. The cost of equity securities sold is determined based on the moving-average method.
- Nonmarketable available-for-sale equity securities are stated at cost determined by the moving-average method or at amortized cost. For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.
- i. Jointly Controlled Assets of Joint Venture**—The jointly controlled assets of the joint venture consist of jointly controlled cash pertaining to the contract work recognized based on the Company's share of the venture.
- j. Allowance for Doubtful Accounts**—The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Group's past credit loss experience and an evaluation of potential losses in the receivables outstanding.
- k. Property, Plant and Equipment**—Property, plant and equipment are stated at cost. Depreciation is computed by the declining-balance method, except for buildings owned by the Company and structures acquired on or after April 1, 2016, that are depreciated using the straight-line method, at rates based on the estimated useful lives of the assets. The range of useful lives is from 8 to 57 years for buildings and structures, from 4 to 17 years for machinery and equipment, and from 4 to 15 years for tools, furniture, and fixtures.

- l. Long-Lived Assets**—The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.
- m. Software**—Software for internal use is amortized on a straight-line basis over its estimated useful life (five years at the maximum).
- n. Other Assets**—Intangible assets and goodwill are carried at cost less accumulated amortization, which is calculated by the straight-line method over their estimated useful lives.
- o. Allowance for Warranty Costs for Completed Work**—The allowance for warranty costs for completed work is provided based on past rate experience.
- p. Allowance for Losses on Construction Contracts**—The allowance for losses on construction contracts is provided for an estimated amount of probable losses to be incurred in future years in respect of construction projects in progress.
- q. Provision for Treatment of PCB Waste**—Provision for treatment of PCB (Poly Chlorinated Biphenyl) waste is provided based on estimated costs of the treatment for PCB products and equipment as well as their collection and transportation fees.
- r. Retirement and Pension Plans**—The Company and consolidated subsidiaries have funded or unfunded defined benefit pension plans and defined contribution pension plans for employees. Certain consolidated subsidiaries have defined benefit corporate pension plans or severance lump-sum payment plans, and calculate retirement benefit assets, retirement benefit liabilities, and retirement benefit expenses by using the simplified method.

In order to provide employee retirement benefits, the Company recorded retirement benefit liabilities by excluding the projected amount of pension assets from that of liability for retirement benefits at the end of the current fiscal year.

The Company and its consolidated domestic subsidiaries account for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a benefit formula basis. Actuarial gains and losses are amortized on a straight-line basis over 10 years within the average remaining service period.

Actuarial gains and losses that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, are recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees.

The Company provides the exceeded amount as asset for retirement benefits of investment and other assets in case the amount of plan asset recognized at the end of this accounting period exceeds the difference between the benefit obligations and unrecognized actuarial gain and losses.

**s. Asset Retirement Obligations**—Under Japanese GAAP, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

**t. Board Incentive Plan Trust for Director's Compensation**—The Company introduced a "Performance-Based Stock Compensation Plan" (the "Plan") to improve medium-to-long term business performance and to heighten the mindset of contributing to the enhancement of corporate value of our directors and executive officers (excluding non-executive directors and non-residents of Japan) (the "Directors & Officers") based on the ordinary general meeting of shareholders of the Company on June 23, 2021, from the prior consolidated fiscal year.

Accounting policies regarding the Plan follow "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts" (PITF No. 30 of March 26, 2015).

(1) *Outline of the Plan*

The Company introduce a system called BIP (Board Incentive Plan) trust for Director's compensation ("BIP trust") and will provide the Company's stock and cash equivalent to realized amount of the Company's stock obtained from BIP trust depending on their positions and goal achievement after the Directors & Officers' retirement.

(2) *Company stock remaining in BIP trust*

Company stock remaining in BIP trust was recorded as treasury stock in equity referring book value of BIP trust excluding accompanying costs. Book value and the number of stocks of the treasury stock at March 31, 2023 and 2022, were ¥373 million (\$2,788 thousand) and 904,689 stocks, and ¥375 million and 909,600 stocks, respectively.

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

**v. Leases**—Japanese GAAP require that all finance lease transactions be capitalized by recognizing lease assets and lease obligations in the balance sheet.

All other leases are accounted for as operating leases.

**w. Income Taxes**—The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

**x. Foreign Currency Transactions**—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. Foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by foreign currency forward contracts.

**y. Foreign Currency Financial Statements**—Balance sheet accounts of consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date.

**z. Derivatives and Hedging Activities**—The Group uses derivative financial instruments, including foreign currency forward contracts, as a means of hedging exposure to foreign currency risks. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments are classified and accounted for as follows:

- (1) All derivatives are recognized as either assets or liabilities and measured at fair value, with gains or losses recognized in the consolidated statement of income.
- (2) For derivatives used for hedging purposes, if such derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

Foreign currency forward contracts are utilized to hedge foreign exchange risks. Certain assets and liabilities on construction contracts denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.

Foreign currency deposits are held to hedge foreign exchange risks derived from forecasted purchases of fixed assets denominated in foreign currency.

**aa. Accounting Principles and Procedures Adopted When Related Accounting Regulations Were Unclear (Consolidation Measures for Jointly Controlled Entities)**—For jointly controlled entities that are not legal entities, the assets, liabilities, revenues and expenses are consolidated according to the amount of interest in the entity. This is conditional upon the fact that the contract specifies all assets and liabilities belong to the co-owners of the entity.

For incorporated jointly controlled entities, the assets, liabilities, revenues and expenses are consolidated according to the amount of interest in the entity. This is conditional upon the fact that in reality, the entity could be judged as an unincorporated entity. For example, if the contract specifies that all assets and liabilities belong to the co-owners, investment amounts are minimal, and liquidation is certain upon the completion of the project, the entity could be deemed as similar to unincorporated ones.

**ab. Per Share Information**—Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if preferred stocks were exercised. Diluted net income per share of common stock assumes full exercise of preferred stocks.

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

**3. SIGNIFICANT ACCOUNTING ESTIMATES****Revenue Recognition**

(1) *The amount recorded in the fiscal years ended March 31, 2023 and 2022*

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Revenue recognized in proportion to satisfying a performance obligation over time	¥ 405,220	¥ 274,126	\$ 3,024,031
Allowance for losses on construction contracts	27,894	34,815	208,167

(2) *Information on significant accounting estimates*

Revenue recognized in proportion to satisfying a performance obligation over time is based on the percentage of completion measured by the ratio of costs in total construction cost, which is called input method as stated in Note 2, "Summary of Significant Accounting Policies, d. Revenue recognition."

When it is probable that the total construction costs will exceed total construction revenue and its amount is reasonably estimated, allowance for losses on construction contracts is recognized by deducting profit or loss that has been already posted from total estimated excess amount.

A part of the estimation of the total construction revenue based on the contracts with customers contains the elements of variable consideration, which come from future events that not occurred yet, such as incentive or bonuses from achieving significant milestones and liquidated damages for construction delays. Such estimation is based on the single amount that is most likely to arise when chosen from every possible amount of consideration.

In addition, the total construction cost includes significant estimation factors such as individual risks with construction conduct, and the estimated risks, including the effects of the situation in Ukraine. If unpredictable changes in assumptions occur the total construction cost may change. In such cases, the degree of progress for contracts may change, which could have a significant impact on the figures of revenue recognized in proportion to satisfying a performance obligation over time and allowance for losses on construction contracts in the following consolidated fiscal year.

**4. ACCOUNTING CHANGE****Applying of Accounting Standards Codification Topic 842 "Leases"**

The consolidated foreign subsidiary that applies accounting principles generally accepted in the United States of America ("U.S. GAAP") started to apply "Leases" (Financial Accounting Standards Board Accounting Standards Codification, "FASB ASC" Topic 842) from the beginning of the current fiscal year. FASB ASC Topic 842, in principle, requires the subsidiary to record all leases of lessee as assets and liabilities in consolidated balance sheet. As a result of applying this standard, the cumulative impact of adopting the standard was recognized at the start date of application, which is approved as transitional measures.

As a result, "Current portion of long-term debt" of ¥291 million (\$2,178 thousand) under "Current liabilities" and "Long-term debt" of ¥622 million (\$4,643 thousand) under "Long-term liabilities" were increased, then "Retained earnings" of ¥247 million (\$1,847 thousand) at the beginning was decreased in consolidated balance sheet of the current fiscal year.

The impact on profit/loss and information per share is not significant.

**5. CHANGES IN PRESENTATION**

(Consolidated Balance Sheet)

Although "Short-term loans receivable" was included to "Prepaid expenses and other" under "Current assets" in the prior consolidated fiscal year, it was separately stated from the current consolidated fiscal year as the amounts have exceeded 5% of the total assets. In order to reflect this change in presentation, the Company reclassified figures for the prior year's consolidated balance sheet.

As a result, "Prepaid expenses and other" of ¥21,731 million under "Current assets" in the prior year's consolidated balance sheet has been reclassified to "Short-term loans receivable" of ¥11,402 million and "Prepaid expenses and other" of ¥10,328 million.

Also "Deposits received" stated separately under "Current liabilities" in the prior consolidated fiscal year, it was included to "Accrued expenses and other" under "Current liabilities" from the current consolidated fiscal year as the amounts were not significant. In order to reflect this change in presentation, the Company reclassified figures for the prior year's consolidated balance sheet.

As a result, "Deposits received" of ¥783 million under "Current liabilities" and "Accrued expenses and other" of ¥5,940 million under "Current liabilities" in the prior year's consolidated balance sheet have been reclassified to "Accrued expenses and other" of ¥6,724 million.

**6. RECEIVABLES FROM CONTRACT WITH CUSTOMERS AND CONTRACT ASSETS**

Notes receivable, receivables from contract with customers and contract assets at March 31, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Notes receivable—trade	¥ 1,337	¥ 1,577	\$ 9,980
Accounts receivable—trade	21,403	28,395	159,730
Contract assets	12,292	10,465	91,737

**7. INVESTMENT SECURITIES**

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

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Non-current—Equity securities	¥2,985	¥1,479	\$ 22,281

The costs and aggregate fair values of investment securities at March 31, 2023 and 2022, were as follows:

March 31, 2023

	Millions of Yen			Thousands of U.S. Dollars
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as—				
Available-for-sale—equity securities	¥179	¥67		¥246

March 31, 2022

	Millions of Yen			Fair Value
	Cost	Unrealized Gains	Unrealized Losses	
Securities classified as— Available-for-sale—equity securities	¥237	¥101		¥338

March 31, 2023

	Thousands of U.S. Dollars			Fair Value
	Cost	Unrealized Gains	Unrealized Losses	
Securities classified as— Available-for-sale—equity securities	\$1,337	\$501	\$1	\$1,837

Information on the available-for-sale securities sold during the years ended March 31, 2023 and 2022, was as follows:

March 31, 2023

	Millions of Yen		
	Proceeds	Realized Gains	Realized Losses
Securities classified as— Available-for-sale—equity securities	¥133	¥95	¥5

March 31, 2022

	Millions of Yen		
	Proceeds	Realized Gains	Realized Losses
Securities classified as— Available-for-sale—equity securities	¥230	¥160	

March 31, 2023

	Thousands of U.S. Dollars		
	Proceeds	Realized Gains	Realized Losses
Securities classified as— Available-for-sale—equity securities	\$997	\$709	\$38

The impairment loss on available-for-sale securities for the years ended March 31, 2023 and 2022, was ¥79 million (\$592 thousand) and ¥89 million, respectively.

When assessing impairment, if the available fair value at the end of the period of the securities declines by 50% or more, compared with acquisition cost, all the corresponding securities are impaired. In addition, in the case whereby the available fair value of the securities declined by more than 30% but by less than 50%, the Group examines the recoverability of the fair value of the securities and reduce the value if those securities are considered to be unrecoverable.

## 8. EXPENSES ON OFFICE CONSOLIDATION RELATED TO THE DOMESTIC BUSINESS INTEGRATION

Regarding business assets, grouping of assets is taken place based on the business segments in the Group.

For the purpose of seeking efficient group management by the domestic business integration, the Group determined to carry out office consolidation in the current fiscal year. According to this, the assets were no longer expected to be used due to the relocation of offices. Therefore, the assets related to relocation of offices were reduced to recoverable value and its reduction was recorded as extraordinary losses.

Recoverable value is determined as zero.

Details of impairment loss as follows:

Location	Used Status	Category of Assets	Impairment Loss	
			Millions of Yen	Thousands of U.S. Dollars
Kanagawa, Japan	Business assets	Buildings and structures	¥94	\$704

## 9. IMPAIRMENT LOSS OF LONG-LIVED ASSETS

Impairment loss on long-lived assets for the fiscal years ended March 31, 2023 and 2022, was as follows:

March 31, 2023

None

March 31, 2022

Location	Used Status	Category of Assets	Impairment Loss
			Millions of Yen
Myanmar	Business assets	Buildings, structures and investment properties	¥426

The Group grouped the business assets based on business segments.

The impairment loss of ¥426 million, including loss for buildings of ¥266 million and investment properties of ¥159 million, was reported on other expenses by identifying the indication of impairment considering the economic situation of Myanmar and the prospect of it and reducing book value to the recoverable value in the prior consolidated fiscal year. The recoverable value was measured by estimating the value in use. The recoverable value was estimated to be zero as the value of the buildings, structures, and investment properties based on future cash flows was negative.

## 10. INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED SUBSIDIARIES AND ASSOCIATED COMPANIES

Investments in and advances to unconsolidated subsidiaries and associated companies at March 31, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Investments	¥3,456	¥4,032	\$25,793
Total	¥3,456	¥4,032	\$25,793

**11. ASSETS AND LIABILITIES ACCOUNTED FOR AS FINANCIAL TRANSACTIONS**

Assets and liabilities accounted for as financial transactions at March 31, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Land	¥381	¥381	\$2,844
Buildings and structures	252	281	1,881
Tools, furniture and fixtures			
Current portion of long-term debt	490	621	3,659

**12. LONG-TERM DEBT**

Long-term debt at March 31, 2023 and 2022, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Long-term loans from banks, with interest rates at 2.5% (2023) and 2.5% (2022)—Unsecured	¥20,000	¥20,000	\$ 149,253
Long-term loans from banks, with interest rates at 1.9% (2022) and 1.9% (2021)—Unsecured		10,000	
Long-term loans from banks, with interest rates at 0.8% (2023) and 0.8% (2022)—Unsecured	4,000	4,000	29,850
Long-term loans from banks, with interest rates at 0.6% (2023) and 0.6% (2022)—Unsecured	2,600		19,402
Long-term loans from banks, with interest rates at 0.7% (2023) and 0.7% (2022)—Unsecured	1,000	1,000	7,462
Long-term loans from banks, with interest rates at 0.6% (2023) and 0.6% (2022)—Unsecured	1,000		7,462
Long-term loans accounted as financial transactions, with interest rates at 3.4% (2023) and 3.4% (2022)—Collateralized	490	621	3,659
Long-term loans accounted as financial transactions, with interest rates at 1.1% (2022) and 1.1% (2021)—Collateralized		10,000	
Obligations under finance leases	2,169	1,279	16,190
Total	31,259	46,900	233,282
Less current portion	(6,390)	(21,269)	(47,690)
Long-term debt, less current portion	¥24,869	¥25,631	\$ 185,592

Annual maturities of long-term debt, excluding finance leases, at March 31, 2023, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2023	¥ 5,490	\$ 40,972
2024	20,000	149,253
2025	1,202	8,973
2026	1,202	8,973
2027	1,195	8,919
Total	¥29,090	\$ 217,092

The Company has concluded agreements with banks on accounts with overdrafts for efficient funding of working capital.

The overdraft balance on the current overdraft agreement at March 31, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Total maximum limit amount of the agreement	¥10,000		\$ 74,626
Borrowing balance			
Unexecuted balance	¥10,000		\$ 74,626

**13. PLEDGED ASSETS AND SECURED LIABILITIES**

Assets that are pledged as collateral at March 31, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Buildings and fixtures	¥1,880	¥1,849	\$ 14,033
Land	4,013	4,013	29,950
Investment securities	37	37	277
Total	¥5,931	¥5,900	\$ 44,261

Secured liabilities at March 31, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Current portion of long-term loans		¥ 10,000	
Total		¥ 10,000	

Other than the assets mentioned above, an investment in a Special Purpose Company ("SPC") is also pledged as collateral. The investment amount is eliminated against the SPC's equity account.

The investment amounts were ¥42,231 million (\$315,158 thousand) and ¥58,564 million for the years ended March 31, 2023 and 2022, respectively.

Assets used as collaterals are provision of collaterals for borrowings, and there are no corresponding liabilities at the end of the current fiscal year.

**14. RETIREMENT AND PENSION PLANS**

The Company and consolidated subsidiaries have funded or unfunded defined benefit pension plans and defined contribution pension plans for employees.

Under defined benefit corporate pension plans, all of which are funded, employees are entitled to certain lump-sum payments or pension payments based on cumulated points which are granted in accordance with years of continuous employment, occupational classification and performance evaluation. Under severance lump-sum payment plans, employees are entitled to certain lump-sum payments based on salary and service period.

Certain consolidated subsidiaries have defined benefit corporate pension plans or severance lump-sum payment plans and calculate retirement benefit expenses by using the simplified method.

- (1) The changes in defined benefit obligation for the years ended March 31, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Balance at beginning of year	¥ 17,738	¥ 18,847	\$ 132,378
Current service cost	840	856	6,275
Interest cost	150	142	1,120
Actuarial losses (gains)	249	(44)	1,860
Benefits paid	(1,520)	(1,272)	(11,349)
Transfer of debt with business divestitures*		(822)	
Others	35	30	264
Balance at end of year	¥ 17,493	¥ 17,738	\$ 130,549

\* This was due to the transfer of defined benefit obligation in the prior consolidated fiscal year, by a factor of business divestiture of IT business from Chiyoda System Technologies in consolidated fiscal year of 2021.

- (2) The changes in plan assets for the years ended March 31, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Balance at beginning of year	¥ 17,840	¥ 18,893	\$ 133,136
Expected return on plan assets	332	331	2,479
Actuarial gains	(598)	(385)	(4,464)
Contributions from the employer	1,072	1,073	8,002
Benefits paid	(1,515)	(1,272)	(11,313)
Transfer of asset with business divestitures*		(822)	
Others	30	22	225
Balance at end of year	¥ 17,160	¥ 17,840	\$ 128,065

\* This was due to the transfer of plan assets in the prior consolidated fiscal year, by a factor of business divestiture of IT business from Chiyoda System Technologies in consolidated fiscal year of 2021.

- (3) The changes in the liability recorded in the consolidated balance sheet by using the simplified method for the years ended March 31, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Balance at beginning of year	¥ 242	¥ 239	\$ 1,807
Benefit costs	168	111	1,258
Benefits paid	(28)	(31)	(213)
Contribution to the plans	(84)	(85)	(630)
Others	6	7	49
Balance at end of year	¥ 304	¥ 242	\$ 2,271

- (4) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligations and plan assets:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Funded defined benefit obligations	¥ 18,657	¥ 18,913	\$ 139,232
Plan assets	(18,431)	(19,153)	(137,552)
Total	225	(239)	1,680
Unfunded defined benefit obligations	412	380	3,074
Net liability arising from defined benefit obligations	¥ 637	¥ 140	\$ 4,755

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Liability for retirement benefits	¥ 804	¥ 773	\$ 6,006
Asset for retirement benefits	(167)	(633)	(1,251)
Net liability arising from defined benefit obligations	¥ 637	¥ 140	\$ 4,755

- (5) The components of net periodic 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	¥ 840	¥ 856	\$ 6,275
Interest cost	150	142	1,120
Expected return on plan assets	(332)	(331)	(2,479)
Recognized actuarial gains	(290)	(317)	(2,168)
Benefit costs in simplified method	168	111	1,258
Others	(1)	—	(14)
Net periodic benefit costs	¥ 534	¥ 461	\$ 3,991

- (6) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement 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 losses	¥ 1,137	¥ 662	\$ 8,488
Total	¥ 1,137	¥ 662	\$ 8,488

- (7) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Unrecognized actuarial losses (gains)	¥220	¥(917)	\$1,644
Total	¥220	¥(917)	\$1,644

- (8) Plan assets

*a. Components of plan assets*

Plan assets as of March 31, 2023 and 2022, consisted of the following:

	2023	2022
Debt investments	30%	30%
Equity investments	22	24
General accounts	18	18
Alternative investments*	18	21
Others	12	7
Total	100%	100%

\* This was stated separately in the current consolidated fiscal year to enhance the clarity of the disclosure, though stated as debt investments, equity investments, and others in the prior consolidated fiscal year. As a result, 5% of debt investments, 3% of equity investments, and 13% of others in the prior consolidated fiscal year reclassified to 21% of alternatives. Main component of alternatives is investments to hedge funds.

*b. Method of determining the expected rate of return on plan assets*

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

- (9) Assumptions used for the years ended March 31, 2023 and 2022, were set forth as follows:

	2023	2022
Discount rate	Mainly 0.7%	Mainly 0.7%
Expected rate of return on plan assets	Mainly 1.8%	Mainly 1.8%

- (10) Payables to defined contribution plans of the Company and consolidated subsidiaries for the years ended March 31, 2023 and 2022, were ¥343 million (\$2,564 thousand) and ¥341 million, respectively.

## 15. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

*a. Dividends*

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally, for companies that meet certain criteria, an Audit & Supervisory Board may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Board of Directors of a company with an audit and supervisory committee (as implemented under the Companies Act effective May 1, 2015) may also declare dividends at any time because such company, by its nature, meets the criteria under the Companies Act. The Company became organized as a company with an audit and supervisory committee effective June 23, 2016. However, the Company does not meet all the above criteria.

The Companies Act permits companies to distribute dividends in kind (noncash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

The preferred dividend annual rate for the Class A Preferred Shares is set at 3%. If there is a shortfall in dividend on the shareholders of Class A Preferred Shares during a fiscal year, such shortfall will be carried over into the following fiscal year or into subsequent fiscal years. The shareholders of Class A Preferred Shares may not receive dividends from surplus in excess of the amount of such preferred dividends. The order of preference on payment of dividends from surplus between the Class A Preferred Shares and common shares is as follows: the amount equal to the unpaid dividends carried over on the Class A Preferred Shares is paid first; preferred dividends on the Class A Preferred Shares are paid next; and dividends on common shares are paid last.

*b. Increases/Decreases and Transfer of Common Stock, Reserve, and Surplus*

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon the payment of such dividends, until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

*c. Treasury Stock and Treasury Stock Acquisition Rights*

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula.

Under the Companies Act, stock acquisition rights are presented as a separate component of equity.

The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

#### d. Foreign Currency Translation Adjustments

The fluctuation of foreign currency translation adjustments was mainly caused by substantial changes of foreign exchange rate in the yen-translation of financial statement items for the overseas consolidated subsidiaries.

## 16. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 31% for the years ended March 31, 2023 and 2022.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Deferred tax assets:			
Tax loss carryforwards* <sup>2</sup>	¥56,055	¥56,415	\$418,324
Adjustment of percentage of completion for foreign construction	7,205	4,514	53,771
Cost of revenue	6,769	10,635	50,519
Profit/loss in joint venture	3,760		28,065
Allowance for losses on construction contracts	3,060	4,275	22,837
Accounts receivable from completed construction contracts and contract assets	2,123	1,366	15,849
Long-term accounts receivable	1,824	1,824	13,613
Carryforward foreign tax credit	1,745		13,028
Long-term loans receivable	1,643	1,643	12,262
Allowance for employees' bonus	1,544	960	11,525
Costs of construction contracts in process	738	442	5,514
Asset retirement obligations	536	530	4,002
Other	1,867	2,495	13,935
Subtotal of deferred tax assets	88,875	85,103	663,249
Valuation allowance for tax loss carryforwards* <sup>2</sup>	(56,001)	(56,380)	(417,921)
Valuation allowance for temporary differences	(31,919)	(28,002)	(238,204)
Subtotal valuation allowance	(87,920)	(84,382)	(656,125)
Total	954	720	7,123
Deferred tax liabilities:			
Deferred gains on hedges	(752)	(749)	(5,612)
Fixed assets as asset retirement obligations	(212)	(265)	(1,582)
Prepaid pension costs	(162)	(35)	(1,211)
Other	(11)	(74)	(84)
Total	(1,137)	(1,124)	(8,491)
Net deferred tax liabilities* <sup>1</sup>	¥ (183)	¥ (403)	\$ (1,368)

\*<sup>1</sup> Net deferred tax assets and deferred tax liabilities as of March 31, 2023 and 2022, were recorded in the accompanying consolidated balance sheet as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Investments and other assets—Deferred tax assets	¥139	¥129	\$1,044
Long-term liabilities—Deferred tax liabilities	(323)	(533)	(2,412)

\*<sup>2</sup> Amounts of tax loss carryforwards and related deferred tax assets by tax loss carryforwards for the years ended March 31, 2023 and 2022, were as follows:

	Millions of Yen						
	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	Total
March 31, 2023							
Tax loss carryforwards*	¥24		¥1,551	¥8,137	¥1	¥46,340	¥56,055
Valuation allowance for tax loss carryforwards	(24)		(1,551)	(8,137)	(1)	(46,286)	(56,001)
Deferred tax assets						53	53
	Millions of Yen						
	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	Total
March 31, 2022							
Tax loss carryforwards*	¥147	¥3,635	¥64	¥2,418	¥8,979	¥41,169	¥56,415
Valuation allowance for tax loss carryforwards	(147)	(3,600)	(64)	(2,418)	(8,979)	(41,169)	(56,380)
Deferred tax assets		34					34
	Thousands of U.S. Dollars						
	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	Total
March 31, 2023							
Tax loss carryforwards*	\$181		\$11,574	\$60,728	\$11	\$345,827	\$418,324
Valuation allowance for tax loss carryforwards	(181)		(11,574)	(60,728)	(11)	(345,425)	(417,921)
Deferred tax assets						402	402

\* Figures for tax loss carryforwards were the amounts multiplied by the effective statutory tax rate.

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income is omitted since the differences between those rates are below 5% of the normal effective statutory tax rate for the current consolidated fiscal year and the loss before income tax reported in the prior consolidated fiscal year.

Additionally, the Company and its domestic subsidiaries started to apply the Group Tax Sharing System from the current consolidated fiscal year.

In accordance with the provisions of Paragraph 42 of "The Practical Solution on the Accounting and Disclosure under the Group Tax Sharing System" (ASBJ Guidance No. 42 of August 12, 2021), we assessed the accounting treatments on Japanese national and local income taxes or relating tax effects and disclosed the relevant information.

**17. REVENUE****(1) Disaggregation of Revenue**

Revenues from contracts with customers on a disaggregated basis for the years ended March 31, 2023 and 2022, were as follows:

Year Ended March 31, 2023

	Millions of Yen		
	Reportable Segment		
	Engineering	Other*1	Total
Geographical areas:			
America	¥ 55,858		¥ 55,858
Asia and Oceania	129,137		129,137
Middle and near East and Africa	151,967		151,967
Other overseas	10		10
Japan	92,561	¥627	93,189
Revenues from contracts with customers	429,535	627	430,163
Other revenue			
Total	<u>¥429,535</u>	<u>¥627</u>	<u>¥430,163</u>
Products and services:			
LNG plant	¥ 239,315		¥ 239,315
Other gas products	3,068		3,068
Oil and petrochemical	29,551		29,551
Medicine, biochemistry and general chemistry	34,096		34,096
Environment, new energy and infrastructure	119,227		119,227
Other	4,275	¥627	4,903
Revenues from contracts with customers	429,535	627	430,163
Other revenue			
Total	<u>¥429,535</u>	<u>¥627</u>	<u>¥430,163</u>

Year Ended March 31, 2022

	Millions of Yen		
	Reportable Segment		
	Engineering	Other*1	Total
Geographical areas:			
America	¥ 54,105		¥ 54,105
Asia and Oceania	57,161		57,161
Middle and near East and Africa	82,321		82,321
Other overseas	(150)		(150)
Japan	116,956	¥721	117,677
Revenues from contracts with customers	310,394	721	311,115
Other revenue			
Total	<u>¥310,394</u>	<u>¥721</u>	<u>¥311,115</u>
Products and services:			
LNG plant	¥ 155,454		¥ 155,454
Other gas products	4,063		4,063
Oil and petrochemical	56,670		56,670
Medicine, biochemistry and general chemistry	32,681		32,681
Environment, new energy and infrastructure	59,069		59,069
Other	2,455	¥721	3,176
Revenues from contracts with customers	310,394	721	311,115
Other revenue			
Total	<u>¥310,394</u>	<u>¥721</u>	<u>¥311,115</u>

Year Ended March 31, 2023

	Thousands of U.S. Dollars		
	Reportable Segment		
	Engineering	Other*1	Total
Geographical areas:			
America	\$ 416,851		\$ 416,851
Asia and Oceania	963,715		963,715
Middle and near East and Africa	1,134,087		1,134,087
Other overseas	80		80
Japan	690,755	\$4,685	695,440
Revenues from contracts with customers	3,205,491	4,685	3,210,176
Other revenue			
Total	<u>\$3,205,491</u>	<u>\$4,685</u>	<u>\$3,210,176</u>
Products and services:			
LNG plant	\$ 1,785,937		\$ 1,785,937
Other gas products	22,896		22,896
Oil and petrochemical	220,536		220,536
Medicine, biochemistry and general chemistry	254,454		254,454
Environment, new energy and infrastructure	889,757		889,757
Other	31,908	\$4,685	36,593
Revenues from contracts with customers	3,205,491	4,685	3,210,176
Other revenue			
Total	<u>\$3,205,491</u>	<u>\$4,685</u>	<u>\$3,210,176</u>

\*1 Division of "Other" is other business segment, which is not included in reportable segment, and contains worker dispatch business.

## (2) Basic Information to Understand Revenues from Contracts with Customers

Basic information to understand revenue from contracts with customers is included in Note 2, "Summary of Significant Accounting Policies, d. Revenue Recognition."

## (3) Contract Balances

Receivables from contract with customers, contract assets and contract liabilities at the beginning and the end of the years ended March 31, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Receivables from contracts with customers:			
Balance at beginning of year	¥ 29,973	¥ 40,957	\$ 223,680
Balance at end of year	22,741	29,973	169,711
Contract assets:			
Balance at beginning of year	10,465	7,570	78,101
Balance at end of year	12,292	10,465	91,737
Contract liabilities:			
Balance at beginning of year	143,431	74,833	1,070,386
Balance at end of year	163,347	143,431	1,219,014

Contract assets are the right of the Group for consideration recorded by recognizing revenue based on the progress. At the point that the right of the Group for consideration become unconditional, contract assets will be transferred to accounts receivable—trade.

Contract liabilities are advance receipt from customers before fulfillment of contract regarding contract which recognize revenue based on progress. Contract liabilities will be reversed after revenue recognition.

The Group roughly receive consideration in proportion to the satisfying a performance obligation as conditions are defined in contracts such as milestones. No consideration contains significant financial elements.

The amount of revenue recognized for the year ended March 31, 2023, that were included in contract liabilities balance at the beginning of the year is ¥123,008 million (\$917,977 thousand).

The amount of revenue for the year ended March 31, 2023, recognized (or partially recognized) from performance obligations satisfied in the prior consolidated fiscal year is ¥(3,195) million (\$ (23,843) thousand).

The amount of revenue recognized for the year ended March 31, 2022, that were included in contract liabilities balance at the beginning of the year is ¥60,707 million.

The amount of revenue for the year ended March 31, 2022, recognized (or partially recognized) from performance obligations satisfied in the prior consolidated fiscal year is ¥6,650 million.

## (4) Transaction Prices Allocated to Remaining Performance Obligations

The following table shows the summary of the transaction prices allocated to remaining performance obligations that are unsatisfied at March 31, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Within one year	¥ 437,287	¥ 459,913	\$ 3,263,338
After one to five years	707,391	854,866	5,279,039
After five years	4,212	16,233	31,434
Total	¥ 1,148,890	¥ 1,331,014	\$ 8,573,812

## 18. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥2,052 million (\$15,316 thousand) and ¥1,343 million for the years ended March 31, 2023 and 2022, respectively.

## 19. GAIN ON SALES OF SHARES OF SUBSIDIARY AND ASSOCIATED COMPANY

Since the Company determined transfer of all shares of L&T Chiyoda (India) Ltd., an associated company of the Company, a gain of ¥231 million (\$1,725 thousand) on sales of shares of subsidiary and associated company was recorded.

## 20. PROJECT RELATED LOSS DUE TO SETTLEMENTS WITH CUSTOMERS

As a result of the litigation settlement of the pended lawsuit with the customer of the Ichthys LNG projects, a reasonably estimated loss of ¥20,374 million was recorded as "Project related loss due to settlements with customers" and debt corresponding to the loss was recorded as account payable—other in current liabilities, in the prior fiscal year.

## 21. LEASES

The Group leases certain machinery, computer equipment, and other assets.

Future minimum payments under non-cancelable operating leases were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Due within one year		¥ (4)	\$4
Due after one year		(270)	—
Total		¥ (274)	\$4

The consolidated foreign subsidiary which applies U.S. GAAP started to apply "Leases" (ASC Topic 842) from the beginning of the current fiscal year. Operating leases related to the subsidiary is contained only in the amount of the prior consolidated fiscal year.

## 22. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

### (1) Group Policy for Financial Instruments

The Group uses financial instruments for cash surpluses, if any, invested in low-risk financial assets, such as deposits at notice. For operating capital, the Group uses bank loans. Derivatives are used, not for speculative purposes, but to manage exposure to the market risk of fluctuation in foreign currency exchange rates and interest rates.

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

Receivables, such as trade notes and trade accounts, are exposed to customer credit risk. Although receivables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, the position, net of payables in foreign currencies, is hedged by using foreign currency forward contracts.

Investment securities are equity securities related to the business in which the Group operates. Marketable securities are exposed to the risk of fluctuations in stock prices.

Payment terms of payables, such as trade notes and trade accounts, are generally less than one year. Although payables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, the position, net of receivables in foreign currencies, is hedged by using foreign currency forward contracts.

Derivatives are foreign currency forward contracts, which are used to manage exposure to market risks from changes in foreign currency exchange rates of receivables and payables. Please see Notes 2.z and 23 for more details about derivatives.

**(3) Risk Management for Financial Instruments***Credit risk management*

The Group manages its credit risk from receivables based on internal guidelines, which include monitoring of payment terms and balances of major customers to identify the default risk of customers at an early stage.

With respect to foreign currency forward contracts, the Group limits the counterparties to those derivatives to major financial institutions that can bear losses arising from credit risk.

*Market risk management (risk of foreign exchange and interest rates)*

Foreign currency trade receivables and payables are exposed to market risk resulting from fluctuations in foreign currency exchange rates. Such foreign exchange risk grasped by currency and month is hedged principally with foreign currency forward contracts.

Foreign currency forward contracts are controlled under the internal guidelines. The position related to particular construction contracts is identified and is reviewed. For setting and cancelling foreign currency contracts, reconciliation of the transaction and balances with customers' confirmation replies is made, and the transactions related to foreign currency forward contracts are executed and accounted for under internal guidelines.

Marketable and investment securities are managed by monitoring the market values and financial position of issuers on a regular basis. The Group assesses the stock price risk quantitatively so as to account for significant declines in market value as impairment losses.

*Liquidity risk management*

Liquidity risk comprises the risk that the Group cannot meet its contractual obligations in full on their maturity dates. The Group manages its liquidity risk by holding an adequate volume of liquid assets along with timely, adequate financial planning.

**(4) Fair Values of Financial Instruments**

Fair values of financial instruments may differ as such assessment is based on certain assumptions including fluctuating factors, under different assumptions. Please see Note 23 for fair values for derivatives.

**(a) Fair values of financial instruments**March 31, 2023

	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gain (Loss)
Investment securities	¥ 246	¥ 246	—
Total	¥ 246	¥ 246	—
Notes and accounts payable—trade	¥ 129,370	¥ 129,370	
Current portion of long-term debt	5,490	5,490	
Long-term debt	23,600	23,487	¥ (112)
Total	¥ 158,461	¥ 158,348	¥ (112)

March 31, 2022

	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gain (Loss)
Investment securities	¥ 338	¥ 338	—
Total	¥ 338	¥ 338	—
Notes and accounts payable—trade	¥ 96,084	¥ 96,084	
Current portion of long-term debt	20,621	20,605	¥ (15)
Long-term debt	25,000	24,907	(92)
Total	¥ 141,705	¥ 141,597	¥ (108)

March 31, 2023

	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Unrealized Gain (Loss)
Investment securities	\$ 1,837	\$ 1,837	—
Total	\$ 1,837	\$ 1,837	—
Notes and accounts payable—trade	\$ 965,455	\$ 965,455	
Current portion of long-term debt	40,972	40,972	
Long-term debt	176,119	175,277	\$ (841)
Total	\$ 1,182,547	\$ 1,181,705	\$ (841)

Description is omitted as the carrying value of cash and cash equivalents, short-term investments, notes and accounts receivable—trade, accounts receivable—other, jointly controlled assets of joint venture, short-term loans, accounts payable—other, and income taxes payable approximates fair value because of their short maturities.

## (b) Carrying amount of financial instruments with fair values that cannot be reliably determined

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Investment securities that do not have a quoted market price in an active market	¥2,738	¥1,139	\$ 20,433
Investments in equity instruments that do not have a quoted market price in an active market	1	1	9
Investments in unconsolidated subsidiaries and associated companies that do not have a quoted market price in an active market	3,456	4,032	25,793

Financial instruments above are not included in "Investment securities" in "(a) Fair values of financial instruments" as they have no market prices and also it is extremely difficult to determine fair value.

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

March 31, 2023

	Millions of Yen		
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years
Cash and cash equivalents	¥ 59,663		
Short-term investments	1,558		
Notes and accounts receivable, and costs and estimated earnings on long-term construction contracts*	21,169	¥294	
Accounts receivable—other*	39,874		
Jointly controlled assets of joint venture	161,643		
Short-term loans receivable	47,578		
Total	¥331,488	¥294	

March 31, 2022

	Millions of Yen		
	Due in 1 Year or Less as Restated (Note 1)	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years
Cash and cash equivalents	¥ 59,073		
Short-term investments	9,696		
Notes and accounts receivable, and costs and estimated earnings on long-term construction contracts*	28,484	¥216	
Accounts receivable—other*	83,223		
Jointly controlled assets of joint venture	141,438		
Short-term loans receivable	11,402		
Total	¥333,318	¥216	

March 31, 2023

	Thousands of U.S. Dollars		
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years
Cash and cash equivalents	\$ 445,250		
Short-term investments	11,633		
Notes and accounts receivable, and costs and estimated earnings on long-term construction contracts*	157,979	\$2,198	
Accounts receivable—other*	297,573		
Jointly controlled assets of joint venture	1,206,293		
Short-term loans receivable	355,064		
Total	\$2,473,795	\$2,198	

\* Allowance for doubtful accounts is deducted.

Please see Note 12 for annual maturities of long-term debt.

## (6) Financial Instruments Categorized by Fair Value Hierarchy

The fair value of financial instruments is categorized into the following three levels, depending on the observability and significance of the inputs used in making fair value measurements:

Level 1: Fair values measured by using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair values measured by using inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly.

Level 3: Fair values measured by using unobservable inputs for the assets or liabilities.

If multiple inputs are used that have a significant impact on the measurement of fair value, fair value is categorized at the lowest level in the fair value measurement among the levels to which each of these inputs belongs.

## (a) The financial assets and liabilities measured at the fair values in the consolidated balance sheet

March 31, 2023

	Millions of Yen			
	Level 1	Level 2	Level 3	Total
Investment securities—				
Available-for-sale securities—				
equity securities	¥246			¥246
Total assets	¥246			¥246
Derivative transactions—				
Foreign currency forward contracts		¥107		¥107
Total		¥107		¥107

March 31, 2022

	Millions of Yen			
	Level 1	Level 2	Level 3	Total
Investment securities— Available-for-sale securities— equity securities	¥338	—	—	¥338
Total assets	¥338	—	—	¥338
Derivative transactions— Foreign currency forward contracts	—	¥22	—	¥ 22
Total	—	¥22	—	¥ 22

March 31, 2023

	Thousands of U.S. Dollars			
	Level 1	Level 2	Level 3	Total
Investment securities— Available-for-sale securities— equity securities	\$1,837	—	—	\$1,837
Total assets	\$1,837	—	—	\$1,837
Derivative transactions— Foreign currency forward contracts	—	\$804	—	\$ 804
Total	—	\$804	—	\$ 804

(b) The financial assets and liabilities not measured at the fair values in the consolidated balance sheet

March 31, 2023

	Millions of Yen			
	Level 1	Level 2	Level 3	Total
Notes and accounts payable—trade		¥ 129,370		¥ 129,370
Current portion of long-term debt		5,490		5,490
Long-term debt		23,487		23,487
Total liabilities		¥ 158,348		¥ 158,348

March 31, 2022

	Millions of Yen			
	Level 1	Level 2	Level 3	Total
Notes and accounts payable—trade		¥ 96,084		¥ 96,084
Current portion of long-term debt		20,605		20,605
Long-term debt		24,907		24,907
Total liabilities		¥ 141,597		¥ 141,597

March 31, 2023

	Thousands of U.S. Dollars			
	Level 1	Level 2	Level 3	Total
Notes and accounts payable—trade		\$ 965,455		\$ 965,455
Current portion of long-term debt		40,972		40,972
Long-term debt		175,277		175,277
Total liabilities		\$ 1,181,705		\$ 1,181,705

The following is a description of valuation methodologies and inputs used for measurement of the fair value of assets and liabilities:

#### Investment Securities

The fair values of listed equity securities are measured at the quoted market prices. Since listed equity securities are traded in active markets, the fair value of listed equity securities are categorized as Level 1.

#### Derivatives

The fair values of foreign currency forward contracts are measured at quoted market prices obtained from relevant financial institution, and are categorized as Level 2.

#### Notes and Accounts Payable—Trade

The fair value of each group of payables and short-term bank loans with similar maturities are measured by using discounted present value techniques considering assumptions including expected future cash flows and discount rates taking into account maturity and credit risk, and are categorized as Level 2.

#### Current Portion of Long-Term Debt and Long-Term Debt

The fair values of long-term debt are measured by using discounted present value techniques considering assumptions including the total amount of principal and discount rates taking into account maturity and credit risk, and are categorized as Level 2.

### 23. DERIVATIVES

#### Derivative Transactions to Which Hedge Accounting Is Not Applied

March 31, 2023

	Millions of Yen			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Foreign currency forward contracts:				
Selling USD/buying JPY	¥ 9,517		¥ 7	¥ 7
Selling EUR/buying JPY	11,582		20	20
Selling AUD/buying JPY	11,304		9	9
Buying USD/selling JPY	492		(3)	(3)
Total	¥32,896		¥34	¥34

March 31, 2022

	Millions of Yen			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Foreign currency forward contracts:				
Selling USD/buying JPY	¥ 9,376		¥ 7	¥ 7
Selling EUR/buying JPY	16,985		19	19
Selling AUD/buying JPY	32,922		93	93
Buying USD/selling JPY	112		3	3
Total	¥59,396		¥123	¥123

March 31, 2023

	Thousands of U.S. Dollars			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Foreign currency forward contracts:				
Selling USD/buying JPY	\$ 71,025		\$ 54	\$ 54
Selling EUR/buying JPY	86,433		153	153
Selling AUD/buying JPY	84,362		73	73
Buying USD/selling JPY	3,677		(24)	(24)
Total	\$ 245,498		\$ 256	\$ 256

**Derivative Transactions to Which Hedge Accounting Is Applied**

March 31, 2023

	Hedged Item	Millions of Yen		
		Contract Amount	Contract Amount Due after One Year	Fair Value (Loss)
Foreign currency forward contracts—Accounted for under deferred hedge accounting method:				
Selling USD/buying JPY	Foreign currency	¥1,184		¥ (201)
Buying USD/selling JPY	forecasted transaction	43		
Buying EUR/selling JPY		659		59
Total		¥1,887		¥ (142)
Other*1:				
Buying USD/selling JPY	Payables	¥ 231		
Buying EUR/selling JPY		36		
Total		¥ 267		

March 31, 2022

	Hedged Item	Millions of Yen		
		Contract Amount	Contract Amount Due after One Year	Fair Value (Loss)
Foreign currency forward contracts—Accounted for under deferred hedge accounting method:				
Selling USD/buying JPY	Foreign currency	¥3,009		¥ (222)
Buying USD/selling JPY	forecasted transaction	326		19
Buying EUR/selling JPY		1,193		56
Total		¥4,530		¥ (145)
Other*1—				
Buying USD/selling JPY	Payables	¥ 432		
Total		¥ 432		

March 31, 2023

	Hedged Item	Thousands of U.S. Dollars		
		Contract Amount	Contract Amount Due after One Year	Fair Value (Loss)
Foreign currency forward contracts—Accounted for under deferred hedge accounting method:				
Selling USD/buying JPY	Foreign currency	\$ 8,840		\$ (1,502)
Buying USD/selling JPY	forecasted transaction	324		(1)
Buying EUR/selling JPY		4,924		443
Total		\$ 14,089		\$ (1,060)
Other*1:				
Buying USD/selling JPY	Payables	\$ 1,725		
Buying EUR/selling JPY		269		
Total		\$ 1,994		

\*1 Fair value of the foreign currency forward contract assigned for payables is included in the fair value of payables disclosed in Note 22.

**24. OTHER COMPREHENSIVE LOSS**

The components of other comprehensive loss for the years ended March 31, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Unrealized loss on available-for-sale securities:			
Gains (losses) arising during the year	¥ 19	¥ (62)	\$ 146
Reclassification adjustments to profit or loss	(53)	(96)	(399)
Amount before income tax effect	(33)	(159)	(253)
Income tax effect	19	39	145
Total	¥ (14)	¥ (119)	\$ (107)
Deferred gain on derivatives under hedge accounting:			
Gains arising during the year	¥ 4,330	¥ 2,899	\$ 32,317
Reclassification adjustments to profit or loss	(174)	(17)	(1,301)
Adjustment to acquisition cost of assets	(4,146)	(475)	(30,947)
Amount before income tax effect	9	2,405	68
Income tax effect	41	(780)	311
Total	¥ 50	¥ 1,625	\$ 380
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ (7,556)	¥ (4,800)	\$ (56,391)
Reclassification adjustments to profit or loss	(358)	(550)	(2,672)
Total	¥ (7,914)	¥ (5,350)	\$ (59,064)
Defined retirement benefit plans:			
Adjustments arising during the year	¥ (846)	¥ (334)	\$ (6,319)
Reclassification adjustments to profit or loss	(290)	(317)	(2,168)
Amount before income tax effect	(1,137)	(662)	(8,488)
Income tax effect	266	(16)	1,987
Total	¥ (871)	¥ (678)	\$ (6,500)
Share of other comprehensive income of associates:			
Income arising during the year	¥ 13	¥ 79	\$ 100
Reclassification adjustments to profit or loss	329		2,460
Total	¥ 343	¥ 79	\$ 2,560
Total other comprehensive loss	¥ (8,406)	¥ (4,444)	\$ (62,731)

**25. NET INCOME (LOSS) PER SHARE**

A reconciliation of the differences between basic and diluted net income (loss) per share ("EPS") for the years ended March 31, 2023 and 2022, was as follows:

Year Ended March 31, 2023

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
	Net Income Attributable to Owners of the Parent	Weighted- Average Shares	EPS	
Basic EPS—Net income available to common shareholders	¥ 13,087	258,969	¥50.54	\$0.38
Effect of dilutive securities— Preferred stock	2,100	721,385		
Diluted EPS—Net income for computation	¥ 15,187	980,354	¥15.49	\$0.12

Year Ended March 31, 2022

	<u>Millions of Yen</u>	<u>Thousands of Shares</u>	<u>Yen</u>
	<u>Net Loss Attributable to Owners of the Parent</u>	<u>Weighted- Average Shares</u>	<u>EPS</u>
Basic EPS—Net loss available to common shareholders	¥ (14,729)	258,966	<u>¥(56.88)</u>
Effect of dilutive securities— Preferred stock	<u>2,100</u>	<u>736,750</u>	
Diluted EPS—Net loss for computation	¥ (12,629)	995,716	

Please note that diluted EPS for the prior consolidated fiscal year is not indicated because basic earnings per share were negative, although there are potential common shares with dilutive effects.

There was no dilutive effect for the year ended March 31, 2022.

From the prior consolidated fiscal year, the Company had adopted BIP trust and the number of Company stocks remaining in BIP trust included as treasury stock which was excluded from the total outstanding stocks in the calculation of EPS.

The number of Company stocks remaining in BIP trust at March 31, 2023 and 2022, were 904,689 stocks and 909,600 stocks, respectively.

In the calculation of weighted-average shares of basic and diluted net income per share (EPS), the number of company shares held by the trust bank is included in treasury stock that is excluded from the total number of outstanding shares at the end of the current consolidated fiscal year (906 thousand shares and 303 thousand shares in 2023 and 2022).

**26. SUBSEQUENT EVENTS*****Merger of Consolidated Subsidiaries***

The Company concluded the absorption-type merger, with Chiyoda Kosho Co. Ltd. as the surviving company, regarding three consolidated domestic subsidiaries, Chiyoda Kosho Co. Ltd., Chiyoda System Technologies Corporation and Chiyoda TechnoAce Co. Ltd., and they merged on April 1, 2023.

***(a) Outline of absorption-type merger*****(1) Name and business contents of merger companies**

Surviving company name: Chiyoda Kosho Co. Ltd.  
Business contents: Energy, environment and maintenance business

Absorbed company name: Chiyoda System Technologies Corporation  
Business contents: Instrumentation and electrical solution business

Absorbed company name: Chiyoda TechnoAce Co. Ltd.  
Business contents: Life science business

**(2) Date of the merger**

April 1, 2023

**(3) Legal formality of the merger**

The absorption-type merger, with Chiyoda Kosho Co. Ltd. as the surviving company, Chiyoda System Technologies Corporation and Chiyoda TechnoAce Co. Ltd. as absorbed company

**(4) The name after the merger**

Chiyoda X-ONE Engineering Corporation (previously Chiyoda Kosho Co. Ltd.)

**(5) Contents of outline regarding other transactions**

The merger was executed to improve efficiency of business management by integration of above three companies' resources and to optimize the technological capabilities, experience and track record accumulated by the three organizations to progress as a sustainable leading integrated engineering contractor, possessing the comprehensive technologies required for the engineering, procurement and construction (EPC) of industrial plants and factories and develop its maintenance engineering business.

***(b) Outline of accounting policy***

The merger was executed as a deal under common control based on ASBJ Statement No. 21 of "Accounting Standard of Business Combinations" (ASBJ Statement No. 21 of January 1, 2019) and "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10 of January 1, 2019).

Please refer to the consolidated financial statements for the year ended March 31, 2024, issued on the same date for further information.

**27. SEGMENT INFORMATION**

Under Japanese accounting standards, an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and for which such information is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

**(1) *Description of Reportable Segments***

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is performed in order to decide how resources are allocated within the Group. The Group provides "Engineering" services globally, including planning, engineering, construction, procurement, commissioning, and maintenance, adapting the most appropriate functions of each related company.

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

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies."

The profit in reporting segments is based on the operating income. Intersegment income and transfers are measured at the quoted market price.

**(3) *Information about Sales, Profit, Assets, Liabilities, and Other Items*****Year Ended March 31, 2023**

Since the reportable segment of the Group consists of only the "Engineering" segment, and other segments have become immaterial, the Group has omitted reporting of segment information.

**Year Ended March 31, 2022**

Since the reportable segment of the Group consists of only the "Engineering" segment, and other segments have become immaterial, the Group has omitted reporting of segment information.

**Related Information****(1) *Information about Products and Services***

The engineering business represents more than 90% of the total sales of the Group. Accordingly, the presentation of the information about each service is not required under Japanese GAAP.

**(2) Information about Geographical Areas****(a) Revenue**Year Ended March 31, 2023

	Millions of Yen	Thousands of U.S. Dollars
Qatar	¥ 149,896	\$ 1,118,629
Indonesia	125,579	937,161
Japan	93,189	695,440
U.S.A.	55,858	416,851
Others	5,640	42,093
Total	<u>¥ 430,163</u>	<u>\$ 3,210,176</u>

Year Ended March 31, 2022

	Millions of Yen
Japan	¥ 117,677
Qatar	81,266
U.S.A.	54,105
Indonesia	52,870
Others	5,195
Total	<u>¥ 311,115</u>

Note: Revenue is classified by country or region based on the location of construction sites.

**(b) Property, plant and equipment**Year Ended March 31, 2023

	Millions of Yen	Thousands of U.S. Dollars
Japan	¥ 9,393	\$ 70,101
Asia	1,269	9,471
Others	80	604
Total	<u>¥ 10,743</u>	<u>\$ 80,177</u>

Year Ended March 31, 2022

	Millions of Yen
Japan	¥ 9,632
Asia	1,279
Others	125
Total	<u>¥ 11,038</u>

**(3) Information about Major Customers**Year Ended March 31, 2023

Name	Related Segment	Millions of Yen Revenue	Thousands of U.S. Dollars Revenue
Qatar Energy	Engineering	¥ 146,126	\$ 1,090,492
PT Freeport Indonesia	Engineering	91,256	681,014

Year Ended March 31, 2022

Name	Related Segment	Millions of Yen Revenue
Qatar Energy	Engineering	¥ 75,437
BP Berau Ltd.	Engineering	31,521

**(4) Information about Goodwill by Reportable Segment**

The reportable segment of the Group consists of only the engineering segment, and the other segment is immaterial. Accordingly, the Group has omitted reporting of segment information. Regarding the goodwill, which is not included in the reportable segment, its amortization in the year was ¥29 million (\$223 thousand) and its unamortized balance was ¥194 million (\$1,455 thousand).

**28. RELATED PARTY DISCLOSURES**

The material transactions of the Group with the parent company and major shareholders for the years ended March 31, 2023 and 2022, were as follows:

Year Ended March 31, 2023

	Millions of Yen	Thousands of U.S. Dollars
Guaranteed liabilities*1		
Loan of funds*2	¥ 47,000	\$ 350,746

Year Ended March 31, 2022

	Millions of Yen
Guaranteed liabilities*1	¥ 10,000
Loan of funds*2	10,000
Borrowings*3	10,000

\*1 The guaranteed liabilities are related to the borrowings from Mitsubishi Corporation Financial & Management Services (Japan) Ltd. Regarding these guaranteed liabilities, guarantee fees have been paid and buildings, structures, land, investment securities and other assets have been collateralized. The transaction amount represents the balance of liabilities corresponding to the collateral assets as of the end of the fiscal year.

At the end of the current fiscal year, there are no corresponding liabilities.

\*2 This was due to the transaction with Mitsubishi Corporation Financial & Management Services (Japan) Ltd. Regarding the loan of funds, applicable interest rates are rationally determined upon taking into account the market rate of interest.

<sup>\*3</sup> This was due to the transaction with Mitsubishi Corporation Financial & Management Services (Japan) Ltd. Regarding the borrowings, applicable interest rates are rationally determined upon taking into account the market rate of interest.

There are no material balances with unconsolidated subsidiaries and associated companies as of March 31, 2023.

There are no material transactions of the Group with unconsolidated subsidiaries and associated companies for the year ended March 31, 2023.

\* \* \* \* \*

Independent Auditor’s Report



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INDEPENDENT AUDITOR’S REPORT

To the Board of Directors of Chiyoda Corporation:

Opinion

We have audited the consolidated financial statements of Chiyoda Corporation and its consolidated subsidiaries (the "Group"), which comprise the consolidated balance sheet as of March 31, 2023, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

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

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside 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 provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

As discussed in Note 1 of the consolidated financial statements, the accompanying consolidated financial statements have been restated. Our opinion is not modified in respect of this matter.

Key Audit Matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. The matter was 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 the matter.

*Estimate of total construction revenue and total construction cost in revenue recognition*

See Note 3.

Key Audit Matter Description

The Group has mainly entered into long-term construction contracts in the engineering business. For these contracts, the Group determined that it satisfies the performance obligation over time and recognizes revenue by measuring the progress towards the complete satisfaction of such performance obligation. The progress is measured based on the percentage of construction costs incurred by the end of each reporting period to total construction costs. For the year ended March 31, 2023, ¥405,220 million (\$3,024,031 thousand) of the total revenue of ¥430,163 million (\$3,210,176 thousand) was recognized using this method.

This method is based on the estimated total construction revenue and total construction costs, which involve significant judgments and forecasts made by management depending on the business environment and include the following factors of uncertainty of accounting estimates:

- (1) Estimation of total construction revenue includes significant forecasts and judgments related to future uncertain events, such as potential liquidated damages for delays in construction completion. Although an agreement is reached on the change in the method of construction or the scope of work, the agreement on the variable consideration may not necessarily be confirmed in a timely manner by the contract, and there is a significant uncertainty in the estimation of total construction revenue depending on the size and nature of the construction project.
- (2) Estimation of total construction costs is based on various significant assumptions related to the fluctuation of the market prices for outsourcing costs, such as labor costs, equipment and materials costs and transportation costs, the construction schedule established based mainly on the mobilization plan of construction workers and the procurement plan of equipment and materials. For the year ended March 31, 2023, total construction costs increased due to higher prices of labor, equipment and materials than originally estimated which resulted partly from the Russia-Ukraine crisis, or due to delays in the mobilization of construction workers, securing infrastructure, or procurement of equipment and materials that do not proceed as planned. The estimation of total construction costs for such an unexpected event involves high uncertainties and may take time to review depending on the size and nature of the project.

In particular, accounting estimates related large-scale and long-term plant construction projects in foreign countries involve uncertainties and have significant impact on the consolidated financial statements as a whole.

Given the above understanding, we have determined the estimation of total construction revenue and total construction costs used in revenue recognition for large-scale and long-term plant construction projects in foreign countries to be a key audit matter.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures to determine the appropriateness of the estimation of total construction revenue and total construction costs for large-scale and long-term plant construction projects in foreign countries are as follows, among others:

- (1) Internal control testing

We obtained an understanding of the business environment surrounding the Group and the industry. We then tested the design and operating effectiveness of the internal controls over the estimation of total construction revenue and total construction costs used in revenue recognition, including the following controls among others.

Strategy & Risk Integration Division's Cost review: the profit-and-losses and progress of construction projects are monitored, analyzed and evaluated.

Project Profitability Review Meetings: the progress and profitability of current construction projects are reported and discussed.

- (2) Assessment of appropriateness of the estimation of total construction revenue and total construction costs
  - (a) We investigated whether each project's construction budget, which is based on the estimation of total construction costs was quantitatively and comprehensively analyzed and evaluated through Strategy & Risk Integration Division's Cost review.
  - (b) We inspected the documentation of the Project Profitability Review Meetings prepared by project managers to evaluate whether the project's construction budget was adjusted in a timely and appropriate manner and comprehensively in accordance with the progress of the construction reflecting the result of discussion at the meetings.
  - (c) We inquired of project managers and inspected supporting evidence to obtain an understanding of the status of negotiations with customers or subcontractors and the progress of the constructions and identified key uncertain factors, such as the risk of incurring liquidated damages due to delays in the construction project and the risk of incurring additional construction costs to be paid to subcontractors, including the impact of the Russia-Ukraine crisis, and evaluated the reasonableness and feasibility of the assumptions of the estimates.
  - (d) We compared the initial estimated total construction costs with actual or revised total construction costs to evaluate the appropriateness of the estimation of total construction revenue or total construction costs.
  - (e) We compared the estimated amount of total construction revenue or total construction costs with supporting evidence, such as contracts and relating memorandum agreed on with customers, and quotes and invoices from subcontractors or equipment vendors.

**Other Information**

Other information comprises the information included in the Group's disclosure documents accompanying the audited consolidated financial statements, but does not include the consolidated financial statements and our auditor's report thereon.

We determined that no such information existed and therefore, we did not perform any work thereon.

**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' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we 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, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing 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 overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as 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 and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit and Supervisory Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with it 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 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.

### Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

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

Deloitte Touche Tohmatsu LLC  
August 30, 2024



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