NEC NETWORKS & SYSTEM INTEGRATION CORPORATION
AND CONSOLIDATED SUBSIDIARIES

Consolidated Financial Statements
with Independent Auditor's Report.
March 31, 2022 and 2023

CONSOLIDATED BALANCE SHEETS

NEC Networks & System Integration Corporation and Consolidated Subsidiaries
as of March 31, 2022 and 2023

	Millions of yen		Thousands of U.S. dollars (note 3)
	2022	2023	2023
Assets			
Current assets:			
Cash and cash equivalents	¥ 79,732	¥ 68,549	$ 513,360
Notes receivable - trade	319	585	4,381
Electronically recorded monetary claims	987	1,165	8,724
Accounts receivable – trade (note 22)	82,554	88,338	661,559
Contract assets (notes 22 and 24)	28,665	34,372	257,410
Inventories (note 6)	10,778	16,084	120,452
Other current assets (note 22)	11,204	11,724	87,800
Allowance for doubtful accounts	(80)	(85)	(636)
Total current assets	214,161	220,735	1,653,074
Non-current assets:			
Property and equipment			
Land	1,507	1,546	11,577
Buildings and structures	10,988	14,888	111,495
Machinery, equipment and vehicles	236	662	4,957
Tools, furniture and fixtures	16,634	17,677	132,382
Construction in progress	2,644	695	5,204
Other	677	705	5,279
Accumulated depreciation	(19,881)	(21,832)	(163,498)
Property and equipment, net	12,807	14,343	107,414
Intangibles, net of accumulated amortization (note 7)	4,290	3,745	28,046
Investments and other assets			
Investment securities (notes 4 and 5)	4,180	7,427	55,620
Asset for retirement benefits (note 10)	281	293	2,194
Deferred tax assets (note 9)	13,639	14,172	106,133
Other assets (note 22)	5,391	6,379	47,772
Allowance for doubtful accounts	(50)	(97)	(726)
Total investments and other assets	23,442	28,175	211,001
Total non-current assets	40,540	46,264	346,468
Total assets	¥ 254,701	¥ 267,000	$ 1,999,550

(Continued)

	Millions of yen		Thousands of U.S. dollars (note 3)
	2022	2023	2023
Liabilities and Net Assets			
Current liabilities:			
Short-term bank loans (note 8)	¥ 9,190	¥ 8,653	$ 64,801
Current installments of long-term debt (note 8)	264	202	1,512
Notes and accounts payable (note 22)	40,486	44,571	333,790
Electronically recorded obligations	1,217	1,467	10,986
Contract liabilities (notes 22 and 24)	8,229	7,968	59,671
Accrued income taxes (note 9)	4,019	4,493	33,647
Accrued bonuses to directors	145	144	1,078
Accrued warranty on products	114	161	1,205
Accrued losses on sales contracts (note 6)	2,107	515	3,856
Accrued compensation for damage	4	3	22
Accrued office transfer cost	—	394	2,950
Other current liabilities	17,857	18,314	137,152
Total current liabilities	83,636	86,890	650,715
Non-current liabilities:			
Long-term debt (note 8)	3,202	3,000	22,466
Liability for retirement benefits (note 10)	27,714	28,424	212,866
Other liabilities (notes 9 and 11)	1,998	2,970	22,242
Total non-current liabilities	32,914	34,395	257,582
Total liabilities	116,551	121,285	908,297
Shareholders' equity (note 12):			
Common stock:	13,122	13,122	98,270
Authorized 300,000,000 shares; issued and outstanding 149,321,421 shares as of March 31, 2022 and 2023			
Capital surplus	16,694	16,708	125,125
Retained earnings	105,673	112,486	842,402
Treasury stock, at cost; 379,090 shares as of March 31, 2022 and 366,954 shares as of March 31, 2023	(259)	(252)	(1,887)
Total shareholders' equity	135,230	142,065	1,063,918
Accumulated other comprehensive income:			
Net unrealized holding gains on available-for-sale securities (note 4)	1,242	1,382	10,349
Deffered gains or losses on hedges	—	10	74
Foreign currency translation adjustments	(517)	(284)	(2,126)
Accumulated adjustments for retirement benefits (note 10)	(1,213)	(1,930)	(14,453)
Total accumulated other comprehensive income	(488)	(822)	(6,155)
Non-controlling interests	3,407	4,471	33,483
Total net assets	138,149	145,714	1,091,245
Total liabilities and net assets	¥ 254,701	¥ 267,000	$ 1,999,550

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

CONSOLIDATED STATEMENTS OF INCOME

NEC Networks & System Integration Corporation and Consolidated Subsidiaries
Years ended March 31, 2022 and 2023

	Millions of yen		Thousands of U.S. dollars (note 3)
	2022	2023	2023
Net sales (note 22)	¥ 310,334	¥ 320,802	$ 2,402,471
Cost of sales (notes 6 and 22)	246,861	254,257	1,904,118
Gross profit	63,473	66,545	498,352
Selling, general and administrative expenses (notes 15 and 16)	40,292	43,794	327,971
Operating income	23,181	22,751	170,381
Other income (expense):			
Interest income	14	16	119
Interest expense	(101)	(219)	(1,640)
Dividends income of insurance	156	164	1,228
Reward income	99	77	576
Insurance claim income	44	72	539
Share of profit of entities accounted for using equity method	27	71	531
Other, net	128	37	277
Subtotal	369	219	1,639
Ordinary Income	23,550	22,970	172,021
Extraordinary income			
Gain on sale of shares of subsidiaries and associates	141	—	—
Subtotal	141	—	—
Extraordinary loss			
Expenses relating to move of the head office	—	571	4,276
Loss on liquidation of subsidiaries	—	147	1,100
Loss on revision of retirement benefit plan	—	106	793
Provision of allowance for compensation for damage (note 17)	324	—	—
Subtotal	324	825	6,178
Net income before income taxes	23,367	22,145	165,842
Income taxes (note 9):			
Current	7,572	7,536	56,436
Deferred	737	(272)	(2,036)
Subtotal	8,310	7,264	54,399
Net Income	15,057	14,880	111,435
Net Income attributable to:			
Non-controlling interests	35	1,067	7,990
Owners of the parent	¥ 15,021	¥ 13,813	$ 103,444

Per share information (notes 12 and 19)	Yen		U.S. dollars
Net assets (basic)	¥ 904.66	¥ 948.23	$ 7.10
Net income (basic)	100.85	92.74	0.69
Cash dividends	43.00	46.00	0.34

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, 2022 and 2023

	Millions of yen		Thousands of U.S. dollars (note 3)
	2022	2023	2023
Net Income	¥ 15,057	¥ 14,880	$ 111,435
Other comprehensive income arising during the year (note 18):			
Net unrealized holding gains on available-for-sale securities	1,072	140	1,048
Deferred gains or losses on hedges	—	10	74
Foreign currency translation adjustments	(16)	362	2,711
Adjustments for retirement benefit	866	(716)	(5,362)
Share of other comprehensive income of entities accounted for using equity method	(0)	(1)	(7)
Total other comprehensive income arising during the year	1,921	(204)	(1,527)
Comprehensive income	¥ 16,978	¥ 14,676	$ 109,907
Comprehensive income attributable to:			
Owners of the parent	¥ 16,976	¥ 13,479	$ 100,943
Non-controlling interests	2	1,196	8,956

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, 2022 and 2023

	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, 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
Changes arising during the year:						
Cash dividends				(7,000)		(7,000)
Net income attribute to owners of the parent				13,813		13,813
Purchase of treasury stock					(1)	(1)
Disposal of treasury stock			14		8	23
Net changes in accounts other than shareholders' equity						—
Total changes during the year	—	—	14	6,812	7	6,834
Balance on March 31, 2023	149,321	¥ 13,122	¥ 16,708	¥ 112,486	¥ (252)	¥ 142,065

(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, 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
Changes arising during the year:							
Cash dividends							(7,000)
Net income attribute to owners of the parent							13,813
Purchase of treasury stock							(1)
Disposal of treasury stock							23
Net changes in accounts other than shareholders' equity	140	10	232	(716)	(333)	1,063	730
Total changes during the year	140	10	232	(716)	(333)	1,063	7,564
Balance on March 31, 2023	¥ 1,382	¥ 10	¥ (284)	¥ (1,930)	¥ (822)	¥ 4,471	¥ 145,714

(Continued)

	Thousands of U.S. Dollars (note 3)				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
Balance on April 1, 2022	$ 98,270	$ 125,020	$ 791,380	$ (1,939)	$ 1,012,731
Changes arising during the year:					
Cash dividends			(52,422)		(52,422)
Net income attribute to owners of the parent			103,444		103,444
Purchase of treasury stock				(7)	(7)
Disposal of treasury stock		104		59	172
Net changes in accounts other than shareholders' equity					—
Total changes during the year	—	104	51,014	52	51,179
Balance on March 31, 2023	$ 98,270	$ 125,125	$ 842,402	$ (1,887)	$ 1,063,918

	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, 2022	$ 9,301	$ —	$ (3,871)	$ (9,084)	$ (3,654)	$ 25,514	$ 1,034,591
Changes arising during the year:							
Cash dividends							(52,422)
Net income attribute to owners of the parent							103,444
Purchase of treasury stock							(7)
Disposal of treasury stock							172
Net changes in accounts other than shareholders' equity	1,048	74	1,737	(5,362)	(2,493)	7,960	5,466
Total changes during the year	1,048	74	1,737	(5,362)	(2,493)	7,960	56,646
Balance on March 31, 2023	$ 10,349	$ 74	$ (2,126)	$ (14,453)	$ (6,155)	$ 33,483	$ 1,091,245

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, 2022 and 2023

	Millions of yen		Thousands of U.S. dollars (note 3)
	2022	2023	2023
Cash flows from operating activities:			
Net income before income taxes	¥ 23,367	¥ 22,145	$ 165,842
Depreciation and amortization	3,279	4,170	31,228
Amortization of goodwill	271	235	1,759
Head office transfer cost	—	571	4,276
Loss (gain) on liquidation of subsidiaries	—	147	1,100
Loss (gain) on revision of retirement benefit plan	—	106	793
Increase (decrease) in allowance for doubtful accounts	(11)	47	351
(Increase) decrease in asset for retirement benefits	27	(189)	(1,415)
Increase (decrease) in liability for retirement benefits	(302)	(208)	(1,557)
Increase (decrease) in accrued bonuses to directors	(13)	(1)	(7)
Increase (decrease) in accrued warranty on products	30	46	344
Increase (decrease) in accrued losses on sales contracts	1,599	(1,756)	(13,150)
Increase (decrease) in provision for compensation for damage	(707)	0	0
Interest and dividend income	(54)	(47)	(351)
Interest expense	101	219	1,640
(Increase) decrease in notes and accounts receivable-trade and contract assets	12,513	(10,486)	(78,529)
(Increase) decrease in inventories	730	(5,309)	(39,758)
Increase (decrease) in notes and accounts payable	(5,179)	4,187	31,356
Other, net	(2,671)	(3,507)	(26,263)
Subtotal	32,982	10,371	77,667
Interest and dividend received	54	47	351
Interest paid	(101)	(214)	(1,602)
Income taxes paid	(10,259)	(7,386)	(55,313)
Net cash provided by operating activities	22,674	2,816	21,088

(Continued)

	Millions of yen		Thousands of U.S. dollars (note 3)
	2022	2023	2023
Cash flows from investing activities:			
Purchase of property and equipment	(3,427)	(1,309)	(9,803)
Proceeds from sale of property and equipment	19	0	0
Purchase of intangibles	(962)	(1,144)	(8,567)
Purchase of investment securities	(849)	(1,381)	(10,342)
Proceeds from sales of shares of subsidiaries and associates	189	—	—
Loans receivable made	(18)	(7)	(52)
Collection of loans receivable	0	19	142
Other, net	(2,114)	(1,111)	(8,320)
Net cash used in investing activities	(7,162)	(4,934)	(36,950)
Cash flows from financing activities:			
Net increase (decrease) in short-term bank loans	2,270	(1,782)	(13,345)
Repayments of long-term debt	(3,298)	(264)	(1,977)
Proceeds from long-term debt	3,000	—	—
Proceeds from sale and purchase of treasury stock, net	20	22	164
Dividends paid to shareholders	(5,949)	(6,990)	(52,347)
Dividends paid to non-controlling interest	(30)	(25)	(187)
Other, net	(280)	(202)	(1,512)
Net cash used in financing activities	(4,267)	(9,243)	(69,220)
Effect of exchange rate changes on cash and cash equivalents	61	178	1,333
Net increase (decrease) in cash and cash equivalents	11,305	(11,182)	(83,741)
Cash and cash equivalents at beginning of year	68,426	79,732	597,109
Cash and cash equivalents at end of year	¥ 79,732	¥ 68,549	$ 513,360

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, 2022 and 2023

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 17 subsidiaries (companies over which the Company can control their operations) as of March 31, 2023 (18 subsidiaries as of March 31, 2022) (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 5 subsidiaries with December 31st year-end have been consolidated. All material transactions that occurred in the period from December 31 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 under the case those affiliates.
If the fiscal year-end differs from that of the Company, financial statements prepared by their fiscal year-end are accounted for.

(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) Provision for office transfer cost
To prepare for the expenses incurred in connection with the relocation of the head office, the amount estimated to be necessary in the future is recorded.

(l) 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.

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

(n) 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 13 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.

(o) 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.

(p) 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.

(q) 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.

(r) 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.

(s) Reclassifications
"Claim" and "Share of profit of entities accounted for using equity method", which were included in "Other, net" under "Other income (expense)" in previous year, have been presented individually in current year. In addition, "Subsidy income", "Loss on disposal of non-current assets" and "Compensation for damages" under "Other income (expense)" in previous year has been included in "Other, net" in current 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, ¥ 90 million of " Subsidy income ", ¥ 120 million of "Loss on disposal of non-current assets", ¥ 40 million of "Compensation for damages" and ¥ 270 million of "Other, net" under "Other income (expense)" have been reclassified as ¥ 44 million of "Claim", ¥ 27 million of "Share of profit of entities accounted for using equity method" and ¥ 128 million of "Other, net".

(t) 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
	2022	2023	2023
Recognition of revenue from construction work for which the performance obligations is fulfilled over a Certain Period	¥ 83,203	¥ 82,616	$ 618,707

(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
	2022	2023	2023
Accrued losses on sales contracts	¥ 2,107	¥ 515	$ 3,856

(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.

(u) Accounting standards and guidance issued but not yet adopted

The following accounting standards and guidance were issued but not yet adopted.

"Accounting Standard for Current Income Taxes" (ASBJ Statement No.27, October 28, 2022, ASBJ)

"Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No.25, October 28, 2022, ASBJ)

"Guidance on Accounting Standard for Tax Effect Accounting" (ASBJ Guidance No.28, October 28, 2022, ASBJ)

(1) Overview

Transfer of JICPA's practical guidelines on tax effect accounting to ASBJ was completed with the issuance of standards and guidance including ASBJ Statement No.28, "Partial Amendments to Accounting Standard for Tax Effect Accounting" (hereinafter collectively referred to as "ASBJ Statement No.28, etc.") in February 2018. During their deliberations, it had been determined that the following issue would be further discussed subsequent to the issuance of ASBJ Statement No. 28, etc. The above standards and guidance were issued as a result of the discussions on the issue below:

"Categories in which income tax expense should be recorded (taxes on other comprehensive income)"

(2) Effective date

The standards and guidance will be effective from the beginning of the fiscal year ending March 31, 2025.

(3) Effects of the application of the standards and guidance

The effects of application of "Accounting Standard for Current Income Taxes", etc. on the consolidated financial statements are currently under evaluation.

(v) Changes in Accounting Policies

Application of Implementation Guidance on Accounting Standard for Fair Value Measurement

"Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021; hereinafter referred to as the "Guidance on Accounting Standard for Fair Value Measurement") was applied from the beginning of the consolidated fiscal year under review, and the new accounting policy stipulated by Guidance on Accounting Standard for Fair Value Measurement shall be applied prospectively in accordance with the transitional treatment stipulated in Article 27-2 of Guidance on Accounting Standard for Fair Value Measurement. This change had no impact on the consolidated fiscal year under review.

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 ¥133.53 = U.S.$1.00, the approximate rate of exchange on March 31, 2023. 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, 2022 and 2023 are summarized as follows:

	Millions of yen		
March 31, 2022	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
(1) Equity securities	¥ 116	¥ 93	¥ 22
(2) Corporate bond	244	215	29
Subtotal	361	309	52
Securities whose acquisition cost exceeds their carrying value:			
(1) Equity securities	28	38	(9)
(2) Corporate bond	—	—	—
Subtotal	28	38	(9)
Total	¥ 390	¥ 347	¥ 42

	Millions of yen			Thousands of U.S. dollars		
March 31, 2023	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
(1) Equity securities	¥ 2,338	¥ 2,064	¥ 274	$ 17,509	$ 15,457	$ 2,051
(2) Corporate bond	667	612	54	4,995	4,583	404
Subtotal	3,005	2,676	328	22,504	20,040	2,456
Securities whose acquisition cost exceeds their carrying value:						
(1) Equity securities	—	—	—	—	—	—
(2) Corporate bond	50	50	—	374	374	—
Subtotal	50	50	—	374	374	—
Total	¥ 3,055	¥ 2,726	¥ 328	$ 22,878	$ 20,414	$ 2,456

Sales of securities classified as available-for-sale securities for the years ended March 31, 2022 and 2023 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Proceeds from sales	¥ 0	¥ 11	$ 82
Gain (Loss) on sales	0	0	0

Unlisted equity securities of ¥465 million, investment partnership of ¥3,102 million, on March 31, 2022 are not included in the above table.

Unlisted equity securities of ¥956 million ($7,159 thousand), investment partnership of ¥3,123 million ($23,388 thousand) on March 31, 2023 are not included in the above table.

During the fiscal year ended March 31, 2022, the Company recognized impairment losses of ¥7 million and ¥1 million on available-for-sale securities with and without market value, respectively. During the fiscal year ended March 31, 2023, the Company recognized impairment losses of ¥6 million ($44 thousand) on available-for-sale securities with market value.

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, 2022 and 2023 are ¥222 million and ¥291 million ($ 2,179 thousand), respectively.

6. INVENTORIES

a) Inventories on March 31, 2022 and 2023 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Work in process	¥ 8,155	¥ 12,932	$ 96,847
Purchased goods and materials	2,623	3,151	23,597
Total	¥ 10,778	¥ 16,084	$ 120,452

b) Losses from revaluation of the lower of cost or net selling value included in cost of sales for the years ended March 31, 2022 and 2023 were ¥-148 million and ¥35 million ($262 thousand), respectively.

c) Losses on sales contracts included in cost of sales for the years ended March 31, 2022 and 2023 were ¥1,971 million and ¥608 million ($4,553 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, 2022 and 2023 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Work in process	¥ 18	¥ 57	$ 426

7. GOODWILL

Goodwill on March 31, 2022 and 2023 is recorded in the accompanying consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Intangibles, net of accumulated amortization	¥ 388	¥ 153	$ 1,145

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, 2022 and 2023 were approximately 0.4% and 0.4% and those of long-term debt for the years ended March 31, 2022 and 2023 were approximately 0.4% and 0.4%, respectively.

The annual maturities of long-term debt on March 31, 2023 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31,		
2024	¥ 202	$ 1,512
2025	3,000	22,466
2026	—	—
2027	—	—
2028 and thereafter	—	—

As of March 31, 2022 and 2023, the Group have entered contracts for committed lines of credit totaling ¥8,000 million and ¥8,000 million ($59,911 thousand), respectively with two domestic banks and have unused committed lines of credit amounting to ¥8,000 million and ¥8,000 million ($59,911 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 2022 and 2023, 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, 2022 and 2023 differed from the statutory tax rate for the following reasons:

	2022	2023
Statutory tax rate	30.6%	30.6%
Effect of:		
Expenses not deductible for tax purposes	1.4	0.8
Inhabitant tax per capita levy	0.7	0.7
Tax credit	(0.3)	(0.5)
Increase/(Decrease) in valuation allowance	2.3	1.5
Amortization of goodwill	0.1	0.1
Other, net	0.9	(0.5)
Effective tax rate	35.6%	32.8%

Tax effects of significant temporary differences and tax loss carry-forward that resulted in deferred tax assets or liabilities on March 31, 2022 and 2023 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Deferred tax assets:			
Accrued employees' bonuses	¥ 2,437	¥ 2,392	$ 17,913
Social security contribution on employees' bonuses	347	334	2,501
Allowance for doubtful accounts	23	82	614
Accrued enterprise tax	345	342	2,561
Loss on revaluation of inventories	1,363	1,392	10,424
Unrealized profit on inventories	21	26	194
Accrued losses on sales contracts	455	65	486
Depreciation	283	320	2,396
Liability for retirement benefits	8,519	8,782	65,767
Asset retirement obligations	494	877	6,567
Deemed dividend	106	110	823
Impairment loss on investment securities	77	61	456
Impairment loss on assets	535	528	3,954
Allowance for compensation for damage	1	1	7
Provision for office transfer cost	—	120	898
Tax loss carry-forward (Note 2)	1,222	1,324	9,915
Other	640	1,099	8,230
Subtotal	16,875	17,863	133,775
Valuation allowance on tax loss carry-forward (Note 2)	(740)	(954)	(7,144)
Valuation allowance on total deductible temporary differences and other	(1,360)	(1,399)	(10,477)
Subtotal (Note 1)	(2,100)	(2,353)	(17,621)
Total	14,774	15,509	116,146
Deferred tax liabilities:			
Asset for retirement benefits	(72)	(63)	(471)
Restoration cost for asset retirement obligations	(320)	(513)	(3,841)
Goodwill	(50)	—	—
Liability adjustment account	(120)	(117)	(876)
Other	(594)	(642)	(4,807)
Total	(1,157)	(1,336)	(10,005)
Net deferred tax assets	¥ 13,617	¥ 14,172	$ 106,133

(Note) 1. Valuation allowance on tax loss carry-forward was increased by ¥252 million ($1,887 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, 2022	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)

	Millions of yen						
March 31, 2023	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)	¥ 0	¥ 645	¥ 4	¥ —	¥ 27	¥ 645	¥ 1,324
Valuation allowance	(0)	(350)	(4)	—	—	(598)	(954)
Deferred tax assets	¥ —	¥ 295	¥ —	¥ —	¥ 27	¥ 47	¥ 370 (*2)

	Thousands of U.S. dollars						
March 31, 2023	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)	$ 0	$ 4,830	$ 29	$ —	$ 202	$ 4,830	$ 9,915
Valuation allowance	(0)	(2,621)	(29)	—	—	(4,478)	(7,144)
Deferred tax assets	$ —	$ 2,209	$ —	$ —	$ 202	$ 351	$ 2,770 (*2)

(*1) Tax loss carry-forward is after multiplying the statutory tax rate.
(*2) Deferred tax assets of ¥482 million and ¥370 million ($2,771 thousand) are recognized for tax loss carry-forward of ¥1,222 million and ¥1,324 million ($9,916 thousand) for the years ended March 31, 2022 and 2023, 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.

In the fiscal year under review, a loss on revision of retirement benefit plan of ¥106 million is recorded as an extraordinary loss due to a change in the lump-sum retirement benefit plan of one domestic consolidated subsidiary.

The information for the Company's and the consolidated subsidiaries' defined benefit plans on March 31, 2022 and 2023 for the years then ended is as follows:

(1) Movement in retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Retirement benefit obligation at beginning of year	¥ 60,199	¥ 59,115	$ 442,709
Service cost	2,588	2,516	18,842
Interest cost	513	489	3,662
Actuarial gain or loss	(866)	569	4,261
Benefits paid	(3,096)	(3,291)	(24,646)
Other	(223)	45	337
Retirement benefit obligation at end of year	¥ 59,115	¥ 59,444	$ 445,173

(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
	2022	2023	2023
Plan assets at beginning of year	¥ 31,596	¥ 32,018	$ 239,781
Expected return on plan assets	786	799	5,983
Actuarial gain or loss	(201)	(1,008)	(7,548)
Contributions paid by the employer	1,131	1,080	8,088
Benefits paid	(1,290)	(1,372)	(10,274)
Other	(3)	61	456
Plan assets at end of year	¥ 32,018	¥ 31,581	$ 236,508

(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
	2022	2023	2023
Liability for retirement benefits at beginning of year	¥ 316	¥ 335	$ 2,508
Retirement benefit costs	31	93	696
Benefits paid	8	(36)	(269)
Loss on revision of retirement benefit plan	—	106	793
Transfer due to change of plan	—	(210)	(1,572)
Other	(21)	(21)	(157)
Liability for retirement benefits at end of year	¥ 335	¥ 267	$ 1,999

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

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Funded retirement benefit obligation	¥ 31,463	¥ 31,827	$ 238,350
Plan assets	(32,502)	(32,049)	(240,013)
	(1,039)	(221)	(1,655)
Unfunded retirement benefit obligation	28,471	28,352	212,326
Net liability for retirement benefits	¥ 27,432	¥ 28,130	$ 210,664
Liability for retirement benefits	¥ 27,714	¥ 28,424	$ 212,866
Asset for retirement benefits	(281)	(293)	(2,194)
Net liability for retirement benefits	¥ 27,432	¥ 28,130	$ 210,664

(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
	2022	2023	2023
Service cost	¥ 2,588	¥ 2,516	$ 18,842
Interest cost	513	489	3,662
Expected return on plan assets	(786)	(799)	(5,983)
Net actuarial loss amortization	814	626	4,688
Past service costs amortization	(237)	(89)	(666)
Retirement benefit costs calculated by the simplified method	31	93	696
Other	31	51	381
Retirement benefit costs	¥ 2,955	¥ 2,887	$ 21,620

(6) Adjustments for retirement benefit

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Past service costs	¥ (237)	¥ (89)	$ (666)
Actuarial gains and losses	1,479	(951)	(7,121)
Total	¥ 1,242	¥ (1,040)	$ (7,788)

(7) Accumulated adjustments for retirement benefit

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Unrecognized prior service costs	¥ (494)	¥ (404)	$ (3,025)
Unrecognized actuarial gains and losses	2,221	3,173	23,762
Total	¥ 1,727	¥ 2,768	$ 20,729

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

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Debt securities	¥ 14,457	¥ 14,458	$ 108,275
Equity securities	5,318	5,318	39,826
General account	3,574	3,574	26,765
Alternative	8,547	8,547	64,008
Other	121	97	726
Total	¥ 32,018	¥ 31,996	$ 239,616

(Note) Total plan assets include ¥24 million and ¥1 million ($7 thousand) in a retirement benefit trust established for the corporate pension plan as of March 31, 2022 and 2023, 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, 2022 and 2023 (expressed as weighted averages) are as follows:

	2022	2023
Discount rate	0.8%	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 ¥530 million and ¥560 million ($4,193 thousand) for the years ended March 31, 2022 and 2023.

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 0 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, 2022 and 2023:

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Balance, beginning of year	¥ 1,582	¥ 1,602	$ 11,997
Obligations incurred by asset acquisition	68	262	1,962
Obligations settled	(47)	—	—
Accretion expense	7	7	52
Remeasurements	—	964	7,219
Others	(9)	—	—
Balance, end of year	¥ 1,602	¥ 2,837	$ 21,246

Changes in the estimate of the amount of said asset retirement obligation:
In asset retirement obligations, which were recorded as obligations for restoration associated with our real estate lease contracts in the fiscal year under review, as new information was obtained, the estimates were revised regarding the cost of restoration to the original state and the estimated period of use.

An increase of ¥964 million due to this change in estimate has been added to the balance of asset retirement obligations before the change.

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 ($4,088 thousand) as of both March 31, 2022 and 2023. 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, 2022 and 2023 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	
	2022	2023
At beginning of year	390,930	379,090
Increase -purchase of odd lot shares	1,060	872
Disposal of Treasury Share as Share Compensation with Restriction on Transfer	(12,900)	(12,900)
Decrease -sale of odd lot shares	—	(108)
At end of year	379,090	366,954

a) 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
(b)	Cash dividends per common share	¥21.00
(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
(b)	Cash dividends per common share	¥19.00
(c)	Record date	September 30, 2021
(d)	Effective date	December 2, 2021

(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, 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	¥3,547 million
(b)	Dividend source	Retained earnings
(c)	Cash dividends per common share	¥24.00
(d)	Record date	March 31, 2022
(e)	Effective date	June 3, 2022

c) Dividends paid during the year ended March 31, 2023

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

(a)	Total dividends	¥3,574 million	($26,765 thousand)
(b)	Cash dividends per common share	¥24.00	($0.18)
(c)	Record date	March 31, 2022	
(d)	Effective date	June 3, 2022	

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

(a)	Total dividends	¥3,425 million	($25,649 thousand)
(b)	Cash dividends per common share	¥23.00	($0.17)
(c)	Record date	September 30, 2022	
(d)	Effective date	December 2, 2022	

d) Dividends to be paid after March 31, 2023 although record date for payment falls within the year ended March 31, 2023

The following was approved by the Board of Directors on April 28, 2023.

(a)	Total dividends	¥3,425 million	($25,649 thousand)
(b)	Dividend source	Retained earnings	
(c)	Cash dividends per common share	¥23.00	($0.17)
(d)	Record date	March 31, 2023	
(e)	Effective date	June 2, 2023	

13. 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 DX Solutions 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, 2022 and 2023 for non-cancelable operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Due within one year	¥ 2,481	¥ 2,552	$ 19,111
Due over one year	5,458	10,472	78,424
Total	¥ 7,940	¥ 13,025	$ 97,543

14. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The significant components of selling, general and administrative expenses for the years ended March 31, 2022 and 2023 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Employee's salary	¥ 18,739	¥ 19,378	$ 145,120
Provision for bonuses to directors	150	146	1,093
Retirement benefit costs	993	1,120	8,387
Provision of allowance for doubtful accounts	0	48	359

15. RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in selling, general and administrative expenses amounted to ¥1,311 million and ¥1,068 million ($7,998 thousand) for the years ended March 31, 2022 and 2023, respectively.

16. HEAD OFFICE RELOCATION EXPENSES

Rent expenses and moving expenses, etc. associated with the relocation of the head office are recorded.

17. 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, 2022 and 2023 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Net unrealized holding gains on available-for-sale securities:			
Unrealized holding gain (loss) arising during the year	¥ 1,552	¥ 200	$ 1,497
Reclassification adjustment for gain/loss realized in net income	(7)	0	0
Before tax amount	1,544	200	1,497
Tax effect	(471)	(60)	(449)
Net-of-tax amount	1,072	140	1,048
Deferred gains or losses on hedges			
Deferred gains or losses on hedges arising during the year	—	14	104
Reclassification adjustment for gain/loss realized in net income	—	—	—
Before tax amount	—	14	104
Tax effect	—	(4)	(29)
Net-of-tax amount	—	10	74
Foreign currency translation adjustments:			
Foreign currency translation adjustments arising during the year	(16)	260	1,947
Reclassification adjustment for gain/loss realized in net income	—	147	1,100
Before tax amount	(16)	407	3,048
Tax effect	—	(45)	(337)
Net-of-tax amount	(16)	362	2,711
Adjustments for retirement benefit:			
Adjustments for retirement benefit arising during the year	665	(1,577)	(11,810)
Reclassification adjustment for gain/loss realized in net income	577	536	4,014
Before tax amount	1,242	(1,040)	(7,788)
Tax effect	(376)	324	2,426
Net-of-tax amount	866	(716)	(5,362)
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)	(1)	(7)
Total other comprehensive income(loss)	¥ 1,921	¥ (204)	$ (1,527)

18. AMOUNTS PER SHARE

	Yen		U.S. dollars
	2022	2023	2023
Net income per share	¥ 100.85	¥ 92.74	$ 0.69
Net assets per share	904.66	948.23	7.10

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

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Net income attributable to owners of the parent	¥ 15,021	¥ 13,813	$ 103,444
Amounts not attributable to common stock	—	—	—
Net income attributable to owners of the parent related to common stock	¥ 15,021	¥ 13,813	$ 103,444
Average number of shares during the term (thousands of shares)	148,938	148,950	

19. 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, 2022 and 2023, 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, 2022 and 2023, 24% and 22% 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:

	Millions of yen		
March 31, 2022	Carrying amount	Fair value	Variance
Assets:			
Investment securities	390	390	—
Total	¥ 390	¥ 390	¥ —
Liabilities:			
Long-term debt (Current installments of long-term debt are included.)	3,466	3,463	(2)
Total	¥ 3,466	¥ 3,463	¥ (2)

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

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
Unlisted equity securities	¥ 687
Investment partnership	3,102

The above items are not included in "Investments securities.

March 31, 2023	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	3,055	3,055	—	22,878	22,878	—
Total	¥ 3,055	¥ 3,055	¥ —	$ 22,878	$ 22,878	$ —
Liabilities:						
Long-term debt (Current installments of long-term debt are included.)	3,202	3,196	(5)	23,979	23,934	(37)
Total	¥ 3,202	¥ 3,196	¥ (5)	$ 23,979	$ 23,934	$ (37)
Derivative transactions (*)	¥ 15	¥ 15	¥ —	$ 112	$ 112	$ —

(*) Derivative receivables and liabilities are on a net basis.

(Note 1)

Assets:

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

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.

Derivative transactions:
Please see note 20 DERIVATIVES.

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

	Millions of yen 2023	Thousands of U.S. dollars 2023
Unlisted equity securities	¥ 1,247	$ 9,338

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

(Note 3) For investment partnerships, the Company applies the treatment that allows no fair value disclosures as such no fair value are presented. In addition, the amount recorded on the consolidated balance sheet of this investment is ¥3,123 million.

(Note 4) 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	—	—	—
Electronically recorded monetary claims	987	—	—	—
Accounts receivable	82,554	—	—	—
	¥ 163,593	¥ —	¥ —	¥ —

Projected future redemption of monetary claims and securities with maturities on March 31, 2023:

	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	¥ 68,549	¥ —	¥ —	¥ —
Notes receivable	585	—	—	—
Electronically recorded monetary claims	1,165	—	—	—
Accounts receivable	88,338	—	—	—
	¥ 158,639	¥ —	¥ —	¥ —

	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	$ 513,360	$ —	$ —	$ —
Notes receivable	4,381	—	—	—
Electronically recorded monetary claims	8,724	—	—	—
Accounts receivable	661,559	—	—	—
	$ 1,188,040	$ —	$ —	$ —

(Note 5) 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	—	—	—

The annual maturities of long-term debt and other interest-bearing debt on March 31, 2023:

	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	¥ 8,653	¥ —	¥ —	¥ —	¥ —	¥ —
Long-term debt (Long-term borrowings scheduled to be refunded within one year are included.)	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	$ 64,801	$ —	$ —	$ —	$ —	$ —
Long-term debt (Long-term borrowings scheduled to be refunded within one year are included.)	1,512	22,466	—	—	—	—

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

Financial instruments recorded in the consolidated balance sheets at fair value on March 31, 2023:

	Fair value (Millions of yen)			
	Level 1	Level 2	Level 3	Total
Investment securities				
available-for-sale securities				
Securities	¥ 2,338	¥ —	¥ —	¥ 2,338
Corporate bonds	—	717	—	717
Derivative transactions				
Currency related	—	15	—	15
Total	¥ 2,338	¥ 733	¥ —	¥ 3,071

	Fair value (Thousands of U.S. dollars)			
	Level 1	Level 2	Level 3	Total
Investment securities				
Inventories				
Securities	$ 17,509	$ —	$ —	$ 17,509
Corporate bonds	—	5,369	—	5,369
Derivative transactions				
Currency related	—	112	—	112
Total	$ 17,509	$ 5,489	$ —	$ 22,998

(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

Financial instruments other than financial instruments included in the consolidated balance sheets at fair value on March 31, 2023:

	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.)	¥ —	¥ 3,196	¥ —	¥ 3,196
Total	¥ —	¥ 3,196	¥ —	¥ 3,196

	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.)	$ —	$ 23,934	$ —	$ 23,934
Total	$ —	$ 23,934	$ —	$ 23,934

(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.

Derivative transactions

The fair value of forward foreign exchange contracts is determined using the discounted present value method with observable inputs such as exchange rates and is classified as Level 2 fair value.

20. 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, 2022 and 2023, the disclosure of fair value information for derivatives are as follows:

(1) Derivatives that are not accounted for as hedges

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

For the year ended March 31, 2023

	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	¥ 47	¥ —	¥ 0	¥ 0
	Total	¥ 47	¥ —	¥ 0	¥ 0

	Transaction type	Thousands of U.S. dollars			
		Contract amount		Fair Value	Valuation gain/loss
		Total	Over 1 year		
Transactions out of market	Forward exchange contract Order to buy:				
	Euro	$ 351	$ —	$ 0	$ 0
	Total	$ 351	$ —	$ 0	$ 0

(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, 2022.

For the year ended March 31, 2023

	Transaction type	Main hedged item	Millions of yen		
			Contract amount		Fair Value
			Total	Over 1 year	
Deferral hedge accounting for forecasted transactions as hedged item	Forward exchange contract Order to buy:	Foreign currency denominated forecasted transactions			
	U.S. dollar		¥ 1,356	¥ —	¥ 9
	Euro		237	—	4
	Total		¥ 1,594	¥ —	¥ 14

	Transaction type	Main hedged item	Thousands of U.S. dollars Contract amount Total	 Over 1 year	 Fair Value
Deferral hedge accounting for forecasted transactions as hedged item	Forward exchange contract Order to buy:	Foreign currency denominated forecasted transactions			
	U.S. dollar		$ 10,155	$ —	$ 67
	Euro		1,774	—	29
	Total		$ 11,937	$ —	$ 104

21. RELATED PARTY TRANSACTIONS

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

NEC Corporation owned 51.42% and 51.41% of the Company's outstanding common stock as of March 31, 2022 and 2023, respectively.

Balances with NEC Corporation on March 31, 2022 and 2023, and related transactions for the years then ended are summarized as follows:

Transactions	Millions of yen 2022	 2023	Thousands of U.S. dollars 2023
Construction and maintenance of network system:			
Transactions:			
Sales	¥ 62,434	¥ 65,705	$ 492,061
Balances:			
Accounts receivable	18,849	18,224	136,478
Contract assets	4,677	5,171	38,725
Contract liabilities	959	1,218	9,121
Purchases of communication device:			
Transactions:			
Purchases	38,301	44,768	335,265
Balances:			
Accounts payable	9,828	9,755	73,054
Advance payments	842	779	5,833

22. 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 "DX Solutions Business," "Network Solutions Business" and "Environmental & Social Solutions 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 DX 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 Solutions Business mainly renders a business primarily aimed at telecom carriers as well as social infrastructure operators for space, marine or broadcasting, etc., that require specialized technologies, involving the provision of system integration and services related to highly public network infrastructure that requires reliability, as well as the development/manufacture and sales of network equipment.

The Environmental & Social Solutions Business mainly renders a business primarily aimed at construction for providers of social and public services, companywide service infrastructure, which includes the maintenance and operation of various ICT systems and services provided by NESIC, and the provision of support services including technical services utilizing that infrastructure, in addition to the construction of network infrastructure by the Group's local subsidiaries overseas.

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

With the aim of realizing our Digital x 5G strategy and improving our competitiveness and profitability by accelerating our business operations, we reorganized some of our organizations on April 1, 2022. As a result, we decided to change our reportable segments, which were Digital Solutions Business, Network Infrastructure Business and Engineering & Support Services Business, from the fiscal year ended March 2023 to DX Solutions Business, Network Solutions Business and Environmental & Social Solutions Business.

Information related to reportable segments for the previous fiscal year has also been reclassified and disclosed to reflect the change due to this event.

The reported segment information for the Company and its consolidated subsidiaries for the years ended March 31, 2022 and 2023 is summarized as follows:

	Millions of yen					
March 31, 2022	DX Solutions	Network Solutions	Environmental & Social Solutions	Others	Adjustments	Total
Sales:						
(1) Sales to third parties	¥ 107,971	¥ 81,874	¥ 115,033	¥ 5,455	¥ —	¥ 310,334
(2) Intersegment sales	—	—	—	—	—	—
Total	¥ 107,971	¥ 81,874	¥ 115,033	¥ 5,455	¥ —	¥ 310,334
Segment income	¥ 13,027	¥ 10,831	¥ 8,177	¥ 869	¥ (9,724)	¥ 23,181
Segment assets	¥ 42,443	¥ 40,561	¥ 68,609	¥ 804	¥102,282	¥ 254,701
Others:						
Depreciation and amortization	¥ 1,331	¥ 369	¥ 442	¥ 41	¥ 1,094	¥ 3,279
Purchases of property and equipment, and intangible assets	2,441	826	1,836	47	530	5,682
Investment to entities accounted for using equity method	222	—	—	—	—	222

	Millions of yen					
March 31, 2023	DX Solutions	Network Solutions	Environmental & Social Solutions	Others	Adjustments	Total
Sales:						
(1) Sales to third parties	¥ 114,244	¥ 79,217	¥ 119,241	¥ 8,099	¥ —	¥ 320,802
(2) Intersegment sales	—	—	—	—	—	—
Total	¥ 114,244	¥ 79,217	¥ 119,241	¥ 8,099	¥ —	¥ 320,802
Segment income	¥ 13,210	¥ 9,756	¥ 10,683	¥ 302	¥ (11,202)	¥ 22,751
Segment assets	¥ 51,215	¥ 40,298	¥ 79,029	¥ 2,610	¥ 93,845	¥ 267,000
Others:						
Depreciation and amortization	¥ 1,424	¥ 421	¥ 499	¥ 37	¥ 1,787	¥ 4,170
Purchases of property and equipment, and intangible assets	1,529	416	2,209	72	1,213	5,441
Investment to entities accounted for using equity method	291	—	—	—	—	291

March 31, 2023	Thousands of U.S. dollars DX Solutions	Network Solutions	Environmental & Social Solutions	Others	Adjustments	Total
Sales:						
(1) Sales to third parties	$ 855,568	$ 593,252	$ 892,990	$ 60,653	$ —	$ 2,402,471
(2) Intersegment sales	—	—	—	—	—	—
Total	$ 855,568	$ 593,252	$ 892,990	$ 60,653	$ —	$ 2,402,471
Segment income	$ 98,929	$ 73,062	$ 80,004	$ 2,261	$ (83,891)	$ 170,381
Segment assets	$ 383,546	$ 301,789	$ 591,844	$ 19,546	$ 702,800	$ 1,999,550
Others:						
Depreciation and amortization	$ 10,664	$ 3,152	$ 3,736	$ 277	$ 13,382	$ 31,228
Purchases of property and equipment, and intangible assets	11,450	3,115	16,543	539	9,084	40,747
Investment to entities accounted for using equity method	2,179	—	—	—	—	2,179

(Note)

1. "Others" includes purchases of information and telecommunications equipment, etc., which are not included in the reportable segment.
2. “Adjustments” of ¥ 9,724 million and ¥ 11,202 million ($83,891 thousand) in segment income for the years ended March 31, 2022 and 2023, respectively, are mainly personal and other expenses in the administrative department.
3. “Adjustments” of ¥ 102,282 million and ¥ 93,845 million ($702,800 thousand) in segment assets on March 31, 2022 and 2023, 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, 2022 and 2023 include long-term prepaid expenses.

Related information

Related segment information for the years ended March 31, 2022 and 2023 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
	2022	2023	2023
Customer name:			
NEC Corporation			
Sales	¥ 67,925	¥ 70,597	$ 528,697

The above sales are related to the “DX Solutions Business”, “Network Solutions Business” and “Environmental & Social Solutions Business”.

Information of impairment loss on fixed assets by reported segments for the years ended March 31, 2022 and 2023

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, 2022 and 2023

	Millions of yen					
March 31, 2022	DX Solutions	Network Solutions	Environmental & Social Solutions	Others	Adjustments	Total
Amortization of goodwill	¥ 10	¥ 261	¥ —	¥ —	¥ —	¥ 271
Balances of goodwill	43	344	—	—	—	388

	Millions of yen					
March 31, 2023	DX Solutions	Network Solutions	Environmental & Social Solutions	Others	Adjustments	Total
Amortization of goodwill	¥ 10	¥ 224	¥ —	¥ —	¥ —	¥ 235
Balances of goodwill	33	120	—	—	—	153

	Thousands of U.S. dollars					
March 31, 2023	DX Solutions	Network Solutions	Environmental & Social Solutions	Others	Adjustments	Total
Amortization of goodwill	$ 74	$ 1,677	$ —	$ —	$ —	$ 1,759
Balances of goodwill	247	898	—	—	—	1,145

Negative goodwill incurred by reported segments for the years ended March 31, 2022 and 2023
There are no amounts to report.

23. REVENUE RECOGNITION

1.Information that decomposes revenues arising from contracts with customers

The Group's reportable segments are the DX Solutions Business, the Network Solutions Business, and the Environmental and Social Solutions 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	DX Solutions	Network Solutions	Environmental & Social Solutions	Others	Total
Service delivery contracts (including outsourcing and maintenance)	¥ 57,359	¥ 28,430	¥ 30,677	¥ —	¥ 116,468
System Integration and Construction Contracts	50,611	53,443	84,355	5,455	193,866
Total	¥ 107,971	¥ 81,874	¥ 115,033	¥ 5,455	¥ 310,334

(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 DX Solutions Business, approximately 20% in the Network Solutions Business and approximately 60% in the Environmental and Social Solutions Business.

	Millions of yen				
March 31, 2023	DX Solutions	Network Solutions	Environmental & Social Solutions	Others	Total
Service delivery contracts (including outsourcing and maintenance)	¥ 60,648	¥ 28,149	¥ 31,027	¥ —	¥ 119,825
System Integration and Construction Contracts	53,596	51,067	88,213	8,099	200,977
Total	¥ 114,244	¥ 79,217	¥ 119,241	¥ 8,099	¥ 320,802

	Thousands of U.S. dollars				
March 31, 2023	DX Solutions	Network Solutions	Environmental & Social Solutions	Others	Total
Service delivery contracts (including outsourcing and maintenance)	$ 454,190	$ 210,806	$ 232,359	$ —	$ 897,363
System Integration and Construction Contracts	401,377	382,438	660,623	60,653	1,505,107
Total	$ 855,568	$ 593,252	$ 892,990	$ 60,653	$ 2,402,471

(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 DX Solutions Business, approximately 30% in the Network Solutions Business and approximately 60% in the Environmental and Social Solutions 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 revenue amounts recognized for the years ended March 31, 2022 and 2023 that were included in the beginning balance of contract liabilities are ¥5,439 million and ¥5,304 million ($39,721 thousand), respectively.

(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	2023	2023
Due within one year	¥ 128,717	¥ 157,421	$ 1,178,918
Due after one year	36,529	43,792	327,956
Total	¥ 165,246	¥ 201,213	$ 1,506,874

24. SUBSEQUENT EVENTS

There are no subsequent events to be disclosed.

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, 2023 and 2022, 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, 2023 and 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

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

Key Audit Matters

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

Reasonableness of the 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 ¥320,802 million, which included the net sales of ¥82,616 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, (t) 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 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 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 ¥515 million. As described in Note 2, "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (t) 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 and unit prices 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, 2023 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 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/ Tomoaki Murakami
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Tokyo Office, Japan
June 23, 2023

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