NEC NETWORKS & SYSTEM INTEGRATION CORPORATION
AND CONSOLIDATED SUBSIDIARIES

Consolidated Financial Statements
with Independent Auditor's Report.
March 31, 2021 and 2022

CONSOLIDATED BALANCE SHEETS

NEC Networks & System Integration Corporation and Consolidated Subsidiaries
as of March 31, 2021 and 2022

	Millions of yen		Thousands of U.S. dollars (note 3)
	2021	2022	2022
Assets			
Current assets:			
Cash and cash equivalents	¥ 68,426	¥ 79,732	$ 651,458
Notes and accounts receivable (note 22)	123,313	—	—
Notes receivable - trade	—	319	2,606
Accounts receivable – trade (note 22)	—	82,554	674,515
Contract assets (notes 22 and 24)	—	28,665	234,210
Electronically recorded monetary claims	1,256	987	8,064
Inventories (note 6)	11,509	10,778	88,062
Other current assets (note 22)	7,388	11,204	91,543
Allowance for doubtful accounts	(87)	(80)	(653)
Total current assets	211,806	214,161	1,749,824
Non-current assets:			
Property and equipment			
Land	1,507	1,507	12,313
Buildings and structures	10,881	10,988	89,778
Machinery, equipment and vehicles	249	236	1,928
Tools, furniture and fixtures	15,900	16,634	135,909
Construction in progress	890	2,644	21,603
Other	671	677	5,531
Accumulated depreciation	(19,255)	(19,881)	(162,439)
Property and equipment, net	10,845	12,807	104,640
Intangibles, net of accumulated amortization (note 7)	4,908	4,290	35,051
Investments and other assets			
Investment securities (notes 4 and 5)	1,973	4,180	34,153
Asset for retirement benefits (note 10)	313	281	2,295
Deferred tax assets (note 9)	15,198	13,639	111,438
Other assets (note 22)	5,347	5,391	44,047
Allowance for doubtful accounts	(54)	(50)	(408)
Total investments and other assets	22,777	23,442	191,535
Total non-current assets	38,531	40,540	331,236
Total assets	¥ 250,338	¥ 254,701	$ 2,081,060

(Continued)

	Millions of yen		Thousands of U.S. dollars (note 3)
	2021	2022	2022
Liabilities and Net Assets			
Current liabilities:			
Short-term bank loans (note 8)	¥ 6,360	¥ 9,190	$ 75,087
Current installments of long-term debt (note 8)	3,298	264	2,157
Notes and accounts payable (note 22)	44,188	40,486	330,794
Electronically recorded obligations	2,649	1,217	9,943
Advances received (note 22)	7,708	—	—
Contract liabilities (notes 22 and 24)	—	8,229	67,235
Accrued income taxes (note 9)	5,954	4,019	32,837
Accrued bonuses to directors	159	145	1,184
Accrued warranty on products	83	114	931
Accrued losses on sales contracts (note 6)	512	2,107	17,215
Provision for compensation for damage	711	4	32
Provision for office transfer cost	6	—	—
Other current liabilities	19,841	17,857	145,902
Total current liabilities	91,474	83,636	683,356
Non-current liabilities:			
Long-term debt (note 8)	466	3,202	26,162
Liability for retirement benefits (note 10)	29,233	27,714	226,440
Other liabilities (notes 9 and 11)	2,046	1,998	16,324
Total non-current liabilities	31,745	32,914	268,927
Total liabilities	123,220	116,551	952,291
Shareholders' equity (note 12):			
Common stock:	13,122	13,122	107,214
Authorized 300,000,000 shares; issued and outstanding 149,321,421 shares as of March 31, 2021 and 2022			
Capital surplus	16,680	16,694	136,400
Retained earnings	96,589	105,673	863,412
Treasury stock, at cost; 390,930 shares as of March 31, 2021 and 379,090 shares as of March 31, 2022	(266)	(259)	(2,116)
Total shareholders' equity	126,125	135,230	1,104,910
Accumulated other comprehensive income:			
Net unrealized holding gains on available-for-sale securities (note 4)	169	1,242	10,147
Foreign currency translation adjustments	(533)	(517)	(4,224)
Accumulated adjustments for retirement benefits (note 10)	(2,080)	(1,213)	(9,910)
Total accumulated other comprehensive income	(2,443)	(488)	(3,987)
Non-controlling interests	3,435	3,407	27,837
Total net assets	127,117	138,149	1,128,760
Total liabilities and net assets	¥ 250,338	¥ 254,701	$ 2,081,060

The accompanying notes to consolidated financial statements are an integral part of these consolidated financial statements.

*The Company conducted a 3-for-1 stock split of common stock with an effective date of June 1, 2020. The number of common stock and treasury stock as stated above as of March 31, 2021 take the stock split into account.

CONSOLIDATED STATEMENTS OF INCOME

NEC Networks & System Integration Corporation and Consolidated Subsidiaries
Years ended March 31, 2021 and 2022

	Millions of yen		Thousands of U.S. dollars (note 3)
	2021	2022	2022
Net sales (note 22)	¥ 339,109	¥ 310,334	$ 2,535,615
Cost of sales (notes 6 and 22)	275,179	246,861	2,017,003
Gross profit	63,929	63,473	518,612
Selling, general and administrative expenses (notes 15 and 16)	38,366	40,292	329,209
Operating income	25,563	23,181	189,402
Other income (expense):			
Interest income	22	14	114
Interest expense	(97)	(101)	(825)
Dividends income of insurance	142	156	1,274
Reward income	67	99	808
Subsidy income	34	90	735
Loss on disposal of non-current assets	(191)	(120)	(980)
Compensation for damages	(20)	(40)	(326)
Other, net	(27)	270	2,206
Subtotal	(69)	369	3,014
Ordinary Income	25,493	23,550	192,417
Extraordinary income			
Gain on sale of shares of subsidiaries and associates	228	141	1,152
Subtotal	228	141	1,152
Extraordinary loss			
Provision of allowance for compensation for damage (note 17)	976	324	2,647
Subtotal	976	324	2,647
Net income before income taxes	24,745	23,367	190,922
Income taxes (note 9):			
Current	7,894	7,572	61,867
Deferred	465	737	6,021
Subtotal	8,360	8,310	67,897
Net Income	16,385	15,057	123,024
Net Income attributable to:			
Non-controlling interests	639	35	285
Owners of the parent	¥ 15,745	¥ 15,021	$ 122,730

Per share information (notes 12 and 19)	Yen		U.S. dollars
Net assets (basic)	¥ 830.47	¥ 904.66	$ 7.39
Net income (basic)	105.73	100.85	0.82
Cash dividends	35.00	43.00	0.35

The accompanying notes to consolidated financial statements are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

NEC Networks & System Integration Corporation and Consolidated Subsidiaries
Years ended March 31, 2021 and 2022

	Millions of yen		Thousands of U.S. dollars (note 3)
	2021	2022	2022
Net Income	¥ 16,385	¥ 15,057	$ 123,024
Other comprehensive income arising during the year (note 18):			
Net unrealized holding gains on available-for-sale securities	139	1,072	8,758
Deferred gains or losses on hedges	(25)	—	—
Foreign currency translation adjustments	(219)	(16)	(130)
Adjustments for retirement benefit	1,703	866	7,075
Share of other comprehensive income of entities accounted for using equity method	(0)	(0)	(0)
Total other comprehensive income arising during the year	1,598	1,921	15,695
Comprehensive income	¥ 17,983	¥ 16,978	$ 138,720
Comprehensive income attributable to:			
Owners of the parent	¥ 17,423	¥ 16,976	$ 138,704
Non-controlling interests	560	2	16

The accompanying notes to consolidated financial statements are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

NEC Networks & System Integration Corporation and Consolidated Subsidiaries
Years ended March 31, 2021 and 2022

	Numbers of shares of common stock	Millions of yen									
		Shareholders' equity									
			Common stock		Capital surplus		Retained earnings		Treasury stock		Total
	(Thousands)										
Balance on April 1, 2020	49,773	¥	13,122	¥	16,664	¥	84,972	¥	(271)	¥	114,488
Changes arising during the year:											
Cash dividends							(4,169)				(4,169)
Net income attribute to owners of the parent							15,745				15,745
Purchase of treasury stock									(3)		(3)
Disposal of treasury stock					18				8		27
Change in scope of consolidation					(3)		41				37
Increase due to stock split	99,547										
Net changes in accounts other than shareholders' equity											
Total changes during the year	99,547		—		15		11,616		5		11,637
Balance on March 31, 2021	149,321		13,122		16,680		96,589		(266)		126,125
Cumulative effects of changes in accounting policies							20				20
Restated balance			13,122		16,680		96,609		(266)		126,146
Changes arising during the year:											
Cash dividends							(5,957)				(5,957)
Net income attribute to owners of the parent							15,021				15,021
Purchase of treasury stock									(1)		(1)
Disposal of treasury stock					13				8		22
Net changes in accounts other than shareholders' equity											
Total changes during the year	—		—		13		9,063		6		9,084
Balance on March 31, 2022	149,321	¥	13,122	¥	16,694	¥	105,673	¥	(259)	¥	135,230

(Continued)

	Millions of yen						
	Accumulated other comprehensive income						
	Net unrealized holding gains on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Accumulated adjustments for retirement benefits	Total	Non-controlling interests	Total net assets
Balance on April 1, 2020	¥ 30	¥ 25	¥ (392)	¥ (3,783)	¥ (4,121)	¥ 3,143	¥ 113,510
Changes arising during the year:							
Cash dividends							(4,169)
Net income attribute to owners of the parent							15,745
Purchase of treasury stock							(3)
Disposal of treasury stock							27
Change in scope of consolidation							37
Net changes in accounts other than shareholders' equity	139	(25)	(140)	1,703	1,677	292	1,969
Total changes during the year	139	(25)	(140)	1,703	1,677	292	13,607
Balance on March 31, 2021	169	—	(533)	(2,080)	(2,443)	3,435	127,117
Cumulative effects of changes in accounting policies							20
Restated balance	169	—	(533)	(2,080)	(2,443)	3,435	127,138
Changes arising during the year:							
Cash dividends							(5,957)
Net income attribute to owners of the parent							15,021
Purchase of treasury stock							(1)
Disposal of treasury stock							22
Net changes in accounts other than shareholders' equity	1,072	—	16	866	1,954	(27)	1,927
Total changes during the year	1,072	—	16	866	1,954	(27)	11,011
Balance on March 31, 2022	¥ 1,242	¥ —	¥ (517)	¥ (1,213)	¥ (488)	¥ 3,407	¥ 138,149

(Continued)

	Thousands of U.S. Dollars (note 3)				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
Balance on April 1, 2021	$ 107,214	$ 136,285	$ 789,190	$ (2,173)	$ 1,030,517
Cumulative effects of changes in accounting policies			163		163
Restated balance	107,214	136,285	789,353	(2,173)	1,030,688
Changes arising during the year:					
Cash dividends			(48,672)		(48,672)
Net income attribute to owners of the parent			122,730		122,730
Purchase of treasury stock				(8)	(8)
Disposal of treasury stock		106		65	179
Net changes in accounts other than shareholders' equity					
Total changes during the year	—	106	74,050	49	74,221
Balance on March 31, 2022	$ 107,214	$ 136,400	$ 863,412	$ (2,116)	$ 1,104,910

	Thousands of U.S. Dollars (note 3)						
	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Net unrealized holding gain on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Accumulated adjustments for retirement benefits	Total		
Balance on April 1, 2021	$ 1,380	$ —	$ (4,354)	$ (16,994)	$ (19,960)	$ 28,066	$ 1,038,622
Cumulative effects of changes in accounting policies							163
Restated balance	1,380	—	(4,354)	(16,994)	(19,960)	28,066	1,038,794
Changes arising during the year:							
Cash dividends							(48,672)
Net income attribute to owners of the parent							122,730
Purchase of treasury stock							(8)
Disposal of treasury stock							179
Net changes in accounts other than shareholders' equity	8,758	—	130	7,075	15,965	(220)	15,744
Total changes during the year	8,758	—	130	7,075	15,965	(220)	89,966
Balance on March 31, 2022	$ 10,147	$ —	$ (4,224)	$ (9,910)	$ (3,987)	$ 27,837	$ 1,128,760

The accompanying notes to consolidated financial statements are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

NEC Networks & System Integration Corporation and Consolidated Subsidiaries
Years ended March 31, 2021 and 2022

	Millions of yen		Thousands of U.S. dollars (note 3)
	2021	2022	2022
Cash flows from operating activities:			
Net income before income taxes	¥ 24,745	¥ 23,367	$ 190,922
Depreciation and amortization	3,256	3,279	26,791
Amortization of goodwill	238	271	2,214
Increase (decrease) in allowance for doubtful accounts	10	(11)	(89)
(Increase) decrease in asset for retirement benefits	(102)	27	220
Increase (decrease) in liability for retirement benefits	454	(302)	(2,467)
Increase (decrease) in accrued bonuses to directors	19	(13)	(106)
Increase (decrease) in accrued warranty on products	(21)	30	245
Increase (decrease) in accrued losses on sales contracts	(1,646)	1,599	13,064
Increase (decrease) in provision for compensation for damage	(615)	(707)	(5,776)
Interest and dividend income	(47)	(54)	(441)
Interest expense	97	101	825
(Increase) decrease in notes and accounts receivable	(12,908)	—	—
(Increase) decrease in notes and accounts receivable-trade and contract assets	—	12,513	102,238
(Increase) decrease in inventories	1,645	730	5,964
Increase (decrease) in notes and accounts payable	3,799	(5,179)	(42,315)
Other, net	4,072	(2,671)	(21,823)
Subtotal	22,998	32,982	269,482
Interest and dividend received	47	54	441
Interest paid	(97)	(101)	(825)
Income taxes paid	(5,565)	(10,259)	(83,822)
Net cash provided by operating activities	17,383	22,674	185,260

(Continued)

	Millions of yen		Thousands of U.S. dollars (note 3)
	2021	2022	2022
Cash flows from investing activities:			
Purchase of property and equipment	(3,025)	(3,427)	(28,000)
Proceeds from sale of property and equipment	11	19	155
Purchase of intangibles	(663)	(962)	(7,860)
Proceeds from sales of intangibles	0	—	—
Purchase of investment securities	(450)	(849)	(6,936)
Proceeds from sales of shares of subsidiaries and associates	330	189	1,544
Loans receivable made	(17)	(18)	(147)
Collection of loans receivable	1	0	0
Other, net	(477)	(2,114)	(17,272)
Net cash used in investing activities	(4,289)	(7,162)	(58,517)
Cash flows from financing activities:			
Net increase (decrease) in short-term bank loans	2,477	2,270	18,547
Repayments of long-term debt	(298)	(3,298)	(26,946)
Proceeds from long-term debt	—	3,000	24,511
Proceeds from sale and purchase of treasury stock, net	(3)	20	163
Dividends paid to shareholders	(4,162)	(5,949)	(48,606)
Dividends paid to non-controlling interest	(23)	(30)	(245)
Other, net	(379)	(280)	(2,287)
Net cash used in financing activities	(2,388)	(4,267)	(34,863)
Effect of exchange rate changes on cash and cash equivalents	(66)	61	498
Net increase (decrease) in cash and cash equivalents	10,638	11,305	92,368
Cash and cash equivalents at beginning of year	58,321	68,426	559,081
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	(532)	—	—
Cash and cash equivalents at end of year	¥ 68,426	¥ 79,732	$ 651,458

The accompanying notes to consolidated financial statements are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NEC Networks & System Integration Corporation and Consolidated Subsidiaries
March 31, 2021 and 2022

1. BASIS OF PREPARATION

NEC Networks & System Integration Corporation (the "Company") and its domestic subsidiaries maintain their books of account in conformity with accounting principles generally accepted in Japan. Its foreign subsidiaries maintain their books of account in conformity with those of their countries of domicile.
The accompanying consolidated financial statements have been compiled from the consolidated financial statements prepared by the Company as required under the Japanese Financial Instruments and Exchange Law and, have been prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of IFRSs.

As permitted by the Japanese Financial Instruments and Exchange Law, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sum of the individual amounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation

The Company has 18 subsidiaries (companies over which the Company can control their operations) as of March 31, 2022 (19 subsidiaries as of March 31, 2021) (the "Group").

The accompanying consolidated financial statements include the accounts of the Company and the significant companies controlled directly or indirectly by the Company. All significant intercompany balances and transactions have been eliminated in consolidation.

The financial statements of the 6 subsidiaries with year-end of December 31 have been used for consolidation. All material transactions that occurred in the period from such year-end to March 31, which is the Company's year-end, have been adjusted.

The difference between the carrying amount and the underlying net assets at fair value at the respective dates of acquisition is allocated to identifiable assets and liabilities based on fair market value at the dates of acquisition. The unallocated portion of the difference, which is recognized as goodwill, is amortized by the straight-line method over a period of up to 20 years in which the future benefit of each investment is expected.

The Company also has 3 affiliates accounted for using equity method.
If the fiscal year-end of affiliates differs from that of the Company, financial statements prepared by their fiscal year-end are utilized for those affiliates.

(b) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into yen at the exchange rates prevailing at the consolidated balance sheet dates. All revenues and expenses associated with foreign currencies are translated at the rates of exchange prevailing when such transactions were made. The resulting exchange gain or loss is credited or charged to income.

The revenue and expense accounts of the foreign subsidiaries are translated into yen at the average exchange rates prevailing during the year, and, except for the components of shareholders' equity, the consolidated balance sheet accounts are translated at the rates of exchange in effect at the consolidated balance sheet date. The components of shareholders' equity are translated at their historical exchange rates. Translation adjustments, except for the portion included in non-controlling interests, are presented as a separate component of net assets in the accompanying consolidated financial statements.

(c) Cash equivalents

Cash and cash equivalents include all highly liquid investments – generally with original maturities of three months or less – that are readily convertible to known amounts of cash and have negligible risk of changes in value due to their short maturities.

(d) Investment securities

Marketable securities classified as available-for-sale securities are measured at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Cost of

securities sold is determined by the moving-average method.
Non-marketable securities classified as available-for-sale securities are carried at cost determined by the moving-average method. Investments to investment limited partnerships (that are regarded as securities under Article 2, Paragraph 2 of the Financial Instruments and Exchange Act.), are recognized at an amount equivalent to the Company's percentage share of the net assets of such partnerships, based on the latest financial statements available at the reporting date stipulated in a partnership agreement.

(e) Inventories
Work in process is stated at the lower of cost or net selling value determined on a specific project basis. Purchased goods and materials are stated at the lower of cost or net selling value determined primarily by the moving-average method.

(f) Depreciation and amortization
Depreciation of property and equipment is principally computed by the straight-line method.

Significant renewals and improvements are capitalized. Maintenance and repair costs are charged to expense.

The useful lives of property and equipment are summarized as follows:

Buildings and structures	2 to 50 years
Machinery, equipment, and vehicles	2 to 17 years
Tools, furniture, and fixtures	2 to 20 years

Intangibles are amortized by the straight-line method over their estimated useful lives.
Software for sale is amortized based on projected sales volumes over the estimated effective periods (within 3 years). Software for internal use is amortized by the straight-line method over the estimated useful lives (within 5 years).

(g) Allowance for doubtful accounts
The allowance for doubtful accounts is provided at an amount determined based on the historical experience of bad debt with respect to ordinary receivables, and an estimate of uncollectible amounts determined by reference to specific doubtful receivables from customers which are experiencing financial difficulties.

(h)Accrued warranty on products
Accrued warranty on products is provided for at the estimated warranty cost.

(i) Accrued losses on sales contracts
Accrued losses on sales contracts are provided for in the amount of estimated losses for work in process at the consolidated balance sheet date. Among sales orders of the Company on hand at the consolidated balance sheet date, for projects in which the estimated cost is expected to exceed the amount of the sales order, such excess costs on sales contracts are accrued.

(j) Provision for compensation for damage
Provision for compensation for damage is provided for at the amount of estimated compensation for damage.

(k) Leases
Leased assets under finance lease transactions that do not transfer ownership are depreciated by using the straight-line method over the lease term as their useful lives with zero residual value.

(l) Research and development costs
Research and development costs are charged to expense as incurred.

(m) Retirement benefits
Liability for retirement benefits is provided mainly at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets at the consolidated balance sheet dates. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated years of services of the eligible employees. Actuarial gain or loss is amortized from the subsequent year that it occurs by the straight-line method within the average remaining years (10 to 17 years) of service of the employees. Past service costs are amortized beginning from the year it is incurred by the straight-line method within the average remaining years (12 to 18 years) of service of the employees.

Certain consolidated subsidiaries use a simplified method for calculating retirement benefit asset and liability

and retirement benefit costs.
For lump-sum payment plans, the payment for voluntary retirement at fiscal year-end is deemed as retirement benefit obligation, and for annuity payment plans, the actuarial obligation on pension finance calculation in the recent years is deemed as the retirement benefit obligation.

(n) Income taxes
Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(o) Derivative financial instruments
Derivatives are recorded at their fair value with any changes in unrealized gain or loss charged or credited to income, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss, net of the applicable income taxes, is directly included in net assets.

Methods for significant hedge accounting
(i) Hedge accounting method
Deferral hedge accounting is applied. For forward exchange contracts, the allocation method is applied if the criteria for the allocation method are met.
(ii) Hedging instruments and hedged items
Hedging instruments: Forward exchange contracts
Hedged items: Any monetary receivables and payables and planned trading transactions that are denominated in foreign currencies.
(iii) Hedging policy
The Company uses derivative transaction in accordance with internal policies to mitigate and avoid the foreign exchange fluctuation risk.
(iv) Hedging evaluation
Hedge effectiveness is evaluated by comparing the total changes in values of hedging instruments and hedged items for the periods from the commencement of hedge contracts to the evaluation dates. For forward exchange contracts which meet the criteria for the allocation method, the evaluation of hedge effectiveness is omitted.

(p) Revenue recognition
The contents of principal performance obligations and the normal point of time when the performance obligation is fulfilled, which means the normal point of time of revenue recognition, on the major business related to revenues arising from the contracts with customers of the Company and its consolidated subsidiaries are as follows:
(System integration, development and construction)
The main performance obligation is to provide constructional service and work such as construction work for customers agreed upon in the contract, and we judge that these service and work are transactions for which the performance obligation is fulfilled for a certain period of time. Revenue is recognized based on the degree of progress for those for which a reasonable estimate of progress can be made, and if a reasonable estimate of progress cannot be made, revenue is recognized based on a cost recovery basis to the extent of the costs incurred.
In the event that the period from the date of commencement of business under the contract to the time when the obligation of full performance is expected to be fulfilled is very short, revenues are not recognized over a certain period of time;instead, revenue is recognized when the obligation of full performance is fulfilled.
(Provision of Services)
The principal performance obligation is to provide maintenance and operation support services, data center services, contact center services. These services are deemed to be transactions for which the performance obligation is fulfilled for a certain period of time, and revenue is recognized for a certain period of time depending on the progress of the services. With respect to transactions for which the term of the contract is stipulated, such as support services for maintenance for a certain period, and for which almost the same service is continuously provided over that period, the performance obligation is deemed to be fulfilled over the lapse of time, and the revenues are recognized equally throughout the contract period.
(Sale of Products)
The main performance obligation is the delivery of products such as equipment, and the sale of these products is considered to be a transaction in which the performance obligation is fulfilled at any one time, and revenue is recognized at the time of delivery of such products.

(q) Accrued bonuses to directors
The Company and its domestic consolidated subsidiaries provide accrued bonuses to directors based on the estimated amounts to be paid in respect of the year.

(r) Reclassifications
"Subsidy income" and "Compensation for damages", which were included in "Other, net" under "Other income (expense)" in the previous consolidated fiscal year, have been presented separately from the current consolidated fiscal year. In addition, "Mid cancellation income" under "Other income (expense)" in the previous consolidated fiscal year has been included in "Other, net" from the current consolidated fiscal year. To reflect these changes in presentation, the consolidated financial statements for the previous consolidated fiscal year have been reclassified.
As a result, in the consolidated statement of income for the previous consolidated fiscal year, ¥97 million of "Mid cancellation income" and ¥-111 million of "Other, net" under "Other income (expense)" have been reclassified as ¥34 million of "Subsidy income", ¥-20 million of "Compensation for damages" and ¥-27 million of "Other, net".

(s) Significant accounting estimates
1. Recognition of revenue from construction work for which the performance obligations is fulfilled over a Certain Period
(1) Carrying amounts in the current year's consolidated financial statements

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Recognition of revenue from construction work for which the performance obligations is fulfilled over a Certain Period	¥ 105,736	¥ 83,203	$ 679,818

(2) Information on the nature of significant accounting estimates for identified items
The Group recognizes revenue from construction work over a certain period of time based on the progress in fulfilling performance obligations that can be readily estimated, except for cases where the period is very short. The progress in fulfilling performance obligations is estimated as a percentage of total costs incurred to date over the estimated total construction costs (the input method).
Assumptions for estimating total construction costs are reviewed as necessary, and any changes are recognized in the fiscal year in which the impact of the revisions in assumptions are reasonably estimated. In addition, changes in the assumptions used in estimating total construction costs in the future (such as design changes and natural disasters) could cause changes in the initial estimates, which could materially affect the amounts recognized in the consolidated financial statements for the following fiscal year.

2. Accrued losses on sales contracts
(1) Carrying amounts in the current year's consolidated financial statements

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Accrued losses on sales contracts	¥ 512	¥ 2,107	$ 17,215

(2) Information on the nature of significant accounting estimates for identified items

Among sales orders on hand at the consolidated balance sheet date, for projects in which the total estimated cost is expected to exceed the contract amount, such excess costs on sales contracts are accrued for future losses that would occur in the following fiscal years.

In estimation of accrued losses on sales contracts, the Group manages the risk for each contract through the process of the projects and for projects in which the estimated cost is expected to exceed the contract amount, such excess costs on sales contracts are accrued. Also, the initial estimated accrued losses may possibly be revised due to the changes in underlying assumptions used for estimating the future total cost such as design change or a natural disaster. Thus, the changes could materially affect the Company's consolidated financial statements for the following consolidated fiscal year.

(t) Changes in Accounting Policies

1. Application of Accounting Standard for Revenue Recognition

The "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020, hereinafter referred to as the "Accounting Standard for Revenue Recognition") and other standards came into effect from the beginning of the current consolidated fiscal year, and revenue is recognized when control of promised goods or services is transferred to customers in an amount expected to be received in exchange for those goods or services.

With regard to the application of the Accounting Standard for Revenue Recognition, in accordance with the transitional treatment stipulated in the provisions of paragraph 84 of the Accounting Standard for Revenue Recognition, the cumulative effect of retrospective application of a new accounting policy prior to the beginning of the current consolidated fiscal year has been adjusted to retained earnings at the beginning of the current consolidated fiscal year, and a new accounting policy has been applied from the beginning of the current consolidated fiscal year. However, the new accounting policy has not been applied retrospectively to contracts for which the method set forth in paragraph 86 of the Accounting Standard for Revenue Recognition has been applied and substantially all revenue amounts have been recognized in accordance with previous treatment prior to the beginning of the current consolidated fiscal year. In addition, the method prescribed in the proviso (1) of paragraph 86 of Accounting Standard for Revenue Recognition is applied, and changes in contracts made prior to the beginning of the current consolidated fiscal year are accounted for in accordance with the terms and conditions of the contracts after reflecting all changes in the contracts, and the cumulative effect is added to or subtracted from retained earnings at the beginning of the current consolidated fiscal year.

As a result, the impact on the consolidated financial statements for the current consolidated fiscal year were insignificant.

Due to the adoption of Accounting Standard for Revenue Recognition, the "Notes and accounts receivable" presented in "Current assets" in the consolidated balance sheet for the previous fiscal year has been included in "Notes receivable-trade," "Accounts receivable-trade" and "Contract assets" from the current consolidated fiscal year, and the "Advances received" presented in "Current liabilities" for the previous fiscal year has been presented in "Contract liabilities" from the current consolidated fiscal year. In addition, "Increase (decrease) in notes and accounts receivable (△ represents an increase)" which was presented in "Cash flows from operating activities" in the consolidated statements of cash flows for the previous fiscal year has been included in "Increase (decrease) in notes and accounts receivable-trade and contract assets (△ represents an increase)" from the current consolidated fiscal year. In accordance with the transitional treatment stipulated in Article 89-2 of the Accounting Standard for Revenue Recognition, the previous consolidated fiscal year has not been reclassified using the new presentation method.

The impact on per share information is shown in the relevant section.

In addition, in accordance with the transitional treatment stipulated in paragraph 89-3 of Accounting Standard for Revenue Recognition, the notes "Revenue Recognition" for the previous consolidated fiscal year is not described.

2. Application of Accounting Standard for Fair Value Measurement

The Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019, hereinafter referred to as the "Accounting Standard for Fair Value Measurement") and other standards came into effect from the beginning of the current consolidated fiscal year, and in accordance with the transitional treatment stipulated in paragraph 19 of the Accounting Standard for Fair Value Measurement and paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), the new accounting policy stipulated by the Accounting Standard for Fair Value Measurement will be applied in the future. The impact on the consolidated financial statements for the current consolidated fiscal year were insignificant.

In addition, in the "Notes to Financial Instruments," the Company has decided to provide notes on matters such as the breakdown of the fair value of financial instruments by level of inputs. However, in accordance with the transitional treatment stipulated in paragraph 7-4 of the "Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No.19, July 4, 2019), relevant notes related to the previous consolidated fiscal year are not described.

(u) Additional information

There was no significant on the impact of the new coronavirus infection (hereinafter referred to as the "Infectious Disease") in the current consolidated fiscal year. The infectious disease is an event that has a broad impact on the economy and corporate activities, and it is difficult to predict how it will spread or when it will converge in the future. However, based on external information and other factors, the group makes accounting estimates such as the recoverability of deferred tax assets based on the assumption that it will not have a material impact in the future at this time.

3. U.S. DOLLAR AMOUNTS

The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made, as a matter of arithmetic computation only, at ¥122.39 = U.S.$1.00, the approximate rate of exchange on March 31, 2022. The translation should not be construed as a representation that the yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at that or any other rate.

4. INVESTMENT SECURITIES

The components of unrealized gain or loss on marketable securities classified as available-for-sale securities on March 31, 2021 and 2022 are summarized as follows:

	Millions of yen		
March 31, 2021	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	¥ 138	¥ 108	¥ 29
Subtotal	138	108	29
Securities whose acquisition cost exceeds their carrying value:			
Equity securities	9	15	(5)
Subtotal	9	15	(5)
Total	¥ 148	¥ 124	¥ 24

	Millions of yen			Thousands of U.S. dollars		
March 31, 2022	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Equity securities	¥ 361	¥ 309	¥ 52	$ 2,949	$ 2,524	$ 424
Subtotal	361	309	52	2,949	2,524	424
Securities whose acquisition cost exceeds their carrying value:						
Equity securities	28	38	(9)	228	310	(73)
Subtotal	28	38	(9)	228	310	(73)
Total	¥ 390	¥ 347	¥ 42	$ 3,186	$ 2,835	$ 343

Sales of securities classified as available-for-sale securities for the years ended March 31, 2021 and 2022 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Proceeds from sales	¥ 23	¥ 0	$ 0
Gain (Loss) on sales	(1)	0	0

Unlisted equity securities of ¥336 million, investment partnership of ¥1,019 million, corporate bond type bonds with stock acquisition rights of ¥221million on March 31, 2021 are not included in the above table because there is no market value thereof and future cash flows cannot be estimated therefor, thus, making it extremely difficult to measure the fair value.
Unlisted equity securities of ¥465 million ($3,799 thousand), investment partnership of ¥3,102 million ($25,345 thousand), corporate bond type bonds with stock acquisition rights of ¥244 million ($1,993thousand) on March 31, 2022 are not included in the above table.
The Company recognized impairment losses of ¥44 million on available-for-sale securities without market value. During the fiscal year ended March 31, 2022, the Company recognized impairment losses of ¥7 million ($57 thousand) and ¥1 million ($8 thousand) on available-for-sale securities with and without market value, respectively.
Marketable securities whose fair value as at fiscal year-end has declined by 50% or more, the carrying value are reduced to its fair value, except in cases where the decline in fair value is expected to be recoverable. If the decline in their market value is between 30% and 50%, the carrying value are reduced to the amount that is necessary, except in cases where the decline in fair value is expected to be recoverable. Non-marketable securities are impaired if the net asset per share has declined by 50% or more due to deterioration of issuers' financial conditions.

5. INVESTMENT IN AN AFFILIATE

The aggregate carrying amount of investment in an affiliate as of March 31, 2021 and 2022 are ¥247 million and ¥222 million ($ 1,813 thousand), respectively.

6. INVENTORIES

a) Inventories on March 31, 2021 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Work in process	¥ 8,052	¥ 8,155	$ 66,631
Purchased goods and materials	3,456	2,623	21,431
Total	¥ 11,509	¥ 10,778	$ 88,062

b) Losses from revaluation of the lower of cost or net selling value included in cost of sales for the years ended March 31, 2021 and 2022 were ¥-76 million and ¥148 million ($1,209 thousand), respectively.

c) Losses on sales contracts included in cost of sales for the years ended March 31, 2021 and 2022 were ¥132 million and ¥1,971 million ($16,104 thousand), respectively.

d) Accrued losses on sales contracts and work in process corresponding to the loss contract are not offset in the accompanying consolidated balance sheets.
Work in process inventories corresponding to accrued losses on sales contracts on March 31, 2021 and 2022 are as follows.

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Work in process	¥ 31	¥ 18	$ 147

7. GOODWILL

Goodwill on March 31, 2021 and 2022 is recorded in the accompanying consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Intangibles, net of accumulated amortization	¥ 623	¥ 388	$ 3,170

According to Article 32 of the "Practical Guidelines on Accounting Standards for Capital Consolidation Procedures in Preparing Consolidated Financial Statements" (Accounting Practice Committee Statement No. 7 amended on November 28, 2014 by the Japan Institute of Certified Public Accountants), goodwill is amortized.

8. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans and long-term debt are unsecured.

The weighted average interest rates of current installments of long-term debt for the years ended March 31, 2021 and 2022 were approximately 0.4% and 0.5% and those of long-term debt for the years ended March 31, 2021 and 2022 were approximately 0.5% and 0.4%, respectively.

The annual maturities of long-term debt on March 31, 2022 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31,		
2023	¥ 264	$ 2,157
2024	202	1,650
2025	3,000	24,511
2026	—	—
2027 and thereafter	—	—

As of March 31, 2021 and 2022, the Group have entered contracts for committed lines of credit totaling ¥8,000 million and ¥8,000 million ($65,364 thousand), respectively with two domestic banks and have unused committed lines of credit amounting to ¥8,000 million and ¥8,000 million ($65,364 thousand), respectively.

9. INCOME TAXES

Income taxes applicable to the Company and its domestic subsidiaries comprise corporation, enterprise, and inhabitants' taxes, which, in the aggregate, resulted in a statutory tax rate of approximately 30.6% and 30.6% for 2021 and 2022, respectively. Income taxes of the foreign subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

The effective tax rates reflected in the consolidated statements of income for the years ended March 31, 2021 and 2022 differed from the statutory tax rate for the following reasons:

	2021	2022
Statutory tax rate	30.6%	30.6%
Effect of:		
Expenses not deductible for tax purposes	0.6	1.4
Inhabitant tax per capita levy	0.6	0.7
Tax credit	(0.3)	(0.3)
Increase/(Decrease) in valuation allowance	1.3	2.3
Amortization of goodwill	0.1	0.1
Other, net	0.9	0.9
Effective tax rate	33.8%	35.6%

Tax effects of significant temporary differences and tax loss carry-forward that resulted in deferred tax assets or liabilities on March 31, 2021 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Deferred tax assets:			
Accrued employees' bonuses	¥ 2,786	¥ 2,437	$ 19,911
Social security contribution on employees' bonuses	389	347	2,835
Allowance for doubtful accounts	28	23	187
Accrued enterprise tax	417	345	2,818
Loss on revaluation of inventories	1,279	1,363	11,136
Unrealized profit on inventories	21	21	171
Accrued losses on sales contracts	153	455	3,717
Depreciation	298	283	2,312
Asset retirement obligations	494	494	4,036
Liability for retirement benefits	8,982	8,519	69,605
Stock dividends	106	106	866
Impairment loss on investment securities	63	77	629
Impairment loss on assets	539	535	4,371
Allowance for compensation for damage	217	1	8
Provision for office transfer cost	2	-	-
Tax loss carry-forward (Note 2)	1,126	1,222	9,984
Other	604	640	5,229
Subtotal	17,512	16,875	137,878
Valuation allowance on tax loss carry-forward (Note 2)	(623)	(740)	(6,046)
Valuation allowance on total deductible temporary differences and other	(960)	(1,360)	(11,112)
Subtotal (Note 1)	(1,584)	(2,100)	(17,158)
Total	15,927	14,774	120,712
Deferred tax liabilities:			
Asset for retirement benefits	(71)	(72)	(588)
Restoration cost for asset retirement obligations	(354)	(320)	(2,614)
Goodwill	(100)	(50)	(408)
Liability adjustment account	(126)	(120)	(980)
Other	(76)	(594)	(4,853)
Total	(729)	(1,157)	(9,453)
Net deferred tax assets	¥ 15,198	¥ 13,617	$ 111,259

(Note) 1. Valuation allowance on tax loss carry-forward was increased by ¥516 million ($4,216 thousand). The increase mainly results from reassessment of recoverability of deferred tax assets.

2. The amounts of tax loss carry-forward and related deferred tax assets by carry-forward period

	Millions of yen						
March 31, 2021	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years	Total
Tax loss carry-forward (*1)	¥ 10	¥ 1	¥ 5	¥ 748	¥ 0	¥ 360	¥ 1,126
Valuation allowance	(10)	(1)	(1)	(299)	(0)	(310)	(623)
Deferred tax assets	¥ —	¥ —	¥ 4	¥ 448	¥ —	¥ 49	¥ 502 (*2)

March 31, 2022	Millions of yen Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years	Total
Tax loss carry-forward (*1)	¥ 1	¥ 1	¥ 742	¥ 0	¥ —	¥ 476	¥ 1,222
Valuation allowance	(1)	(1)	(371)	(0)	—	(365)	(740)
Deferred tax assets	¥ —	¥ —	¥ 370	¥ —	¥ —	¥ 111	¥ 482 (*2)

March 31, 2022	Thousands of U.S. dollars Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years	Total
Tax loss carry-forward (*1)	$ 8	$ 8	$ 6,062	$ 0	$ —	$ 3,889	$ 9,984
Valuation allowance	(8)	(8)	(3,031)	(0)	—	(2,982)	(6,046)
Deferred tax assets	$ —	$ —	$ 3,031	$ —	$ —	$ 906	$ 3,938 (*2)

(*1) Tax loss carry-forward is after multiplying the statutory tax rate.

(*2) Deferred tax assets of ¥502 million and ¥482 million ($3,938 thousand) are recognized for tax loss carry-forward of ¥1,126 million and ¥1,222 million ($9,984 thousand) for the years ended March 31, 2021 and 2022, respectively, which are after multiplying the statutory tax rate, of the consolidated subsidiaries. As for the above tax loss carry-forward, valuation allowance has not been recognized for the part that deemed to be recoverable since future taxable income will be available.

10. RETIREMENT BENEFIT PLANS

The Company and its consolidated subsidiaries have funded or unfunded defined benefit plans and defined contribution plans.

Lump-sum or annuity payments are paid from the corporate defined benefit pension plans, all of which are funded based on the employees' job grade and length of service.
Lump-sum payments are paid from unfunded lump-sum payment plans based on the employees' job grade, performance, and length of service.

Certain consolidated subsidiaries use a simplified method for calculating retirement benefit asset and liability and retirement benefit costs.
For lump-sum payment plans, the payment for voluntary retirement at fiscal year-end is deemed as retirement benefit obligation, and for annuity payment plans, the actuarial obligation on pension finance calculation in the recent years is deemed as the retirement benefit obligation.

The information for the Company's and the consolidated subsidiaries' defined benefit plans on March 31, 2021 and 2022 for the years then ended is as follows.

(1) Movement in retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Retirement benefit obligation at beginning of year	¥ 60,209	¥ 60,199	$ 491,862
Service cost	2,844	2,588	21,145
Interest cost	519	513	4,191
Actuarial gain or loss	(345)	(866)	(7,075)
Benefits paid	(3,123)	(3,096)	(25,296)
Other	95	(223)	(1,822)
Retirement benefit obligation at end of year	¥ 60,199	¥ 59,115	$ 483,005

(Note) The above table excludes certain plans that have adopted the simplified method.

(2) Movements in plan assets

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Plan assets at beginning of year	¥ 29,587	¥ 31,596	$ 258,158
Expected return on plan assets	734	786	6,422
Actuarial gain or loss	1,539	(201)	(1,642)
Contributions paid by the employer	1,123	1,131	9,240
Benefits paid	(1,396)	(1,290)	(10,540)
Other	6	(3)	(24)
Plan assets at end of year	¥ 31,596	¥ 32,018	$ 261,606

(Note) The above table excludes certain plans that have adopted the simplified method.

(3) Reconciliation of changes in liability for retirement benefits whose plans adopted the simplified method

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Liability for retirement benefits at beginning of year	¥ 424	¥ 316	$ 2,581
Retirement benefit costs	(32)	31	253
Benefits paid	(44)	8	65
Other	(30)	(21)	(171)
Liability for retirement benefits at end of year	¥ 316	¥ 335	$ 2,737

(4) Reconciliation from retirement benefit obligations and plan assets to liability (asset) for retirement benefits

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Funded retirement benefit obligation	¥ 32,089	¥ 31,463	$ 257,071
Plan assets	(32,089)	(32,502)	(265,560)
	0	(1,039)	(8,489)
Unfunded retirement benefit obligation	28,919	28,471	232,625
Net liability for retirement benefits	¥ 28,919	¥ 27,432	$ 224,135
Liability for retirement benefits	¥ 29,233	¥ 27,714	$ 226,440
Asset for retirement benefits	(313)	(281)	(2,295)
Net liability for retirement benefits	¥ 28,919	¥ 27,432	$ 224,135

(Note) The above table includes certain plans that have adopted the simplified method.

(5) Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Service cost	¥ 2,844	¥ 2,588	$ 21,145
Interest cost	519	513	4,191
Expected return on plan assets	(734)	(786)	(6,422)
Net actuarial loss amortization	1,063	814	6,650
Past service costs amortization	(496)	(237)	(1,936)
Retirement benefit costs calculated by the simplified method	(32)	31	253
Other	(14)	31	253
Retirement benefit costs	¥ 3,149	¥ 2,955	$ 24,144

(6) Adjustments for retirement benefit

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Past service costs	¥ (496)	¥ (237)	$ (1,936)
Actuarial gains and losses	2,948	1,479	12,084
Total	¥ 2,452	¥ 1,242	$ 10,147

(7) Accumulated adjustments for retirement benefit

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Unrecognized prior service costs	¥ (731)	¥ (494)	$ (4,036)
Unrecognized actuarial gains and losses	3,701	2,221	18,146
Total	¥ 2,969	¥ 1,727	$ 14,110

(8) Plan assets
(a) The components of plan assets

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Debt securities	¥ 13,681	¥ 14,457	$ 118,122
Equity securities	4,914	5,318	43,451
General account	3,593	3,574	29,201
Alternative	9,200	8,547	69,834
Other	205	121	988
Total	¥ 31,596	¥ 32,018	$ 261,606

(Note) Total plan assets include ¥121 million and ¥24 million ($196 thousand) in a retirement benefit trust established for the corporate pension plan as of March 31, 2021 and 2022, respectively.
Alternative is mainly investment to hedge fund.

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

(9) Actuarial assumptions
The principal actuarial assumptions on March 31, 2021 and 2022 (expressed as weighted averages) are as follows:

	2021	2022
Discount rate	0.9%	0.8%
Long-term expected rate of return	2.5%	2.5%
Expected increase rate of salary	4.0%	4.0%

The amounts to be paid by the Company and its consolidated subsidiaries to the defined contribution plans were ¥495 million and ¥530 million ($4,330 thousand) for the years ended March 31, 2021 and 2022.

11. ASSET RETIREMENT OBLIGATIONS
The asset retirement obligations are based on estimated future restoration obligations related to leasehold contracts of head office and other facilities.
The obligations are calculated based on the estimated office rental period of 3 years to 20 years and a discounted rate of 0.0% to 2.2%.

The following table provides Company's total asset retirement obligations for the years ended March 31, 2021 and 2022:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Balance, beginning of year	¥ 1,118	¥ 1,582	$ 12,925
Obligations incurred by asset acquisition	576	68	555
Obligations settled	(193)	(47)	(384)
Accretion expense	8	7	57
Remeasurements	9	—	—
Others	(6)	(9)	(73)
Balance, end of year	¥ 1,582	¥ 1,602	$ 13,089

12. SHAREHOLDERS' EQUITY
Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.
The Companies Act provides that an amount equal to 10% of distributions from retained earnings paid by the Company and its domestic consolidated subsidiaries be appropriated as a legal earnings reserve. No further appropriations are required when the total amount of the additional paid-in capital and the legal earnings reserve equals 25% of their respective stated capital. The Companies Act also provides that additional paid-in capital and legal earnings reserve are available for appropriations by the resolution of the shareholders. The legal earnings reserve amounted to ¥546 million ($4,461 thousand) as of both March 31, 2021 and 2022. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.
Cash dividends charged to retained earnings for the years ended March 31, 2021 and 2022 represent dividends paid out during those years. The amount available for dividends is based on the amount recorded in the Company's non-consolidated books of account in accordance with the Companies Act.

The movement of treasury stock is as follows:

	Shares	
	2021	2022
At beginning of year	134,067	390,930
Increase -stock split	268,134	—
Increase -purchase of odd lot shares	1,767	1,060
Disposal of Treasury Share as Share Compensation with Restriction on Transfer	(12,900)	(12,900)
Decrease -sale of odd lot shares	(138)	—
At end of year	390,930	379,090

a) Dividends paid during the year ended March 31, 2021

The following was approved by the Board of Directors on April 28, 2020.

(a)	Total dividends	¥2,084 million
(b)	Cash dividends per common share	¥14.00
(c)	Record date	March 31, 2020
(d)	Effective date	June 3, 2020

The following was approved by the Board of Directors on October 29, 2020.

(a)	Total dividends	¥2,085 million
(b)	Cash dividends per common share	¥14.00
(c)	Record date	September 30, 2020
(d)	Effective date	December 2, 2020

(Note) The Company conducted a 3-for-1 stock split of common stock with an effective date of June 1, 2020. Cash dividends per common share as stated above were calculated as if the relevant stock split was conducted at the beginning of the year ended March 31, 2020.

b) Dividends to be paid after March 31, 2021 although record date for payment falls within the year ended March 31, 2021

The following was approved by the Board of Directors on April 27, 2021.

(a)	Total dividends	¥3,127 million
(b)	Dividend source	Retained earnings
(c)	Cash dividends per common share	¥21.00
(d)	Record date	March 31, 2021
(e)	Effective date	June 3, 2021

c) Dividends paid during the year ended March 31, 2022

The following was approved by the Board of Directors on April 27, 2021.

(a)	Total dividends	¥3,127 million	($25,549 thousand)
(b)	Cash dividends per common share	¥21.00	($0.17)
(c)	Record date	March 31, 2021	
(d)	Effective date	June 3, 2021	

The following was approved by the Board of Directors on October 29, 2021.

(a)	Total dividends	¥2,829 million	($23,114 thousand)
(b)	Cash dividends per common share	¥19.00	($0.16)
(c)	Record date	September 30, 2021	
(d)	Effective date	December 2, 2021	

d) Dividends to be paid after March 31, 2022 although record date for payment falls within the year ended March 31, 2022

The following was approved by the Board of Directors on April 28, 2022.

(a)	Total dividends	¥3,574 million	($29,201 thousand)
(b)	Dividend source	Retained earnings	
(c)	Cash dividends per common share	¥24.00	($0.20)
(d)	Record date	March 31, 2022	
(e)	Effective date	June 3, 2022	

14. LEASES

(1) Finance leases

Under finance leases that do not transfer ownership of the leased property to the lessee

Most of leased properties are telecommunications equipment in Digital Solution Business. The leased properties whose ownership are not transferred to lessee are depreciated using the straight-line method over the period of the lease, with zero residual value.

(2) Operating leases

Future minimum operating lease payments after March 31, 2021 and 2022 for non-cancelable operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Due within one year	¥ 2,654	¥ 2,481	$ 20,271
Due over one year	7,928	5,458	44,595
Total	¥ 10,583	¥ 7,940	$ 64,874

15. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The significant components of selling, general and administrative expenses for the years ended March 31, 2021 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Employee's salary	¥ 18,053	¥ 18,739	$ 153,108
Provision for bonuses to directors	146	150	1,225
Retirement benefit costs	1,004	993	8,113
Provision of allowance for doubtful accounts	4	0	0

16. RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in selling, general and administrative expenses amounted to ¥962 million and ¥1,311 million ($10,711 thousand) for the years ended March 31, 2021 and 2022, respectively.

17. PROVISION OF ALLOWANCE FOR COMPENSATION FOR DAMAGE

Provision of allowance for compensation for damage is provided for constructions based on the estimated loss amount reasonably calculated at the end of the fiscal year.

18. OTHER COMPREHENSIVE INCOME

The reclassification adjustment and the related income tax effects allocated to each component of other comprehensive income for the years ended March 31, 2021 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Net unrealized holding gains on available-for-sale securities:			
Unrealized holding gain (loss) arising during the year	¥ 199	¥ 1,552	$ 12,680
Reclassification adjustment for gain/loss realized in net income	2	(7)	(57)
Before tax amount	201	1,544	12,615
Tax effect	(62)	(471)	(3,848)
Net-of-tax amount	139	1,072	8,758
Deferred gains or losses on hedges			
Deferred gains or losses on hedges arising during the year	—	—	—
Reclassification adjustment for gain/loss realized in net income	(38)	—	—
Before tax amount	(38)	—	—
Tax effect	13	—	—
Net-of-tax amount	(25)	—	—

Foreign currency translation adjustments:			
Foreign currency translation adjustments arising during the year	(219)	(16)	(130)
Reclassification adjustment for gain/loss realized in net income	—	—	—
Before tax amount	(219)	(16)	(130)
Tax effect	—	—	—
Net-of-tax amount	(219)	(16)	(130)
Adjustments for retirement benefit:			
Adjustments for retirement benefit arising during the year	1,885	665	5,433
Reclassification adjustment for gain/loss realized in net income	567	577	4,714
Before tax amount	2,452	1,242	10,147
Tax effect	(748)	(376)	(3,072)
Net-of-tax amount	1,703	866	7,075
Share of other comprehensive income of entities accounted for using equity method			
Share of other comprehensive income of entities accounted for using equity method arising during the year	(0)	(0)	0
Total other comprehensive income	¥ 1,598	¥ 1,921	$ 15,695

19. AMOUNTS PER SHARE

	Yen		U.S. dollars
	2021	2022	2022
Net income per share	¥ 105.73	¥ 100.85	$ 0.82
Net assets per share	830.47	904.66	7.39

(Note)

1. The Company conducted a resolution to implement a 3-for-1 stock split of common stock with an effective date of June 1, 2020. Net income per share and Net assets per share were calculated as if the relevant stock split were conducted at the beginning of the previous consolidated fiscal year ended March 31, 2020.
2. As stated in (Changes in Accounting Policies), the Company has applied the "Accounting Standard for Revenue Recognition" and other standards from the beginning of the current consolidated fiscal year. As a result, the impact on "Net assets per share" and "Net income per share" for the current consolidated fiscal year were insignificant.

The basis of calculation for net income per share is as shown below.

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Net income attributable to owners of the parent	¥ 15,745	¥ 15,021	$ 122,730
Amounts not attributable to common stock	—	—	—
Net income attributable to owners of the parent related to common stock	¥ 15,745	¥ 15,021	$ 122,730
Average number of shares during the term (thousands of shares)	148,927	148,938	

(Note) The Company conducted a 3-for-1 stock split of common stock with an effective date of June 1, 2020. Average number of shares during the term was calculated as if the relevant stock split were conducted at the beginning of the previous consolidated fiscal year ended March 31, 2020

20. FINANCIAL INSTRUMENTS

Conditions of Financial instruments

(1) Management policy

The Group makes short-term deposits or uses high-security financial instruments for fund management purposes. The Group obtains funding for capital expenditure plans mainly through bank loans.

The Group utilizes derivative financial instruments to hedge various risks as described in detail below and does not enter derivatives for trading or speculative purposes.

(2) Financial instruments and risks

The notes, accounts receivable and electronically recorded monetary claims are exposed to credit risk of customers. Operating receivables and payables denominated in foreign currencies are exposed to foreign currency fluctuation risk.

Marketable and investment securities, except for short-term investments, are held for business and capital alliances with business associates and are exposed to stock market fluctuation risk.

Maturities of notes, accounts payable and electronically recorded obligations are within one year.

Debts are for funding capital expenditure, and their maximum maturities are 3 years after the consolidated balance sheet date for the years ended March 31, 2021 and 2022, respectively. Part of the obligations has floating interest rates and is exposed to interest rate risk.

To hedge the foreign exchange rates fluctuation risk associated with operating receivables and payables denominated in foreign currencies, forward foreign exchange contracts are used.

Hedge accounting is applied for certain derivative transactions. Please refer to note 2 (p).

(3) Financial instruments risk management

1) Credit risk

To mitigate and quickly capture collectability issues, the Group regularly monitors customers' credit status, and performs due date controls and balance controls for each customer.

When the Group utilizes derivatives or deposits money and purchases securities for cash management purposes, to mitigate the counterparty risk, the counterparties to these transactions are financial institutions with high credit ratings.

2) Market risk

The Group comprehends foreign currency fluctuation risk by currency and by month, and to mitigate the risk, the Group enters a forward exchange contract for hedging the cash flow fluctuation risk associated with operating receivables and payables denominated in foreign currencies.

To mitigate the stock market fluctuation risk, the Group regularly monitors stock prices and financial status of its business associates and continuously considers whether the Group should hold the stock.

Derivative transactions entered by the Group are in accordance with policies and rules that provide for risk management, approvals, reporting and verifications.

3) Liquidity risk

To mitigate the liquidity risk, the Group prepares and updates its funds management plan on a timely basis and maintains an appropriate level of liquidity through its cash and cash equivalents and unused committed lines of credit.

(4) Supplemental explanation regarding fair value of financial instruments

Fair value of financial instruments for which quoted market price is not available is calculated based on certain assumptions, and the fair value may differ if different assumptions are used. In addition, the contract amount of the derivative transactions described below in note 21 DERIVATIVES does not represent the market risk of the derivative transactions.

(5) Concentration of credit risk

At both March 31, 2021 and 2022, 22% and 24% of operating receivables were receivables from a certain major customer (NEC Corporation).

Fair value of financial instruments

Carrying amount, fair value and its variance between them are as follows.

March 31, 2021	Millions of yen Carrying amount	Fair value	Variance
Assets:			
Investment securities	148	148	—
Total	¥ 148	¥ 148	¥ —
Liabilities:			
Long-term debt （Current installments of long-term debt are included.）	3,764	3,763	(0)
Total	¥ 3,764	¥ 3,763	¥ (0)

(Note 1)

Assets:

1) Cash and cash equivalents
2) Notes receivable
3) Accounts receivable
4) Electronically recorded monetary claims

Notes are omitted because these instruments are cash and are settled in a short period of time, and their fair values approximate their carrying amounts.

5) Investment securities

Please see note 4 INVESTMENT SECURITIES for references.

Liabilities:

1) Notes payable and accounts payable
2) Electronically recorded obligations
3) Short-term bank loans

Since these instruments are settled in a short period of time, their fair values approximate their carrying amounts, and thus the notes are omitted.

Derivative transactions:

Since these instruments are settled in a short period of time, their fair values approximate their carrying amounts, and thus the notes are omitted.

(Note) Financial instruments of which the fair value is extremely difficult to measure

	Millions of yen 2021
Unlisted equity securities	¥ 584
Investment partnership	1,019
Convertible bondtype corporate bonds with stock acquistion rights	221

The above securities are not included in “Assets: Investment securities", as market prices are not available and future cash flows cannot be estimated reliably. Thus, the fair value cannot be reasonably obtained.

March 31, 2022	Millions of yen Carrying amount	Millions of yen Fair value	Millions of yen Variance	Thousands of U.S. dollars Carrying amount	Thousands of U.S. dollars Fair value	Thousands of U.S. dollars Variance
Assets:						
Investment securities	390	390	—	3,186	3,186	—
Total	¥ 390	¥ 390	¥ —	$ 3,186	$ 3,186	$ —
Liabilities:						
Long-term debt (Current installments of long-term debt are included.)	3,466	3,463	(2)	28,319	28,294	(16)
Total	¥ 3,466	¥ 3,463	¥ (2)	$ 28,319	$ 28,294	$ (16)

(Note 1)

Assets:

1) Cash and cash equivalents
2) Notes receivable
3) Accounts receivable
4) Electronically recorded monetary claims

Notes are omitted because these instruments are cash and are settled in a short period of time, and their fair values approximate their carrying amounts.

Liabilities:

1) Notes payable and accounts payable
2) Electronically recorded obligations
3) Short-term bank loans

Since these instruments are settled in a short period of time, their fair values approximate their carrying amounts, and thus the notes are omitted.

(Note 2) Carrying amount of stocks without market price and investment partnerships.

	Millions of yen 2022	Thousands of U.S. dollars 2022
Unlisted equity securities	¥ 687	$ 5,613
Investment partnership	3,102	25,345

The above items are not included in "Investments securities."

(Note 3) Projected future redemption of monetary claims and securities with maturities on March 31, 2021.

	Millions of yen			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash equivalents	¥ 68,426	¥ —	¥ —	¥ —
Notes and accounts receivable	123,313	—	—	—
Electronically recorded monetary claims	1,256	—	—	—
	¥ 192,996	¥ —	¥ —	¥ —

Projected future redemption of monetary claims and securities with maturities on March 31, 2022.

	Millions of yen			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash equivalents	¥ 79,732	¥ —	¥ —	¥ —
Notes receivable	319	—	—	—
Accounts receivable	82,554	—	—	—
Electronically recorded monetary claims	987	—	—	—
	¥ 163,593	¥ —	¥ —	¥ —

	Thousands of U.S. dollars			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash equivalents	$ 651,458	$ —	$ —	$ —
Notes receivable	2,606	—	—	—
Accounts receivable	674,515	—	—	—
Electronically recorded monetary claims	8,064	—	—	—
	$ 1,336,653	$ —	$ —	$ —

(Note 4) The annual maturities of long-term debt and other interest-bearing debt on March 31, 2021.

	Millions of yen					
	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term bank loans	¥ 6,360	¥ —	¥ —	¥ —	¥ —	¥ —
Long-term debt (Long-term borrowings scheduled to be refunded within one year are included.)	3,298	264	201	—	—	—

The annual maturities of long-term debt and other interest-bearing debt on March 31, 2022.

	Millions of yen					
	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term bank loans	¥ 9,190	¥ —	¥ —	¥ —	¥ —	¥ —
Long-term debt (Long-term borrowings scheduled to be refunded within one year are included.)	264	202	3,000	—	—	—

	Thousands of U.S. dollars					
	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term bank loans	$ 75,087	$ —	$ —	$ —	$ —	$ —
Long-term debt (Long-term borrowings scheduled to be refunded within one year are included.)	2,157	1,650	24,511	—	—	—

3. Fair value information of financial instruments by level of inputs

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

Level 1 fair value: the fair value measured by quoted prices of identical assets or liabilities in active markets.

Level 2 fair value: the fair value measured using observable inputs other than Level 1.

Level 3 fair value: fair values measured using unobservable inputs.

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

(1) Financial instruments recorded in the consolidated balance sheets at fair value on March 31,2022

	Fair value (Millions of yen)			
	Level 1	Level 2	Level 3	Total
Investment securities				
available-for-sale securities				
Securities	¥ 145	¥ —	¥ —	¥ 145
Corporate bonds	—	244	—	244
Total	¥ 145	¥ 244	¥ —	¥ 390

	Fair value (Thousands of U.S. dollars)			
	Level 1	Level 2	Level 3	Total
Investment securities				
Inventories				
Securities	$ 1,184	$ —	$ —	$ 1,184
Corporate bonds	—	1,993	—	1,993
Total	$ 1,184	$ 1,993	$ —	$ 3,186

(2) Financial instruments other than financial instruments included in the consolidated balance sheets at fair value on March 31, 2022.

	Fair value (Millions of yen)			
	Level 1	Level 2	Level 3	Total
Long-term debt				
(Long-term borrowings scheduled to be refunded within one year are included.)	¥ —	¥ 3,463	¥ —	¥ 3,463
Total	¥ —	¥ 3,463	¥ —	¥ 3,463

	Fair value (Thousands of U.S. dollars)			
	Level 1	Level 2	Level 3	Total
Long-term debt				
(Long-term borrowings scheduled to be refunded within one year are included.)	$ —	$ 28,294	$ —	$ 28,294
Total	$ —	$ 28,294	$ —	$ 28,294

(Note) Valuation techniques and inputs used in measuring fair values

Investment securities

Listed stocks and corporate bonds are valued using quoted prices. Listed stocks are traded in an active market and, therefore, their fair values are classified as Level 1 fair values.

On the other hand, the corporate bonds held by the Company are classified as Level 2 fair values because they are not frequently traded in the market and are not deemed to have quoted prices in an active market.

Long-term debt

The fair value of these instruments is calculated using the discounted present value method based on the interest rate taking into account the sum of principal and interest, the remaining term of the debt and credit risk, and is classified as Level 2 fair value.

21. DERIVATIVES

The Company enters forward exchange contracts with major Japanese banks to manage certain risks arising from adverse fluctuations in foreign currency exchange rates.

On March 31, 2021 and 2022, the disclosure of fair value information for derivatives are as follows:

(1) Derivatives that are not accounted for as hedges

For the year ended March 31, 2021

	Transaction type	Millions of yen			
		Contract amount		Fair Value	Valuation gain/loss
		Total	Over 1 year		
Transactions out of market	Forward exchange contract				
	Order to buy:				
	Euro	¥ 3	¥ —	¥ 0	¥ 0
	British pound	1	—	0	0
Total		¥ 5	¥ —	¥ 0	¥ 0

There is no derivative that are not accounted for as hedges to report for the year ended March 31, 2022.

(2) Derivatives that are accounted for as hedges

There is no derivative that are accounted for as hedges to report for the year ended March 31, 2021 and 2022.

22. RELATED PARTY TRANSACTIONS

(1) The Company's balances with related parties and related transactions

NEC Corporation owned 51.42% and 51.42% of the Company's outstanding common stock as of March 31, 2021 and 2022, respectively.

Balances with NEC Corporation on March 31, 2021 and 2022, and related transactions for the years then ended are summarized as follows:

Transactions	Millions of yen 2021	Millions of yen 2022	Thousands of U.S. dollars 2022
Construction and maintenance of network system:			
Transactions:			
Sales	¥ 64,420	¥ 62,434	$ 510,123
Balances:			
Accounts receivable	26,291	18,849	154,007
Advances received	852	—	—
Contract assets	—	4,677	38,213
Contract liabilities	—	959	7,835
Purchases of communication device:			
Transactions:			
Purchases	44,404	38,301	312,942
Balances:			
Accounts payable	11,649	9,828	80,300
Advance payments	454	842	6,879

23. SEGMENT INFORMATION

The reported segments of the Company are the business units for which the Company can obtain respective financial information separately for the Board of Directors to conduct periodic investigation to determine the distribution of management resources and evaluate their business results.

The "Digital Solutions Business," "Network Infrastructures Business" and "Engineering & Support Services Business" are the Company's reportable segments. The Company combines business segments which have similar economic characteristics into these reportable segments. The business segments are based on the operation headquarters by service lines, which are the units used for internal reporting for performance management.

The Digital Solutions Business mainly renders system integration related to ICT platform and outsourcing/cloud services for business of enterprises and other customers and provision of solutions/services that are helpful for customers' business transformation by using cutting-edge/digital technologies, and contact center services.

The Network Infrastructures Business mainly centered on telecom carriers, central and local governments, and social infrastructures service providers, provide system integration/services related to network infrastructures of a public nature with the required high reliability, and the development/manufacture and sales of network equipment, and provide system integration.

The Engineering & Support Services Business mainly renders construction business in Japan and abroad, provision of support services such as maintenance and operations/monitoring related to ICT systems/services provided by the Company and operations of company-wide service infrastructures, in addition to technical support using them.

Segment sales, income, assets, and others are calculated by accounting methods like those employed to prepare the accompanying consolidated financial statements.

As stated in (Changes in Accounting Policies), the Company has applied the Accounting Standard for Revenue Recognition from the consolidated financial statements for the current consolidated fiscal year, and changed the accounting method for revenue recognition. As a result, the method of calculating profit or loss for business segments has been changed in the same manner.

The impact on the consolidated financial statements for the current consolidated fiscal year were insignificant.

The reported segment information for the Company and its consolidated subsidiaries for the years ended March 31, 2021 and 2022 is summarized as follows:

	Millions of yen					
March 31, 2021	Digital Solutions	Network Infrastructures	Engineerin g & Support Services	Others	Adjustments	Total
Sales:						
(1) Sales to third parties	¥ 125,960	¥ 89,232	¥ 114,089	¥ 9,827	¥ —	¥ 339,109
(2) Intersegment sales	—	—	—	—	—	—
Total	¥ 125,960	¥ 89,232	¥ 114,089	¥ 9,827	¥ —	¥ 339,109
Segment income	¥ 13,763	¥ 9,291	¥ 11,813	¥ 794	¥ (10,098)	¥ 25,563
Segment assets	¥ 43,936	¥ 55,007	¥ 58,012	¥ 2,492	¥ 90,888	¥ 250,338
Others:						
Depreciation and amortization	¥ 1,424	¥ 444	¥ 334	¥ 42	¥ 1,009	¥ 3,256
Purchases of property and equipment, and intangible assets	2,220	1,101	444	124	1,369	5,260
Investment to entities accounted for using equity method	247	—	—	—	—	247

March 31, 2022	Millions of yen					
	Digital Solutions	Network Infrastructures	Engineering & Support Services	Others	Adjustments	Total
Sales:						
(1) Sales to third parties	¥ 110,344	¥ 96,426	¥ 98,116	¥ 5,446	¥ —	¥ 310,334
(2) Intersegment sales	—	—	—	—	—	—
Total	¥ 110,344	¥ 96,426	¥ 98,116	¥ 5,446	¥ —	¥ 310,334
Segment income	¥ 13,047	¥ 10,254	¥ 9,117	¥ 702	¥ (9,940)	¥ 23,181
Segment assets	¥ 47,506	¥ 57,235	¥ 64,848	¥ 2,656	¥ 82,454	¥ 254,701
Others:						
Depreciation and amortization	¥ 1,333	¥ 410	¥ 400	¥ 41	¥ 1,094	¥ 3,279
Purchases of property and equipment, and intangible assets	2,441	847	599	1,263	530	5,682
Investment to entities accounted for using equity method	222	—	—	—	—	222

March 31, 2022	Thousands of U.S. dollars					
	Digital Solutions	Network Infrastructures	Engineering & Support Services	Others	Adjustments	Total
Sales:						
(1) Sales to third parties	$ 901,576	$ 787,858	$ 801,666	$ 44,497	$ —	$ 2,535,615
(2) Intersegment sales	—	—	—	—	—	—
Total	$ 901,576	$ 787,858	$ 801,666	$ 44,497	$ —	$ 2,535,615
Segment income	$ 106,601	$ 83,781	$ 74,491	$ 5,735	$(81,215)	$ 189,402
Segment assets	$ 388,152	$ 467,644	$ 529,847	$ 21,701	$673,698	$ 2,081,060
Others:						
Depreciation and amortization	$ 10,891	$ 3,349	$ 3,268	$ 334	$ 8,938	$ 26,791
Purchases of property and equipment, and intangible assets	19,944	6,920	4,894	10,319	4,330	46,425
Investment to entities accounted for using equity method	1,813	—	—	—	—	1,813

(Note)

1. "Others" includes purchases of information and telecommunications equipment, etc., which are not included in the reportable segment.
2. “Adjustments” of ¥-10,098 million and ¥-9,940 million ($-81,215 thousand) in segment income for the years ended March 31, 2021 and 2022, respectively, are mainly personal and other expenses in the administrative department.
3. “Adjustments” of ¥90,888 million and ¥82,454 million ($673,698 thousand) in segment assets on March 31, 2021 and 2022, respectively, mainly consist of surplus funds (cash and deposits), land, long-term deposits and assets related to the administrative operations of the parent company.
4. Segment income is adjusted with operating income in the consolidated statements of income.
5. “Purchases of property and equipment, and intangible assets” for the years ended March 31, 2021 and 2022 include long-term prepaid expenses.
6. As a result of the reorganization of our organization on April 1, 2022, we changed the reportable segments of the Digital Solutions Business, Network Infrastructure Business, and Engineering & Support Services Business to the DX Solutions Business, Network Solutions Business, and Social and Environmental Solutions Business from the year ending March 31, 2023.

Related information

Related segment information for the years ended March 31, 2021 and 2022 are as follows:

(1) Information by products and services

Please refer to the reported segment information.

(2) Geographical information

1) Sales

Disclosures are omitted because sales to Japanese customers are over 90% of sales in the consolidated statements of income.

2) Property and equipment

Disclosures are omitted because property and equipment located in Japan are over 90% of property and equipment in the consolidated balance sheets.

(3) Information by major customers

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Customer name:			
NEC Corporation			
Sales	¥ 69,630	¥ 67,925	$ 554,988

The above sales are related to the “Digital Solutions Business”, “Network Infrastructures Business” and “Engineering & Support Services Business”.

Information of impairment loss on fixed assets by reported segments for the years ended March 31, 2021 and 2022

There are no amounts to report.

Information of amortization of goodwill and balances of goodwill by reported segments as of and for the years ended March 31, 2021 and 2022

	Millions of yen					
March 31, 2021	Digital Solutions	Network Infrastructures	Engineering & Support Services	Others	Adjustments	Total
Amortization of goodwill	¥ 13	¥ 224	¥ —	¥ —	¥ —	¥ 238
Balances of goodwill	54	569	—	—	—	623

	Millions of yen					
March 31, 2022	Digital Solutions	Network Infrastructures	Engineering & Support Services	Others	Adjustments	Total
Amortization of goodwill	¥ 10	¥ 261	¥ —	¥ —	¥ —	¥ 271
Balances of goodwill	43	344	—	—	—	388

	Thousands of U.S. dollars					
March 31, 2022	Digital Solutions	Network Infrastructures	Engineering & Support Services	Others	Adjustments	Total
Amortization of goodwill	$ 81	$ 2,132	$ —	$ —	$ —	$ 2,214
Balances of goodwill	351	2,810	—	—	—	3,170

Negative goodwill incurred by reported segments for the years ended March 31, 2021 and 2022

There are no amounts to report.

24. REVENUE RECOGNITION

1.Information that decomposes revenues arising from contracts with customers

The Group's reportable segments are the Digital Solutions Business, the Network Infrastructure Business, and the Engineering and Support Services Business.

The Group's revenue is broken down and recognized into two types: "Service delivery contracts (including outsourcing and maintenance)" and "System integration and construction contracts."

The relationship between revenues broken down by type of goods or services and the Group's reportable segments is as follows:

	Millions of yen				
March 31, 2022	Digital Solutions	Network Infrastructures	Engineering & Support Services	Others	Total
Service delivery contracts (including outsourcing and maintenance)	¥ 58,942	¥ 26,760	¥ 30,764	¥ —	¥ 116,468
System Integration and Construction Contracts	51,401	69,665	67,352	5,446	193,866
Total	¥ 110,344	¥ 96,426	¥ 98,116	¥ 5,446	¥ 310,334

	Thousands of U.S. dollars				
March 31, 2022	Digital Solutions	Network Infrastructures	Engineering & Support Services	Others	Total
Service delivery contracts (including outsourcing and maintenance)	$ 481,591	$ 218,645	$ 251,360	$ —	$ 951,613
System Integration and Construction Contracts	419,977	569,205	550,306	44,497	1,584,001
Total	$ 901,576	$ 787,858	$ 801,666	$44,497	$ 2,535,615

(Note) 1. "Others" is a business segment that is not included in reportable segments and includes the purchase and sale of information and telecommunications equipment.

2. In service delivery contracts including outsourcing and maintenance, the revenues are recognized primarily over a certain period in each segment.

3. Of system integration and construction contracts, the ratio of revenues recognized over a certain period of time is approximately 30% in the Digital Solutions Business, approximately 40% in the Network Infrastructure Business and approximately 60% in the Engineering and Support Services Business.

2.Underlying information to understand the revenues from contracts with customers

(1)Information on Contracts and Performance Obligations

(Contracts with Customers)

The Group recognizes revenue from contracts with customers involved in system integration, development and construction, the provision of services and the sale of products. For these contracts, multiple contracts concluded with the same customer at the same time or at nearly the same time shall be judged to be necessary for the combination of contracts, and contracts deemed to be necessary for the combination shall be treated as a single contract.

(Identification of Separate Performance Obligations in Contracts with Customers)

The Group accounts separately if the goods or services promised in the contract with the customer are separate, i.e., if the customer is able to benefit alone or in combination with other resources readily available to the customer from the goods or services and if the goods or services can be distinguished separately from other promises contained in the contract, identifying them as separate performance obligations.

(2)Information on the calculation of transaction prices

In calculating the transaction price, the Group measures the price in the amount of consideration that the enterprise expects to be entitled to in exchange for goods or services promised to customers.

(3)Information concerning the calculation of the amount to be distributed to the performance obligation

The Group allocates the transaction prices to their respective performance obligations to depict the amount of consideration that the Group expects to be entitled to transfer and exchange promised goods or services to customers. In order to allocate the transaction price to each performance obligation in proportion to the independent sales price, the independent sales price at the commencement of the contract for the separate goods or services on which each performance obligation under the contract is based is calculated, and the transaction price is allocated in proportion to the independent sales price. If the independent sales price is not directly observable, the independent sales price is estimated.

(4)Information on the time of fulfillment of the obligation

The Group recognizes revenue when the performance obligations is fulfilled by transferring promised goods or services to customers or as the performance obligations is fulfilled over a period of time. The case that control over goods or services is transferred and its performance obligation is fulfilled for a period of time is to: 1) the customer enjoys the benefit as the Group fulfills its obligations in the contract with customer; 2) the asset arises or the value of the asset increases by fulfilling the obligation in the contract with customer, and as the asset arises or the value of the asset increases, the customer takes control of the asset; or 3) as a result of fulfilling the obligation in the contract with customer, the asset that cannot be diverted to another use arises and the Group has a compelling right to receive the consideration for the fulfilled part of its performance obligations in the contract with customer. For these transactions, the performance obligations are to be fulfilled for a period of time, and the revenue is accordingly recognized over a period of time.

In other cases, revenue is recognized at a point in time when control over the assets is determined to have been transferred to the customer.

In the case of recognizing revenue over a period of time, the Group measures the degree of progress to portray the performance in transferring control over promised goods or services to customers. Revenue is recognized based on the degree of progress for those for which a reasonable estimate of progress can be made, and if a reasonable estimate of progress cannot be made, revenue is recognized based on a cost recovery basis to the extent of the costs incurred.

The method for estimating the progress of fulfilling the performance obligations is the input method based on the incurred cost.

3.Information on the relationship between the fulfillment of performance obligations under contracts with customers and the cash flow arising from such contracts and the amount and timing of revenue expected to be recognized in the following consolidated fiscal year and thereafter from contracts with customers existing at the end of the current consolidated fiscal year

(1)Balance of Contract Assets and Contract Liabilities

Contract assets are the rights of the enterprise to the consideration received in exchange for goods or services transferred by the enterprise to its customers, and contract liabilities are mainly advances received from customers in construction contracts.

The amount of revenue recognized in the current consolidated fiscal year that is included in the balance of contract liabilities as of the beginning of the current consolidated fiscal year is ¥5,439 million ($44,439 thousand).

	Millions of yen	Thousands of U.S. dollars
	2022	2022
Receivables from contracts with customers (beginning balance)	¥ 95,788	$ 782,645
Contract assets (beginning balance)	28,375	231,840
Contract liabilities (beginning balance)	7,708	62,979

(2)Transaction price allocated to the remaining performance obligations

The total amount of the transaction price allocated to the remaining performance obligations and the estimated period of recognition of revenue are as follows.

	Millions of yen		Thousands of U.S. dollars	
	2022		2022	
Due within one year	¥	128,717	$	1,051,695
Due after one year		36,529		298,463
Total	¥	165,246	$	1,350,159

25. SUBSEQUENT EVENTS

1. Changes in business segment categories

The Digital Solutions, Network Infrastructure, and Engineering & Support Services segments were changed from the fiscal year ending March 31,2023 to the DX Solutions, Network Solutions, and Social and Environmental Solutions segments due to the reorganization of some organizations on April 1, 2022, with the aim of realizing the Digital ×5G strategy and improving competitiveness and earning power by accelerating business services.

Information on the amounts of net sales, income or loss, and other items for each reportable segment for the current consolidated fiscal year based on the revised segment classification is currently being calculated.

2. Relocation of head office

At a meeting of the Board of Directors held on April 28, 2022, a resolution was passed to relocate the head office to Minato-ku, Tokyo.

This transfer is expected to result in a transfer cost of approximately ¥1 billion($8,170milion) , which is expected to be recorded primarily in the fiscal year ending March 31, 2023.

Estimates based on current estimates are subject to change.

Independent auditor's report

To the Board of Directors of NEC Networks & System Integration Corporation:

Opinion

We have audited the accompanying consolidated financial statements of NEC Networks & System Integration Corporation ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheets as at March 31, 2022 and 2021, the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

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

Key Audit Matters

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

Reasonableness of the Group's estimate of total costs in recognition of revenue from construction work for which the performance obligations is fulfilled over a certain period

The key audit matter	How the matter was addressed in our audit
In the consolidated statements of income, the Group recognized net sales of ¥310,334 million, which included the net sales of ¥83,203 million from construction work for which the performance obligations is fulfilled over a certain period.	The primary procedures we performed to assess of the reasonableness of the Group's estimate of total costs in recognition of revenue from construction work for which the performance obligation is fulfilled over a certain period included the following:

As described in Note 2, "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (s) Significant accounting estimates, 1. Recognition of revenue from construction work for which the performance obligations is fulfilled over a certain period" to the consolidated financial statements. The Group recognizes revenue from construction work over a certain period of time based on the progress in fulfilling performance obligations estimated as a percentage of total costs incurred to date over the estimated total construction costs (the input method). Therefore, the Group needs to reasonably estimate total costs when receiving an order and to change the estimated total costs in a timely and appropriate manner according to the changes in assumptions subsequent to the start of construction. The estimate of total costs includes assumptions about work details and work hours. In a project, the assumptions about work details and work hours may be changed due to facts found subsequent to the start of construction and changes in site conditions, and therefore the estimate of total costs involves uncertainty. Especially an estimate of total costs for a project with a large contract amount may involve a high degree of uncertainty due to its characteristics about the size and construction period. We, therefore, determined that our assessment of the reasonableness of the Group's estimate of total costs in recognition of revenue from construction work for which the obligation of performance is fulfilled over a certain period was one of the most significant matters in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.	(1) Internal control testing We tested the design and operating effectiveness of certain of the Group's internal controls relevant to the process of estimating total costs of a project. In this assessment, we focused our testing on the following: • controls to ensure compliance with the internal rules for estimating total costs about how to accumulate work hours of each activity, what information to be used and how to reflect the risk of any uncertainties; and • controls to reflect any changes in circumstances that occur subsequent to the start of construction within the estimated total construction costs in a timely and appropriate manner. (2) Assessment of the reasonableness of the estimated total costs In order to assess the reasonableness of the Group's estimate of total costs, for projects that were a large contract amount, we: • inquired of an appropriate responsible person regarding the degree of consideration about uncertainty in estimating total costs of a project in order to select significant assumptions with uncertainty, and inspected the related meeting materials; • inquired of an appropriate responsible person regarding the basis of the selected significant assumptions with uncertainty after considering the results of the above procedures, and assessed the appropriateness of the assumptions based on the results of inspection of the related documents that served as the basis of the assumptions; and • inquired of an appropriate responsible person regarding the progress of a project in order to assess the appropriateness of the Group's judgment as to whether the total costs should be revised, including whether there were any facts found subsequent to the start of construction and changes in site conditions in light of remaining total costs, and inspected the minutes of the project status meetings that served as the basis for the Group's responses to our inquiries.

Reasonableness of the Group's estimate of total costs in recognizing accrued losses on sales contracts	
The key audit matter	**How the matter was addressed in our audit**
In the consolidated balance sheet, the Group recognized accrued losses on sales contracts of ¥2,107 million. As described in Note 2, "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (s) Significant accounting estimates, 2. Accrued losses on sales contracts" to the consolidated financial statements, among sales orders on hand at the balance sheet date, for projects in which the total estimated cost is expected to exceed the contract amount, such excess costs on sales contracts are accrued for future losses that would occur in the following fiscal years. The amount of loss is estimated to be the total costs exceeding the contract amount, which is expected to incur in and after the next fiscal year. Therefore, the Group needs to reasonably estimate total costs when receiving an order and to change the estimated total costs including additional costs that may occur in the future in a timely and appropriate manner subsequent to the start of construction. The estimate of total costs includes assumptions about work details and work hours. In a construction project, the assumptions about work details and work hours may be changed due to facts found subsequent to the start of construction and changes in site conditions, and therefore the estimate of total costs involves uncertainty. Especially an estimate of total costs for a project with a large contract amount may involve a high degree of uncertainty due to its characteristics about the size and construction period. We, therefore, determined that our assessment of the reasonableness of the Group's estimate of total costs in recognizing accrued losses on sales contracts was one of the most significant matters in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.	The primary procedures we performed to assess of the reasonableness of the Group's estimate of total costs in recognizing accrued losses on sales contracts included the following: (1) Internal control testing We tested the design and operating effectiveness of certain of the Group's internal controls relevant to the process of estimating total costs of a project. In this assessment, we focused our testing on the following: • controls to ensure compliance with the internal rules for estimating total costs about how to accumulate work hours of each activity, what information to be used and how to reflect the risk of any uncertainties; and • controls to reflect any changes in circumstances that occur subsequent to the start of construction within the estimated total costs in a timely and appropriate manner. (2) Assessment of the reasonableness of the estimated total costs In order to assess the reasonableness of the Group's estimate of total costs, for projects where the contract amount was material and the profitability was low or negative, we: • inquired of an appropriate responsible person regarding the degree of consideration about uncertainty in estimating total costs of a project in order to select significant assumptions with uncertainty, and inspected the related meeting materials; • inquired of an appropriate responsible person regarding the basis of the selected significant assumptions with uncertainty after considering the results of the above procedures, and assessed the appropriateness of the assumptions based on the results of inspection of the related documents that served as the basis of the assumptions; and • inquired of an appropriate responsible person regarding the progress of a project in order to assess the appropriateness of the Group's judgment as to whether the total costs should be

	revised, including whether there were any facts found subsequent to the start of construction and changes in site conditions in light of remaining total costs, and inspected the minutes of the project status meetings that served as the basis for the Group's responses to our inquiries.

Other Information

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

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

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

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

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

Corporate auditors and the board of corporate auditors are responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of the Group's financial reporting process.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2022 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

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

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

/S/ Akira Nishino
Designated Engagement Partner
Certified Public Accountant

/S/ Yoshiaki Hasegawa
Designated Engagement Partner
Certified Public Accountant

/S/ Tomoaki Murakami
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Tokyo Office, Japan
June 24, 2022

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