

ANNUAL REPORT
2023



**SUMITOMO MITSUI
CONSTRUCTION CO.,LTD.**

CONTENTS

PROFILE	1
THE MESSAGE FROM THE PRESIDENT	2
CONSOLIDATED BALANCE SHEETS	8
CONSOLIDATED STATEMENTS OF INCOME	10
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME	11
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS	12
CONSOLIDATED STATEMENTS OF CASH FLOWS	15
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	17
INDEPENDENT AUDITOR'S REPORT	73
NON-CONSOLIDATED BALANCE SHEETS	82
NON-CONSOLIDATED STATEMENTS OF INCOME	84
NON-CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS	85
NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS	88
INDEPENDENT AUDITOR'S REPORT	112
CORPORATE OUTLINE	116
CORPORATE DATA	117

Disclaimer for Forward-Looking Statements:

This document contains forward-looking statements about the performance and management plans of SMCC Group based on available information and management's assumptions in light of their experience and perception of historical trends, current conditions, future developments and other factors they believe appropriate. By their nature, forward-looking statements involve risk and uncertainty, because they relate to events and depend on circumstances that will occur in the future and various economic and other factors could cause actual results and developments to differ materially from those expressed in or implied by such forward-looking statements. Although it is believed that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove to be correct and you are therefore cautioned not to place undue reliance on these forward-looking statements which speak only as at the date of this document.

PROFILE

Sumitomo Mitsui Construction Co., Ltd. (SMCC) is a leading Japanese construction company with operations that span the globe. The company was created in 2003 through the merger of two long established and experienced companies, Sumitomo Construction Co., Ltd and Mitsui Construction Co., Ltd.

Since its formation, SMCC has risen to the challenge of providing flexible and adaptable solutions to the varying demands of customers, with a management philosophy that emphasizes pursuing total customer satisfaction, increasing shareholder value, respect for the efforts of its employees, and contributing both to society and the environment.

The company is a leading proponent of many cutting edge technologies which are utilized in the erection of skyscrapers, the seismic reinforcement of buildings, the pre-stressed concrete structures and underground structures.

The key strength of experience combined with a proactive attitude allows SMCC to aggressively develop new technological applications. The company will continue to actively pursue the future, specializing and focusing on these core areas and thereby ensuring that Sumitomo Mitsui Construction Co., Ltd maintains its position as one of the leading Japanese construction companies operating around the world.

THE MESSAGE FROM THE PRESIDENT

I. Review of Fiscal Year ended March 31, 2023

In the fiscal year ended on March 31, 2023, Japan's economy showed some signs of recovery as the suppression of COVID-19 and economic activity proceeded together. On the other hand, the situation remained uncertain due to rising prices of resources and raw materials resulting from the sharp depreciation of the yen, the situation in Ukraine, and other factors, as well as concerns over downturn in overseas economies.

In regard to the domestic construction market, public-sector investments were consistent, and there were some signs of recovery in private-sector investments as well. On the other hand, the competitive environment continues to be severe, partly due to the impact of skyrocketing prices of building materials and tightness of labor demand and supply.

Against this background, the SMCC Group has set its theme for its "Mid-term Management Plan 2022-2024," which began this fiscal year, as "Toward new growth – Realizing a sustainable society," and worked on the basic policies of that plan, namely "Improve Earning Power," "Foray into Growth Areas," and "Enhance Human Resource Base."

However, in this fiscal year, we recorded additional hefty project losses from major building construction projects currently underway in Japan. In addition, mainly as a result of a significant decline in profitability of construction projects, due to the impact of soaring prices of construction materials in some building construction projects in Japan and other factors, and a partial reversal of deferred tax assets and recording them in income taxes-deferred, financial performance for this fiscal year worsened significantly.

The consolidated results of the SMCC Group for this fiscal year are as follows: net sales for the year were 458.6 billion yen, a 55.3 billion yen increase over the previous fiscal year. In profit/loss figures, operating loss was 18.8 billion yen (operating loss of 7.5 billion yen in the previous fiscal year), and ordinary loss was 18.5 billion yen (ordinary loss of 8.3 billion yen in the previous fiscal year). Net loss attributable to the shareholders of the parent company was 25.7 billion yen (net loss attributable to the shareholders of the parent company of 7.0 billion yen in the previous fiscal year).

[Consolidated results]	(Unit: billion yen)			
	FY2021	FY2022	Increase/(decrease)	Ratio (%)
Net sales	403.3	458.6	55.3	13.7
Operating profit (loss)	(7.5)	(18.8)	(11.3)	-
Ordinary profit (loss)	(8.3)	(18.5)	(10.1)	-
Net profit (loss) attributable to the shareholders of the parent company	(7.0)	(25.7)	(18.7)	-

II. Management Strategy, Business Environment and Company Issues

<Basic management policy and business environment>

The Company is striving to realize a safe and comfortable society based on its Corporate Principles of “Pursuit of Client Satisfaction,” “Enhancement of Shareholder Value,” “Respect for Employees’ Vitality,” “Social Emphasis,” and “Contribution to Global Environment.”

Structure of Corporate Principles and Management Plan



<Mid-term management strategy and management targets>

In its “Mid-term Management Plan 2022-2024” formulated in March 2022, the Group has set the theme of “Toward new growth – Realizing a sustainable society” and is undertaking the specific measures described in the Plan.

However, due to the repeated occurrence of losses in major building construction projects in Japan, rising prices of building materials, and other factors, a major improvement in profit levels of building construction projects will be difficult to achieve. For this reason, we have forecast that profit levels in FY2024, the final year of the Plan, will not reach our initial targets.

Consequently, in May 2023, we formulated a variety of additional measures in response to the recent significant decline in business performance of the construction business in Japan and undertook a review of our management targets reflecting those measures. We also decided to present new management targets for the next five years until FY2027, when the effects of these measures are expected to appear.

“Mid-term Management Plan 2022-2024”

Theme: “Toward new growth – Realizing a sustainable society”

By precisely understanding social trends such as the growing worldwide awareness over sustainability and acting accordingly, we will connect them to new growth and the realization of a sustainable society.

Basic Policy-1	<p>Improve Earning Power</p> <p>(i) Strengthen Ability to Win Orders</p> <p>(ii) Strengthen On-Site Management</p> <p>(iii) Improve Performance of Construction Business in Japan</p>
Basic Policy-2	<p>Foray into Growth Areas</p> <p>(i) Enhance Efforts toward a Sustainable Society</p> <p>(ii) Expansion of Overseas Business -Make Bases Self-subsistent & Enhance Networking</p> <p>(iii) Sophistication of Construction System</p>
Basic Policy-3	<p>Enhance Human Resource Base</p> <p>(i) Realize Diversity & Inclusion</p> <p>(ii) Improve Employee Engagement</p> <p>(iii) Development of Human Resources</p>

Management plan

Review of consolidated management targets (FY2024 targets) and establishment of FY2027 targets

· Performance targets

	FY2024 (before review)	FY2024 (after review)	FY2027
Consolidated net sales	500.0 billion yen	467.0 billion yen	450.0 billion yen
Consolidated operating profit	20.0 billion yen	16.0 billion yen	20.0 billion yen

· Financial targets

	FY2024 (before review)	FY2024 (after review)	FY2027
ROE	10% or higher	9% or higher	10% or higher
Total return ratio	50% approx.	50% approx.	50% approx.

· Non-financial targets

Safety	Deaths/serious accidents: “None” Frequency rate: 0.6 or less (construction divisions), 0.5 or less (company-wide)	
Quality	Defective results: “None”	
Carbon Neutrality	CDP assessment	A
	Scope 1+2	-20% (Base year 2020)
	Scope 3	-10% (Base year 2020)
Human Rights	Human rights due diligence (DD)	Human rights DD in place (response to human rights risk)
	Build human rights protection mechanism	To be put into operation from FY2023
Productivity	Amount of work completed per employees’ total work time: 5% improvement	
Employee Engagement	4.0 or more (average based on a total score of 5)*	

* Indicators on work engagement in organizational diagnosis survey

Business results forecasts for FY2023 are as follows.

	(Consolidated financial results forecast)	(Non-consolidated financial results forecast)
Awarded contract amount	—	¥200.0 billion
Net sales	¥463.0 billion	¥320.3 billion
Operating profit	¥13.0 billion	¥8.0 billion
Ordinary profit	¥9.0 billion	¥6.0 billion
Net profit	¥4.4 billion	¥3.5 billion
Net profit attributable to the shareholders of the parent company	¥4.0 billion	—

<Issues for the Company>

(1) The Company recorded additional hefty project losses in the fiscal year under review for major building construction projects currently underway in Japan. We deeply apologize to all stake/shareholders for the great inconvenience and concern this has caused. This was due to the incurrence of additional costs having been projected due mainly to rising prices of materials, particularly steel, reviews of project plans in line with construction progress, and product defects in factory-produced components. In response to these repeated project losses, we have formed a special response team, which is providing assistance and technical guidance for the projects overall, while an investigation committee is investigating the causes and formulating measures to prevent recurrences. The investigation committee plans to invite external experts to obtain their opinions to from an objective standpoint. The Company will further strengthen its project management systems for these projects and make its utmost effort to ensure quality and the recovery of project schedules.

In addition, given the significant decline in profitability of certain building construction projects in Japan, we will press forcefully ahead with the following measures designed to improve the performance of the construction business in Japan.

- 1) Improvement of project structure constraints and rebuilding of work site support systems
To improve the project structure constraints, we will curb the number of contracts accepted for new construction projects in the short term, and in the medium to long term, we will adhere to a contract acceptance policy premised on ensuring the project structure. In doing so, we will steadily complete the projects on hand to eliminate the project structure constraints, in our efforts to strengthen our pre-contract deliberation and support structures.
- 2) Strengthening of governance in contract acceptance process and building of optimal contract portfolio
By adopting more stringent decisions on initiatives at their initial stages and strengthening governance in the contract acceptance process, we will thoroughly avoid low profitability and eliminate the risk of degrading of profit/loss figures. We will also re-establish our policies for accepting contracts based on factors such as the customer, the size of the project, its application, and regional characteristics, and strive to diversify risk and expand contract opportunities by implementing those policies thoroughly.
- 3) Thorough management of targets with emphasis on profit
To maximize the profit of each project, we will position the securing of profit as the most

important indicator when accepting contracts, and thoroughly manage targets with profit as top priority at each subsequent stage of the project.

- (2) Regarding the case involving the construction of an apartment building located in Yokohama City, on November 28, 2017, Mitsui Fudosan Residential Co., Ltd. (hereinafter “MFR”), which is one of the developers of the apartment building, initiated a lawsuit against the Company and two piling companies claiming approximately 45.9 billion yen (subsequently increased to approximately 51.0 billion yen on July 11, 2018, and decreased from approximately 51.0 billion yen to approximately 50.6 billion yen on September 30, 2022) as the alleged rebuilding cost for the entire apartment building. However, we consider that MFR’s claim lacks a legal foundation and factual reasons, and will continue to make appropriate arguments in that court proceeding.

<Significant events, etc. on going concern assumption>

As a result of the decrease in net assets caused by the recording of large amounts in net losses for the past two consecutive fiscal years to the fiscal year ended March 31, 2023, the Group has contravened the financial covenants attached to certain syndicated loan agreements concluded with multiple financial institutions at the end of the fiscal year under review. However, regarding the said agreements in which financial covenants have been contravened, we obtained an approval from the lending institutions that they would not exercise their right to acceleration as of May 19, 2023. In addition, for the procurement of necessary funds going forward, our main bank and other lending institutions have expressed their intention to continue to support the Group. Accordingly, we have determined that there has been no significant uncertainty over the going concern assumption.



Shigetoshi Kondo
Representative Director,
President

Consolidated Financial Statements

**Sumitomo Mitsui Construction Co., Ltd.
and Consolidated Subsidiaries**

*Year ended March 31, 2023
with Independent Auditor's Report*

Consolidated Balance Sheets

March 31, 2023

	As of March 31,		
	2023 <i>(Millions of yen)</i>	2022	2023 <i>(Thousands of U.S. dollars) (Note 3)</i>
Assets			
Current assets:			
Cash and deposits <i>(Notes 10 and 11)</i>	¥ 65,142	¥ 70,974	\$ 487,845
Trade notes receivable, accounts receivable on completed construction contracts and other <i>(Notes 6-(a), 11 and 16)</i>	215,220	197,169	1,611,772
Inventories <i>(Notes 6-(b) and 6-(f))</i>	30,425	27,882	227,851
Other current assets	27,917	19,615	209,069
Allowance for doubtful receivables	(2,299)	(1)	(17,217)
Total current assets	336,405	315,640	2,519,321
Non-current assets:			
Property and equipment, at cost:			
Land <i>(Notes 6-(c) and 6-(d))</i>	18,971	16,316	142,072
Buildings and structures <i>(Note 6-(c))</i>	40,847	17,066	305,901
Machinery, equipment and vehicles <i>(Note 6-(c))</i>	16,117	39,216	120,699
Construction in progress	1,704	370	12,761
Accumulated depreciation	(41,163)	(38,930)	(308,267)
Property and equipment, net	36,476	34,040	273,167
Intangible fixed assets	6,523	6,808	48,850
Investments and other assets:			
Investments in securities <i>(Notes 6-(c), 11 and 12)</i>	19,300	20,954	144,536
Deferred tax assets <i>(Note 15)</i>	5,882	10,601	44,050
Investments in unconsolidated subsidiaries and affiliates	758	817	5,676
Asset for retirement benefits <i>(Note 14)</i>	88	127	659
Other <i>(Note 6-(c))</i>	5,581	5,976	41,795
Allowance for doubtful receivables	(863)	(891)	(6,462)
Total investments and other assets	30,747	37,584	230,262
Total non-current assets	73,747	78,433	552,287
Total assets	¥410,153	¥394,073	\$3,071,616

Consolidated Balance Sheets

March 31, 2023

	As of March 31,		
	2023	2022	2023
	(Millions of yen)		(Thousands of U.S. dollars) (Note 3)
Liabilities and net assets			
Current liabilities:			
Trade notes payable, accounts payable on construction contracts and other (Note 11)	¥ 84,771	¥ 89,634	\$ 634,846
Electronically recorded payable (Note 11)	36,150	29,347	270,725
Short-term bank loans and current portion of long-term debt (Notes 6-(c), 6-(h), 11 and 22)	10,812	1,988	80,970
Lease obligations (Note 22)	749	781	5,609
Accrued expenses	8,042	7,435	60,226
Income tax payable	1,349	3,110	10,102
Advances received on construction contracts in progress (Notes 6-(g) and 16)	35,262	28,635	264,075
Reserve for defects on completed construction projects	514	489	3,849
Allowance for losses on construction contracts (Note 6-(f))	38,530	19,611	288,549
Allowance for contingency loss	2,159	2,159	16,168
Other current liabilities	25,683	24,215	192,338
Total current liabilities	244,027	207,409	1,827,506
Long-term liabilities:			
Corporate bond payable (Notes 11 and 21)	10,000	5,000	74,889
Long-term debt (Notes 6-(c), 6-(h), 11 and 22)	63,443	57,806	475,121
Lease obligations (Note 22)	1,814	1,889	13,584
Deferred tax liability on land revaluation (Note 6-(d))	574	574	4,298
Allowance for share-based payment	73	57	546
Liability for retirement benefits (Note 14)	17,971	18,389	134,583
Other long-term liabilities	1,110	3,245	8,312
Total long-term liabilities	94,988	86,963	711,360
Contingent liabilities (Notes 6-(e) and 18)			
Net assets:			
Shareholders' equity:			
Capital stock:	12,003	12,003	89,889
Common stock:			
Authorized:			
533,892,994 shares in 2023 and 2022			
Issued and outstanding:			
162,673,321 shares in 2023 and 2022			
Additional paid-in capital	641	—	4,800
Retained earnings	56,886	85,714	426,016
Treasury stock, at cost:			
6,180,515 shares in 2023 and 6,382,798 shares in 2022	(3,782)	(3,907)	(28,323)
Total shareholders' equity	65,748	93,811	492,383
Accumulated other comprehensive income:			
Unrealized holding loss on securities	(2,180)	(555)	(16,325)
Deferred loss on hedging instruments, net of taxes (Note 13)	(40)	(92)	(299)
Land revaluation (Note 6-(d))	70	70	524
Translation adjustments	799	(1,001)	5,983
Retirement benefits liability adjustment (Note 14)	(778)	(843)	(5,826)
Total accumulated other comprehensive income	(2,130)	(2,422)	(15,951)
Non-controlling interests	7,519	8,313	56,309
Total net assets	71,137	99,701	532,741
Total liabilities and net assets	¥410,153	¥394,073	\$3,071,616

The accompanying notes are an integral part of these statements.

Sumitomo Mitsui Construction Co., Ltd.
Consolidated Statements of Income
 March 31, 2023

	Years ended March 31,		
	2023	2022	2023
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 3)</i>
Net sales <i>(Notes 7-(a), 16 and 17)</i>	¥458,622	¥403,275	\$3,434,598
Cost of sales <i>(Notes 7-(b) and 7-(d))</i>	449,552	385,096	3,366,674
Gross profit	9,069	18,178	67,917
Selling, general and administrative expenses <i>(Notes 7-(c), 7-(d) and 14)</i>	27,828	25,638	208,402
Operating loss	(18,759)	(7,459)	(140,485)
Other income (expenses):			
Interest and dividend income	1,094	814	8,192
Payments received from insurance claims	91	93	681
Interest expense	(1,357)	(987)	(10,162)
Exchange gain, net	1,759	429	13,173
Financing related expenses	(338)	(410)	(2,531)
Litigation related expenses	(416)	(185)	(3,115)
Commission for loan commitment agreement	(381)	(512)	(2,853)
Gain on sales of property and equipment <i>(Note 7-(e))</i>	98	17	733
Gain on sales of investments in securities <i>(Note 12-(c))</i>	187	19	1,400
Impairment loss <i>(Note 7-(g))</i>	(62)	(3)	(464)
Loss on sales and disposal of property and equipment <i>(Note 7-(f))</i>	(43)	(191)	(322)
Other, net	(183)	(118)	(1,370)
	447	(1,036)	3,347
Loss before income taxes	(18,311)	(8,495)	(137,130)
Income taxes <i>(Note 15)</i> :			
Current	2,512	4,083	18,812
Deferred	4,480	(6,026)	33,550
	6,992	(1,942)	52,362
Loss	(25,304)	(6,552)	(189,500)
Profit (loss) attributable to:			
Non-controlling interests	397	469	2,973
Owners of parent	¥(25,702)	¥ (7,022)	\$ (192,481)
	<i>(Yen)</i>		<i>(U.S. dollars)</i> <i>(Note 3)</i>
Loss per share <i>(Note 19)</i>	¥(164.32)	¥ (44.93)	\$ (1.231)

The accompanying notes are an integral part of these statements.

Sumitomo Mitsui Construction Co., Ltd.
Consolidated Statements of Comprehensive Income
 March 31, 2023

	Years ended March 31,		
	2023	2022	2023
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 3)</i>
Loss	¥(25,304)	¥(6,552)	\$(189,500)
Other comprehensive income:			
Unrealized holding loss on securities	(1,625)	(962)	(12,169)
Deferred gain on hedging instruments, net of taxes	52	54	389
Translation adjustments	1,861	620	13,936
Retirement benefits liability adjustments	72	(29)	539
Total other comprehensive income <i>(Note 8)</i>	360	(316)	2,696
Comprehensive income	¥24,943	¥(6,869)	\$(186,796)
Comprehensive income attributable to:			
Owners of the parent	¥(25,409)	¥(7,349)	\$(190,286)
Non-controlling interests	466	480	3,489

The accompanying notes are an integral part of these statements.

Sumitomo Mitsui Construction Co., Ltd.
Consolidated Statements of Changes In Net Assets
 March 31, 2023

	Year ended March 31, 2023				
	Shareholders' equity				
	Capital stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total shareholders' equity
	(Millions of yen)				
Balance at the beginning of the period	¥12,003	¥—	¥85,714	¥(3,907)	¥93,811
Cumulative effects of changes in accounting policies					
Restated balance	12,003	—	85,714	(3,907)	93,811
Changes in items during the period:					
Change in a parent's ownership interest due to transaction with non-controlling interests		674			674
Dividends from surplus			(3,125)		(3,125)
Loss attributable to owners of the parent			(25,702)		(25,702)
Purchases of treasury stock				(2)	(2)
Disposition of treasury stock		(33)		126	93
Reversal of land revaluation					
Transfer from retained earnings to additional paid-in capital					—
Net changes in items other than shareholders' equity					
Total changes in items during the period	—	641	(28,828)	124	(28,062)
Balance at the end of the period	¥12,003	¥641	¥56,886	¥(3,782)	¥ 65,748

	Year ended March 31, 2023							
	Accumulated other comprehensive income							
	Unrealized holding loss on securities	Deferred loss on hedging instruments, net of taxes	Land revaluation	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
	(Millions of yen)							
Balance at the beginning of the period	¥(555)	¥(92)	¥70	¥(1,001)	¥(843)	¥(2,422)	¥8,313	¥99,701
Cumulative effects of changes in accounting policies								
Restated balance	(555)	(92)	70	(1,001)	(843)	(2,422)	8,313	99,701
Changes in items during the period:								
Change in a parent's ownership interest due to transaction with non-controlling interests								674
Dividends from surplus								(3,125)
Loss attributable to owners of the parent								(25,702)
Purchases of treasury stock								(2)
Disposition of treasury stock								93
Reversal of land revaluation								
Transfer from retained earnings to additional paid-in capital								
Net changes in items other than shareholders' equity	(1,625)	52	0	1,800	65	292	(793)	(501)
Total changes in items during the period	(1,625)	52	0	1,800	65	292	(793)	(28,563)
Balance at the end of the period	¥(2,180)	¥ (40)	¥70	¥799	¥(778)	¥(2,130)	¥7,519	¥ 71,137

Sumitomo Mitsui Construction Co., Ltd.
Consolidated Statements of Changes In Net Assets
 March 31, 2023

	Year ended March 31, 2023				
	Shareholders' equity				
	Capital stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total shareholders' equity
	<i>(Thousands of U.S. dollars) (Note 3)</i>				
Balance at the beginning of the period	\$89,889	\$—	\$641,908	\$(29,259)	\$702,546
Cumulative effects of changes in accounting policies					
Restated balance	89,889	—	641,908	(29,259)	702,546
Changes in items during the period:					
Change in a parent's ownership interest due to transaction with non-controlling interests		5,047			5,047
Dividends from surplus			(23,402)		(23,402)
Loss attributable to owners of the parent			(192,481)		(192,481)
Purchases of treasury stock				(14)	(14)
Disposition of treasury stock		(247)		943	696
Reversal of land revaluation					
Transfer from retained earnings to additional paid-in capital					
Net changes in items other than shareholders' equity					
Total changes in items during the period	—	4,800	(215,891)	928	(210,155)
Balance at the end of the period	\$89,889	\$4,800	\$426,016	\$(28,323)	\$492,383

	Year ended March 31, 2023							
	Accumulated other comprehensive income							
	Unrealized holding loss on securities	Deferred loss on hedging instruments, net of taxes	Land revaluation	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
	<i>(Thousands of U.S. dollars) (Note 3)</i>							
Balance at the beginning of the period	\$(4,156)	\$(688)	\$524	\$(7,496)	\$(6,313)	\$(18,138)	\$62,255	\$746,656
Cumulative effects of changes in accounting policies								
Restated balance	(4,156)	(688)	524	(7,496)	(6,313)	(18,138)	62,255	746,656
Changes in items during the period:								
Change in a parent's ownership interest due to transaction with non-controlling interests								5,047
Dividends from surplus								(23,402)
Loss attributable to owners of the parent								(192,481)
Purchases of treasury stock								(14)
Disposition of treasury stock								696
Reversal of land revaluation								
Transfer from retained earnings to additional paid-in capital								
Net changes in items other than shareholders' equity	(12,169)	389	0	13,480	486	2,186	(5,938)	(3,751)
Total changes in items during the period	(12,169)	389	0	13,480	486	2,186	(5,938)	(213,906)
Balance at the end of the period	\$(16,325)	\$(299)	\$524	\$5,983	\$(5,826)	\$(15,951)	\$56,309	\$532,741

Sumitomo Mitsui Construction Co., Ltd.
Consolidated Statements of Changes In Net Assets
 March 31, 2023

	Year ended March 31, 2022				Total shareholders' Equity
	Shareholders' equity				
	Capital stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	
	(Millions of yen)				
Balance at the beginning of the period	¥12,003	¥—	¥96,001	¥(3,504)	¥104,499
Cumulative effects of changes in accounting policies			(414)		(414)
Restated balance	12,003	—	95,586	(3,504)	104,085
Changes in items during the period:					
Change in a parent's ownership interest due to transaction with non-controlling interests		(1)			(1)
Dividends from surplus			(2,828)		(2,828)
Loss attributable to owners of the parent			(7,022)		(7,022)
Purchases of treasury stock				(502)	(502)
Disposition of treasury stock		(20)		100	79
Reversal of land revaluation			1		1
Transfer from retained earnings to additional paid-in capital		21	(21)		—
Net changes in items other than shareholders' equity					
Total changes in items during the period	—	—	(9,872)	(402)	(10,274)
Balance at the end of the period	¥12,003	¥—	¥85,714	¥(3,907)	¥93,811

	Year ended March 31, 2022							Total net assets
	Accumulated other comprehensive income							
	Unrealized holding gain (loss) on securities	Deferred loss on hedging instruments, net of taxes	Land revaluation	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Non-controlling interests	
	(Millions of yen)							
Balance at the beginning of the period	¥407	¥(147)	¥71	¥(1,622)	¥(803)	¥(2,094)	¥7,902	¥110,308
Cumulative effects of changes in accounting policies								(414)
Restated balance	407	(147)	71	(1,622)	(803)	(2,094)	7,902	109,894
Changes in items during the period:								
Change in a parent's ownership interest due to transaction with non-controlling interests								(1)
Dividends from surplus								(2,828)
Loss attributable to owners of the parent								(7,022)
Purchases of treasury stock								(502)
Disposition of treasury stock								79
Reversal of land revaluation								1
Transfer from retained earnings to additional paid-in capital								—
Net changes in items other than shareholders' equity	(962)	54	(1)	621	(40)	(328)	410	81
Total changes in items during the period	(962)	54	(1)	621	(40)	(328)	410	(10,192)
Balance at the end of the period	¥(555)	¥(92)	¥70	¥(1,001)	¥(843)	¥(2,422)	¥8,313	¥99,701

The accompanying notes are an integral part of these statements.

Sumitomo Mitsui Construction Co., Ltd.
Consolidated Statements of Cash Flows
 March 31, 2023

	Years ended March 31,		
	2023	2022	2023
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 3)</i>
Operating activities			
Loss before income taxes	¥(18,311)	¥(8,495)	\$(137,130)
Depreciation and amortization	4,362	3,296	32,666
Impairment loss	62	3	464
Amortization on goodwill	405	—	3,033
Increase (decrease) in allowance for doubtful receivables	2,271	(24)	17,007
Increase (decrease) in reserve for defects on completed construction projects	22	(265)	164
Increase in allowance for losses on construction contracts	18,916	18,685	141,661
Increase in allowance for share-based payment	23	23	172
Decrease in liability for retirement benefits	(437)	(201)	(3,272)
(Gain) loss on sales and disposal of property and equipment	(55)	173	(411)
Gain on sales of investments in securities	(181)	(19)	(1,355)
Interest and dividend income	(1,094)	(814)	(8,192)
Interest expense	1,357	987	10,162
Exchange gain, net	(706)	(565)	(5,287)
Increase in trade notes receivable, accounts receivable on completed construction contracts and other	(17,156)	(2,467)	(128,480)
Increase in inventories	(2,460)	(1,965)	(18,422)
(Increase) decrease in other assets	(7,110)	574	(53,246)
Increase (decrease) in retirement benefits liability adjustments included in accumulated other comprehensive income	83	(17)	621
Increase (decrease) in trade notes payable, accounts payable on construction contracts and other	1,481	(407)	11,091
Increase in advances received on construction contracts in progress	6,228	4,123	46,641
Increase in other liabilities	355	287	2,658
Other	(57)	(7)	(426)
Subtotal	(12,000)	12,904	(89,867)
Interest and dividends received	1,120	792	8,387
Interest paid	(1,349)	(988)	(10,102)
Income taxes paid	(3,894)	(2,711)	(29,161)
Net cash (used in) provided by operating activities	(16,123)	9,996	(120,744)
Investing activities			
Decrease in fixed deposits	1,830	875	13,704
Purchases of property and equipment	(4,367)	(3,722)	(32,704)
Proceeds from sales of property and equipment	323	51	2,418
Purchases of intangible fixed assets	(729)	(497)	(5,459)
Purchases of investments in securities	(136)	(3,865)	(1,018)
Proceeds from sales of investments in securities	67	302	501
Disbursements for loans receivable	(27)	(23)	(202)
Proceeds from collection of loans receivable	123	84	921
Purchases of shares of subsidiaries resulting in change in scope of consolidation (Note 10)	(515)	(6,211)	(3,856)
Other	(80)	26	(599)
Net cash used in investing activities	(3,512)	(12,980)	(26,301)

Sumitomo Mitsui Construction Co., Ltd.
Consolidated Statements of Cash Flows
 March 31, 2023

	Years ended March 31,		
	2023	2022	2023
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 3)</i>
Financing activities			
Decrease in short-term bank loans	¥ (150)	¥(1,173)	\$ (1,123)
Proceeds from long-term debt	17,250	10,000	129,184
Payments of long-term debt	(2,662)	(7,212)	(19,935)
Increase in long-term loans of employees	148	332	1,108
Proceeds from issuance of corporate bonds	5,000	—	37,444
Increase in treasury stock	(1)	(502)	(7)
Cash dividends paid	(3,117)	(2,822)	(23,343)
Cash dividends paid for non-controlling shareholders	(747)	(126)	(5,594)
Repayments of lease obligations	(1,084)	(643)	(8,118)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(434)	—	(3,250)
Net cash provided by (used in) financing activities	14,200	(2,148)	106,343
Effect of exchange rate changes on cash and cash equivalents	1,155	648	8,649
Net decrease in cash and cash equivalents	(4,279)	(4,483)	(32,045)
Cash and cash equivalents at beginning of the year	65,108	69,591	487,590
Cash and cash equivalents at end of the year (Note 10)	¥60,828	¥65,108	\$455,538

The accompanying notes are an integral part of these statements.

1. Basis of Preparation

The accompanying consolidated financial statements of Sumitomo Mitsui Construction Co., Ltd. (the “Company”) and consolidated subsidiaries (collectively the “Group”) are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

Certain reclassifications have been made to present the accompanying consolidated financial statements in a format which is familiar to readers outside Japan. In addition, certain amounts in the prior year’s financial statements have been reclassified to conform to the current year’s presentation.

As permitted, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements do not necessarily agree with the sums of the individual amounts.

2. Summary of Significant Accounting Policies

(a) Basis of Consolidation and Accounting for Investments in Unconsolidated Subsidiaries and Affiliates

The accompanying consolidated financial statements include the accounts of the Company and the significant companies which it controls directly or indirectly. Companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements on an equity basis. In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to non-controlling shareholders, are recorded based on the fair value at the time the Company acquired control of the respective subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

The excess of the cost over the underlying net assets at fair value at the respective dates of acquisition of the consolidated subsidiaries (goodwill) or the excess of fair value of the net assets acquired over cost (negative goodwill) is charged or credited to income in the year of acquisition.

Investments in affiliates not accounted for by the equity method are principally stated at cost.

The Company had 22 consolidated subsidiaries and 1 affiliate accounted for by the equity method as of March 31, 2023.

(b) Fiscal Year of Consolidated Subsidiaries

All foreign consolidated subsidiaries (11 companies) have a fiscal year that ends on December 31. The accompanying consolidated financial statements were prepared based on the financial statements as of the same date. Necessary adjustments for consolidation were made on significant transactions that took place during the period between the fiscal year-end of the subsidiaries and the fiscal year-end of the Company.

(c) Securities

The accounting standard for financial instruments requires that securities be classified into three categories: trading, held-to-maturity or other securities. Trading securities are carried at fair value and held-to-maturity securities are carried at amortized cost. For other securities, securities other than shares, etc. with no market value are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Shares, etc. with no market value are carried at cost. Cost of securities sold is determined by the moving average method.

(d) Inventories

Inventories other than materials and supplies are stated at cost determined by the specific identification method. Materials and supplies are valued at cost determined by the average method. Cost of real estate for sale and materials and supplies is written down when their carrying amounts become unrecoverable.

(e) Depreciation and Amortization

(1) Property and equipment (except leased assets) and investments in real estate

Depreciation of property and equipment (except leased assets) and investments in real estate is determined primarily by the declining-balance method based on the estimated useful lives and the residual value of the respective assets as prescribed in the Corporation Tax Law of Japan except that the straight-line method is applied to office buildings (except facilities attached to buildings) acquired on or after April 1, 1998 and facilities attached to buildings and structures acquired on or after April 1, 2016.

Depreciation at all overseas subsidiaries is determined by the straight-line method or by the declining-balance method based on the estimated useful lives of the respective assets.

(2) Intangible fixed assets (except leased assets)

Amortization of intangible fixed assets (except leased assets) is calculated by the straight-line method based on the estimated useful lives of the respective assets as prescribed in the Corporation Tax Law of Japan. Amortization of computer software for internal use is calculated by the straight-line method over the estimated useful lives of 5 years.

(e) Depreciation and Amortization (continued)

(3) Leased assets

Depreciation of leased assets under finance leases other than those that transfer the ownership of the leased assets to the lessees is calculated by the straight-line method over the lease term with a residual value of zero.

(f) Advances Received on Construction Contracts in Progress

As is customary in Japan, the Company and its domestic consolidated subsidiaries receive payments from customers on an installment basis in accordance with the terms of the respective construction contracts.

(g) Allowance for Doubtful Receivables

An allowance for doubtful receivables has been provided for future losses on general receivables at an amount calculated by applying the percentage of actual losses on collection experienced in the past, and an uncollectible amount for doubtful receivables estimated based on an individual assessment of each receivable and probability of collection.

(h) Reserve for Defects on Completed Construction Projects

A reserve has been provided at an estimated amount for the fiscal year's sales proceeds in order to cover the liability for future costs of defects of the completed construction projects.

(i) Allowance for Losses on Construction Contracts

An allowance has been provided based on the estimated amount for the future losses on construction projects in progress at the fiscal year end which are anticipated to be substantial losses in the future.

(j) Allowance for Contingency Loss

An allowance for contingency loss related to the defective piling work at a condominium in Yokohama has been provided based on the reasonably estimated amount necessary for payments to be borne as the contractor in accordance with defect liability applicable to the construction contract.

(k) Allowance for Share-based Payment

An allowance has been provided based on the estimated amount for share-based payment liability as of March 31, 2023 in order to cover payments of share to directors based on a share-based payment regulation.

(l) Accounting for Retirement Benefits

(1) Method of attributing expected retirement benefits to periods

In calculating the retirement benefit obligation, the benefit formula method is applied to attribute the expected retirement benefits to the periods up to year ended March 31, 2023.

(2) Amortization of actuarial gain or loss and prior service cost

Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized by the straight-line method over periods (mainly 11 years), which are shorter than the average remaining years of service of the employees.

Prior service cost is being amortized as incurred by the straight-line method over periods (mainly 11 years), which are shorter than the average remaining years of service of the employees.

(m) Recognition of Revenues and Costs

The Group is primarily engaged in civil construction and building construction, providing construction design and construction work services as well as other related services to its domestic and overseas customers.

In civil and building construction, the Group primarily enters into long-term construction contracts. For such contracts, the completion and delivery of construction work is identified as a performance obligation. Performance obligations are deemed to be satisfied over time, and revenue is recognized based on progress toward complete satisfaction of a performance obligation. The progress toward complete satisfaction of a performance obligation is measured based on the proportion of construction costs incurred by the end of the reporting period to the total expected construction costs. When the progress toward complete satisfaction of a performance obligation cannot be reasonably measured, but the costs to be incurred are expected to be recovered, revenue is recognized only to the extent of the costs incurred, except for those contracts that are in the initial stages of construction. For construction contracts whose period between the date of commencement of the transaction and the point in time when the performance obligation is expected to be fully satisfied is very short, an alternative treatment is applied, whereby revenue is not recognized over time, but is recognized when the performance obligation is fully satisfied.

(n) Derivatives and Hedge Accounting

(1) Method of hedge accounting

Derivative financial instruments are mainly stated at fair value except those accounted for under deferred hedge accounting.

Interest rate swaps qualifying for hedge accounting and meeting specific matching criteria are not re-measured at market value, but the differential paid or received under the swap agreements is charged or credited to income (short-cut method).

(n) Derivatives and Hedge Accounting (continued)

(2) Hedging instruments and hedged items

Hedging instruments: Interest rate swaps

Hedged items: Interest on debt

(3) Hedging policy

The Company utilizes interest rate swaps only for the purpose of hedging future risks of fluctuation of interest rates.

(4) Assessment of hedge effectiveness

An evaluation of hedge effectiveness for interest rate swaps by principle method is performed on a quarterly basis to confirm that there is a strong correlation between hedged items and hedging instruments by comparing accumulated amount of the change of cash flows of hedged items and accumulated amount of the change of cash flows of hedging instruments to assess whether the forward contract qualifies for hedge accounting. However, the evaluation of hedge effectiveness is omitted in case of interest rate swaps meeting specific matching criteria.

(o) Method and Period of Amortization of Goodwill

In principle, goodwill is amortized on a straight-line basis over the period for which goodwill is expected to have an effect, which shall not exceed 20 years.

(p) Cash Equivalents

All highly liquid investments with a maturity of three months or less when purchased, which can easily be converted to cash and are subject to little risk of change in value, are considered cash equivalents.

(q) Income Taxes

Deferred tax assets and liabilities are determined based on the differences between the amounts calculated for financial reporting purposes 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.

The Company and its domestic consolidated subsidiaries has adopted the group tax sharing system from the current fiscal year.

(r) Accounting Method of Joint Ventures for Construction Project

Assets, liabilities, costs and profits for a joint venture project are mainly recognized on pro-rata basis of investment ratio of each members.

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 in effect on March 31, 2023. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at that or any other rate.

4. Significant Accounting Estimates

For the year ended March 31, 2023

(a) Allowance for Contingency Loss

- (1) Amounts recognized on the consolidated financial statements for this fiscal year

	As of March 31, 2023	
	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Allowance for contingency loss	¥2,159	\$16,168

- (2) Information on significant accounting estimates for the item above

An allowance for contingency loss related to the defective piling work at a condominium in Yokohama has been provided based on the reasonably estimated amount necessary for payments to be borne as the contractor in accordance with defect liability applicable to the construction contract.

Mitsui Fudosan Residential Co., Ltd. (hereinafter as “MFR”), which is one of the developers of the apartment, initiated a lawsuit against the Company and two piling companies on November 28, 2017, claiming about 45.9 billion yen (which amount increased to approximately 51.0 billion yen on July 11, 2018, and decreased from approximately 51.0 billion yen to approximately 50.6 billion yen on September 30, 2022) as alleged rebuilding cost for the whole structure of the apartment. The Company considers that MFR’s claim lacks legal foundation and reason, and will continue to make appropriate arguments in that court proceeding.

(b) Recognition of Revenues from Construction Contracts

(1) Amounts recognized on the consolidated financial statements for this fiscal year

	Year ended March 31, 2023	
	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Net sales of construction contracts, etc. related to performance obligations to be satisfied over time	¥403,453	\$3,021,440

(2) Information on significant accounting estimates for the item above

For construction contracts, etc. whose performance obligations are satisfied over time, the progress toward complete satisfaction of a performance obligation is measured and net sales of completed construction contracts are recognized over time based on such progress toward satisfaction of the performance obligation.

It is necessary to estimate total revenues and costs of a project reasonably upon recognition. The Group's results may fluctuate due to changes in net sales and costs of completed construction contracts as a result of negotiations with clients, unanticipated incurrence of costs, or other reasons.

For the year ended March 31, 2022

(a) Allowance for Contingency Loss

(1) Amounts recognized on the consolidated financial statements for this fiscal year

	As of March 31, 2022
	<i>(Millions of yen)</i>
Allowance for contingency loss	¥2,159

(2) Information of significant accounting estimates for the item above

An allowance for contingency loss related to the defective piling work at a condominium in Yokohama has been provided based on the reasonably estimated amount necessary for payments to be borne as the contractor in accordance with defect liability applicable to the construction contract.

Mitsui Fudosan Residential Co., Ltd. (hereinafter as "MFR"), which is one of the developers of the apartment, initiated a lawsuit against the Company and two piling companies on November 28, 2017, claiming about 45.9 billion yen (which amount increased to approximately 51.0 billion yen on July 11, 2018) as alleged rebuilding cost for the whole structure of the apartment. The Company considers that MFR's claim lacks legal foundation and reason, and will continue to make appropriate arguments in that court proceeding.

4. Significant Accounting Estimates (continued)

For the year ended March 31, 2022

(b) Recognition of Revenues from Construction Contracts

(1) Amounts recognized on the consolidated financial statements for this fiscal year

	Year ended March 31, 2022
	<hr/> <i>(Millions of yen)</i>
Net sales of construction contracts, etc. related to performance obligations to be satisfied over time	¥346,875

(2) Information of significant accounting estimates for the item above

For construction contracts, etc. whose performance obligations are satisfied over time, the progress toward complete satisfaction of a performance obligation is measured and net sales of completed construction contracts are recognized over time based on such progress toward satisfaction of the performance obligation.

It is necessary to estimate total revenues and costs of a project reasonably upon recognition. The Group's results may fluctuate due to changes in net sales and costs of completed construction contracts as a result of negotiations with clients, unanticipated incurrence of costs, or other reasons.

5. Unapplied Accounting Standard and Implementation Guidance

“Accounting Standard for Current Income Taxes, etc.” (ASBJ Statement No. 27 issued on October 28, 2022)

“Accounting Standard for Presentation of Comprehensive Income” (ASBJ Statement No. 25 issued on October 28, 2022)

“Implementation Guidance on Tax Effect Accounting” (ASBJ Guidance No. 28 issued on October 28, 2022)

(1) Outline

Provisions on the classification of recording of income taxes, etc. when taxing other comprehensive income and the treatment of tax effects related to the sales of subsidiary shares, etc. when the group corporate tax system is applied.

(2) Scheduled Date of Application

The Company will apply the accounting standard and the implementation guidance from the beginning of the year ending March 31, 2025.

(3) Impact of the Application of the Unapplied Accounting Standard and the Implementation Guidance

The Company is currently assessing the effects of application of the accounting standards and the implementation guidance on its consolidated financial statements.

6. Notes to Consolidated Balance Sheets

(a) Receivables and Contract Assets from Contracts with Customers

Receivables and contract assets from contracts with customers included in trade notes receivable, accounts receivable on completed construction contracts and other as of March 31, 2023 and 2022 were as follows:

	As of March 31,		
	2023	2022	2023
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Trade notes receivable	¥ 3,296	¥ 3,988	\$ 24,683
Accounts receivable on completed construction contracts and other	87,480	77,431	655,133
Contract assets	124,443	115,750	931,947
	<u>¥215,220</u>	<u>¥197,169</u>	<u>\$1,611,772</u>

(b) Inventories

The components of inventories as of March 31, 2023 and 2022 were as follows:

	As of March 31,		
	2023	2022	2023
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Merchandise and finished goods	¥ 94	¥ 49	\$ 703
Materials and supplies	9,973	5,736	74,687
Costs on uncompleted construction contracts	20,357	22,096	152,452
	<u>¥30,425</u>	<u>¥27,882</u>	<u>\$227,851</u>

(c) Pledged Assets

The following assets were pledged at March 31, 2023 and 2022 principally as collateral for short-term bank loans, long-term debt, and guarantees (such as guarantees for the completion of construction contracts):

	As of March 31,		
	2023	2022	2023
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Land	¥5,872	¥6,070	\$43,975
Buildings and structures, net of accumulated depreciation	1,692	550	12,671
Machinery, equipment and vehicles, net of accumulated depreciation	128	159	958
Investments in securities	4	4	29
Securities	285	139	2,134
Others (Investments and other assets)	10	10	74
	<u>¥7,994</u>	<u>¥6,933</u>	<u>\$59,866</u>

In addition to the assets pledged as collateral above, ¥358 million (\$2,681 thousand) of shares of affiliated companies (subsidiary shares) that have been offset and eliminated from the consolidated financial statements are pledged as collateral.

Of the above property and equipment, mortgaged assets for factory foundations at March 31, 2023 and 2022 were summarized as follows:

	As of March 31,		
	2023	2022	2023
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Land	¥1,258	¥1,258	\$9,421
Buildings and structures, net of accumulated depreciation	282	293	2,111
Machinery, equipment and vehicles, net of accumulated depreciation	128	159	958
	<u>¥1,669</u>	<u>¥1,711</u>	<u>\$12,499</u>

The secured liabilities as of March 31, 2023 and 2022 were summarized as follows:

	As of March 31,		
	2023	2022	2023
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Short-term bank loans	¥ 12	¥ 12	\$ 89
[Including current portion of long-term debt]	[12]	[12]	[89]
Long-term debt	43	56	322

(d) Land Revaluation

Land for operations was revalued by two consolidated subsidiaries under the Law for Land Revaluation during the year ended March 31, 2001. Land for operations was revalued by consolidated subsidiaries under the Law for Land Revaluation during the year ended March 31, 2002. The revaluation amounts are shown as a separate component of net assets.

The market value of the land was less than the revalued book amount by ¥681 million (\$5,099 thousand) and ¥720 million at March 31, 2023 and 2022, respectively.

(e) Contingent Liabilities

At March 31, 2023 and 2022, the Company and its consolidated subsidiaries were contingently liable for the following:

	As of March 31,		
	2023	2022	2023
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
As guarantors for house building fund for employees	¥–	¥2	\$–
As guarantors for compensation for lump-sum move-in payment for Amenity Life Co., Ltd.	487	637	3,647
As guarantors for performance guarantee insurance policy for Sakai School Lunch Partners Co., Ltd.	819	–	6,133
Advance deposits	609	482	4,560

The Company's affiliated company, Sakai School Lunch Partners Co., Ltd., a special purpose company, has concluded a performance guarantee insurance contract with a guarantor organization, and provides joint guarantee for the compensation debt to be borne in the event of a claim based on the contract.

(f) Estimated Loss on Uncompleted Construction Contracts

An estimated loss on uncompleted construction contracts was recognized and included as part of inventories but was not offset against the amount on the balance sheet. It has been recorded as an allowance for losses on construction contracts in the amounts of ¥332 million (\$2,486 thousand) and ¥207 million as of March 31, 2023 and 2022, respectively.

(g) Contract Liabilities

Advances received on construction contracts in progress included contract liabilities in the amounts of ¥35,262 million (\$264,075 thousand) and ¥28,635 million as of March 31, 2023 and 2022, respectively.

(h) Financial Covenants

As of March 31, 2023

- (1) The Company has entered into a loan commitment agreement dated on March 31, 2016 with its seven banks with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2016 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2014 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

In addition, there was no balance of bank borrowings under the loan commitment agreement as of March 31, 2023.

Unused amount on loan commitment agreement as of March 31, 2023 and 2022 were as follows.

	As of March 31,		
	<u>2023</u>	<u>2022</u>	<u>2023</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Maximum limit under the agreement	¥20,000	¥20,000	\$149,779
Loan balance outstanding	—	—	—
Difference (unused portion)	<u>¥20,000</u>	<u>¥20,000</u>	<u>\$149,779</u>

- (2) The Company has entered into a syndicated loan contract dated on September 28, 2016 with its seven banks (including five different banks from (1) above) with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2017 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2016 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In addition, the balance of bank borrowings under this syndicated loan contract is ¥1,750 million (\$13,105 thousand) in long-term debt (including the current portion) as of March 31, 2023.

(h) Financial Covenants (continued)

- (3) The Company has entered into a committed syndicated loan contract dated on March 30, 2018 with its seven banks (same bank as we had contracted for the year ended March 31, 2016) with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2018 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2017 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

In addition, the balance of bank borrowings under the committed syndicated loan contract is ¥10,000 million (\$74,889 thousand) in long-term debt (including the current portion) as of March 31, 2023.

Unused amount on the committed syndicated loan contract as of March 31, 2023 and 2022 were as follows.

	As of March 31,		
	<u>2023</u>	<u>2022</u>	<u>2023</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Maximum limit under the contract	¥10,000	¥10,000	\$74,889
Loan balance outstanding	10,000	10,000	74,889
Difference (unused portion)	<u>¥ —</u>	<u>¥ —</u>	<u>\$ —</u>

- (4) The Company has entered into a committed syndicated loan contract dated on December 26, 2019 with its ten banks (including six different banks from (3) above) with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2020 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2019 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

In addition, the balance of bank borrowings under the committed syndicated loan contract is ¥10,000 million (\$74,889 thousand) in long-term debt as of March 31, 2023.

(h) Financial Covenants (continued)

Unused amount on the committed syndicated loan contract as of March 31, 2023 and 2022 were as follows.

	As of March 31,		
	2023	2022	2023
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Maximum limit under the contract	¥10,000	¥10,000	\$74,889
Loan balance outstanding	10,000	10,000	74,889
Difference (unused portion)	¥ —	¥ —	\$ —

- (5) The Company has entered into a general syndicated committed loan contract dated on June 25, 2020 with its twenty-five banks with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2021 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2020 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In addition, the balance of bank borrowings under the committed syndicated loan contract is ¥15,000 million (\$112,334 thousand) in long-term debt as of March 31, 2023.

Unused amount on the committed syndicated loan contract as of March 31, 2023 and 2022 were as follows.

	As of March 31,		
	2023	2022	2023
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Maximum limit under the contract	¥15,000	¥15,000	\$112,334
Loan balance outstanding	15,000	15,000	112,334
Difference (unused portion)	¥ —	¥ —	\$ —

- (6) The Company has entered into a syndicated loan contract dated on September 29, 2020 with Sumitomo Mitsui Banking Corporation and Sumitomo Mitsui Trust Bank, Limited. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2021 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2020 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

(h) Financial Covenants (continued)

In addition, the balance of bank borrowings under this syndicated loan contract is ¥1,000 million (\$7,488 thousand) in long-term debt (including the current portion) as of March 31, 2023.

- (7) The Company has entered into a syndicated loan contract dated on March 29, 2021 with its seven banks (same bank as we had contracted for the year ended March 31, 2016) with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2021 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2020 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

In addition, the balance of bank borrowings under this syndicated loan contract is ¥10,000 million (\$74,889 thousand) in long-term debt as of March 31, 2023.

- (8) The Company has entered into a syndicated loan contract dated on March 28, 2022 with its eight banks (same bank as we had contracted for the year ended March 31, 2016) with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2022 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2021 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

In addition, the balance of bank borrowings under this syndicated loan contract is ¥10,000 million (\$74,889 thousand) in long-term debt as of March 31, 2023.

- (9) The Company has entered into a committed syndicated loan contract dated on March 28, 2022 with Sumitomo Mitsui Banking Corporation and Sumitomo Mitsui Trust Bank, Limited. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2022 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2021 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

(h) Financial Covenants (continued)

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

In addition, the balance of bank borrowings under the committed syndicated loan contract is ¥6,300 million (\$47,180 thousand) in long-term debt (including the current portion) as of March 31, 2023.

Unused amount on the committed syndicated loan contract as of March 31, 2023 and 2022 were as follows.

	As of March 31,		
	2023	2022	2023
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Maximum limit under the contract	¥7,000	¥7,000	\$52,422
Loan balance outstanding	7,000	—	52,422
Difference (unused portion)	¥ —	¥7,000	\$ —

- (10) The Company has entered into a loan commitment agreement dated on May 24, 2022 with its seven banks (same bank as we had contracted for the year ended March 31, 2016) with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of the second quarter of the fiscal year ended March 31, 2023 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2022.

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

In addition, there was no balance of bank borrowings under the loan commitment agreement as of March 31, 2023.

Unused amount on loan commitment agreement as of March 31, 2023 and 2022 were as follows.

	As of March 31,		
	2023	2022	2023
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Maximum limit under the agreement	¥30,000	¥—	\$224,668
Loan balance outstanding	—	—	—
Difference (unused portion)	¥30,000	¥—	\$224,668

(h) Financial Covenants (continued)

- (11) The Company has entered into a loan commitment agreement dated on June 27, 2022 with Sumitomo Mitsui Banking Corporation and Sumitomo Mitsui Trust Bank, Limited. The following financial covenant is included in the contract:

Total consolidated net assets at the end of the second quarter of the fiscal year ended March 31, 2023 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2022.

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

In addition, there was no balance of bank borrowings under the loan commitment agreement as of March 31, 2023.

Unused amount on loan commitment agreement as of March 31, 2023 and 2022 were as follows.

	As of March 31,		
	<u>2023</u>	<u>2022</u>	<u>2023</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Maximum limit under the agreement	¥20,000	¥—	\$149,779
Loan balance outstanding	—	—	—
Difference (unused portion)	<u>¥20,000</u>	<u>¥—</u>	<u>\$149,779</u>

- (12) The Company has entered into a general syndicated committed loan contract dated on September 27, 2022 with its twenty-one banks with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2023 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2022 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In addition, the balance of bank borrowings under the syndicated loan contract is ¥10,000 million (\$74,889 thousand) in long-term debt as of March 31, 2023.

Contracts other than (10) and (11) above are in conflict with financial covenants at the end of the current consolidated fiscal year, however, as of May 19, 2023, the Company obtained approval from our financial institutions to not exercise their right to lose profits for the time limit due to such conflicts.

(h) Financial Covenants (continued)

As of March 31, 2022

- (1) The Company has entered into a loan commitment agreement dated on March 31, 2016 with its seven banks with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2016 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2014 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

In addition, there was no balance of bank borrowings under the loan commitment agreement as of March 31, 2022.

Unused amount on loan commitment agreement as of March 31, 2022 and 2021 were as follows.

	As of March 31,	
	2022	2021
	<i>(Millions of yen)</i>	
Maximum limit under the agreement	¥20,000	¥20,000
Loan balance outstanding	—	—
Difference (unused portion)	<u>¥20,000</u>	<u>¥20,000</u>

- (2) The Company has entered into a syndicated loan contract dated on September 28, 2016 with its seven banks (including five different banks from (1) above) with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2017 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2016 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In addition, the balance of bank borrowings under this syndicated loan contract is ¥2,250 million in long-term debt (including the current portion) as of March 31, 2022.

- (3) The Company has entered into a committed syndicated loan contract dated on March 30, 2018 with its seven banks (same bank as we had contracted for the year ended March 31, 2016) with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

(h) Financial Covenants (continued)

Total consolidated net assets at the end of each fiscal year beginning March 31, 2018 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2017 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

In addition, the balance of bank borrowings under the committed syndicated loan contract is ¥10,000 in long-term debt as of March 31, 2022.

Unused amount on the committed syndicated loan contract as of March 31, 2022 and 2021 were as follows.

	As of March 31,	
	2022	2021
	<i>(Millions of yen)</i>	
Maximum limit under the contract	¥10,000	¥10,000
Loan balance outstanding	10,000	10,000
Difference (unused portion)	¥ —	¥ —

- (4) The Company has entered into a committed syndicated loan contract dated on December 26, 2019 with its ten banks (including six different banks from (3) above) with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2020 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2019 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

In addition, the balance of bank borrowings under the committed syndicated loan contract is ¥10,000 million in long-term debt as of March 31, 2022.

Unused amount on the committed syndicated loan contract as of March 31, 2022 and 2021 were as follows.

(h) Financial Covenants (continued)

	As of March 31,	
	2022	2021
	<i>(Millions of yen)</i>	
Maximum limit under the contract	¥10,000	¥10,000
Loan balance outstanding	10,000	10,000
Difference (unused portion)	¥ —	¥ —

- (5) The Company has entered into a general syndicated committed loan contract dated on June 25, 2020 with its twenty-five banks with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2021 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2020 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In addition, the balance of bank borrowings under the committed syndicated loan contract is ¥15,000 million in long-term debt as of March 31, 2022.

Unused amount on the committed syndicated loan contract as of March 31, 2022 and 2021 were as follows.

	As of March 31,	
	2022	2021
	<i>(Millions of yen)</i>	
Maximum limit under the contract	¥15,000	¥15,000
Loan balance outstanding	15,000	15,000
Difference (unused portion)	¥ —	¥ —

- (6) The Company has entered into a syndicated loan contract dated on September 29, 2020 with Sumitomo Mitsui Banking Corporation and Sumitomo Mitsui Trust Bank, Limited. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2021 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2020 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

In addition, the balance of bank borrowings under this syndicated loan contract is ¥2,200 million in long-term debt (including the current portion) as of March 31, 2022.

(h) Financial Covenants (continued)

- (7) The Company has entered into a syndicated loan contract dated on March 29, 2021 with its seven banks (same bank as we had contracted for the year ended March 31, 2016) with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2021 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2020 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

In addition, the balance of bank borrowings under this syndicated loan contract is ¥10,000 million in long-term debt as of March 31, 2022.

- (8) The Company has entered into a loan commitment agreement dated on May 25, 2021 with its seven banks (same bank as we had contracted for the year ended March 31, 2016) with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of the second quarter of the fiscal year ended March 31, 2022 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2021.

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

In addition, there was no balance of bank borrowings under the loan commitment agreement as of March 31, 2022.

Unused amount on loan commitment agreement as of March 31, 2022 and 2021 were as follows.

	As of March 31,	
	2022	2021
	<i>(Millions of yen)</i>	
Maximum limit under the agreement	¥30,000	¥-
Loan balance outstanding	-	-
Difference (unused portion)	<u>¥30,000</u>	<u>¥-</u>

- (9) The Company has entered into a loan commitment agreement dated on June 25, 2021 with Sumitomo Mitsui Banking Corporation and Sumitomo Mitsui Trust Bank, Limited. The following financial covenant is included in the contract:

(h) Financial Covenants (continued)

Total consolidated net assets at the end of the second quarter of the fiscal year ended March 31, 2022 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2021.

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

In addition, there was no balance of bank borrowings under the loan commitment agreement as of March 31, 2022.

Unused amount on loan commitment agreement as of March 31, 2022 and 2021 were as follows.

	As of March 31,	
	2022	2021
	<i>(Millions of yen)</i>	
Maximum limit under the agreement	¥20,000	¥—
Loan balance outstanding	—	—
Difference (unused portion)	<u>¥20,000</u>	<u>¥—</u>

- (10) The Company has entered into a syndicated loan contract dated on March 28, 2022 with its seven banks (same bank as we had contracted for the year ended March 31, 2016) with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2022 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2021 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

In addition, the balance of bank borrowings under this syndicated loan contract is ¥10,000 million in long-term debt as of March 31, 2022.

- (11) The Company has entered into a committed syndicated loan contract dated on March 28, 2022 with Sumitomo Mitsui Banking Corporation and Sumitomo Mitsui Trust Bank, Limited. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2022 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2021 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

(h) Financial Covenants (continued)

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

In addition, there was no balance of bank borrowings under the committed syndicated loan contract as of March 31, 2022.

Unused amount on the committed syndicated loan contract as of March 31, 2022 and 2021 were as follows.

	As of March 31,	
	2022	2021
	<i>(Millions of yen)</i>	
Maximum limit under the agreement	¥7,000	¥-
Loan balance outstanding	-	-
Difference (unused portion)	<u>¥7,000</u>	<u>¥-</u>

7. Notes to Consolidated Statements of Income

(a) Revenue from Contracts with Customers

Net sales are not presented separately for revenues from contracts with customers and other revenues. The amounts of revenues from contracts with customers are presented in “Notes to the Consolidated Financial Statements (Segment Information, etc.)”

(b) Allowance for Losses on Construction Contracts Included in Cost of Sales

The allowance for losses on construction contracts was included in cost of sales in the amounts of ¥22,132 million (\$165,745 thousand) and ¥19,219 million for the years ended March 31, 2023 and 2022, respectively.

(c) Selling, General and Administrative Expenses

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

	Years ended March 31,		
	2023	2022	2023
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Salaries and wages	¥12,397	¥11,918	\$ 92,840
Retirement benefit expenses	672	658	5,032
Provision of allowance for doubtful receivables	(0)	0	(0)
Other	14,759	13,061	110,529
Total	<u>¥27,828</u>	<u>¥25,638</u>	<u>\$208,402</u>

(d) Research and Development Expenses

Research and development costs included in selling, general and administrative expenses and manufacturing costs amounted to ¥2,133 million (\$15,973 thousand) and ¥2,484 million for the years ended March 31, 2023 and 2022, respectively.

(e) Gain on Sales of Property and Equipment

The significant components of gain on sales of property and equipment for the years ended March 31, 2023 and 2022 were as follows:

	Years ended March 31,		
	2023	2022	2023
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Buildings and structures	¥10	¥0	\$74
Machinery, equipment and vehicles	19	17	142
Land	69	—	516
Total	¥98	¥17	\$733

(f) Loss on Sales and Disposal of Property and Equipment

The significant components of loss on sales and disposal of property and equipment for the years ended March 31, 2023 and 2022 were as follows:

	Years ended March 31,		
	2023	2022	2023
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Loss on disposal	¥42	¥191	\$314
Loss on sales	1	0	7
Total	¥43	¥191	\$322

(g) Impairment loss

In this fiscal year, the Company recorded impairment losses on the following asset groups.

Location	Usage	Classification	Years ended March 31, 2023	
			<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Nishiyodogawa-ku, Osaka-shi, Osaka	Asphalt composite materials plant	Buildings and structures, machinery and equipment, and others (tools and equipment)	¥62	\$464

As a general rule, the Group groups business assets based on business units under management accounting, which continuously keep track of income and expenditure. In addition, idle assets are grouped for each individual property.

In this fiscal year, regarding assets or groups of assets that have significantly reduced profitability, the carrying value of the following assets was reduced to recoverable value, and the decrease was recorded as impairment loss that amounted to ¥62 million (\$464

thousand) under other expenses for the year ended March 31, 2023. The breakdown is ¥20 million (\$149 thousand) for buildings and structures, ¥40 million (\$299 thousand) for machinery and equipment, and ¥1 million (\$7 thousand) for others.

The recoverable value of such assets is measured by value in use and is calculated by discounting future cash flow by 5.7%.

8. Notes to Consolidated Statements of Comprehensive Income

Amount of recycling and amount of income tax effects associated with other comprehensive income for the years ended March 31, 2023 and 2022 were as follows:

	Years ended March 31,		
	2023	2022	2023
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Unrealized holding loss on securities:			
Changes in items during the period	¥(1,221)	¥(1,370)	\$(9,144)
Amount of recycling	(163)	(16)	(1,220)
Before income tax effect adjustment	(1,385)	(1,387)	(10,372)
Income tax effect adjustment	(240)	424	(1,797)
Unrealized holding loss on securities	(1,625)	(962)	(12,169)
Deferred gain on hedging instruments, net of taxes:			
Changes in items during the period	93	78	696
Amount of recycling	–	–	–
Before income tax effect adjustment	93	78	696
Income tax effect adjustment	(40)	(23)	(299)
Deferred gain on hedging instruments, net of taxes	52	54	389
Translation adjustments:			
Changes in items during the period	1,861	620	13,936
Amount of recycling	–	–	–
Before income tax effect adjustment	1,861	620	13,936
Income tax effect adjustment	–	–	–
Translation adjustments	1,861	620	13,936
Retirement benefits liability adjustments:			
Changes in items during the period	(55)	(34)	(411)
Amount of recycling	139	16	1,040
Before income tax effect adjustment	83	(17)	621
Income tax effect adjustment	(10)	(11)	(74)
Retirement benefits liability adjustments	72	(29)	539
Total other comprehensive income (loss)	¥ 360	¥(316)	\$ 2,696

9. Notes to Consolidated Statements of Changes in Net Assets

(a) Type and Number of Shares Issued and Treasury Stock

For the year ended March 31, 2023

	Balance at April 1, 2022	Increase	Decrease	Balance at March 31, 2023
	<i>(Number of shares)</i>			
Shares issued:				
Common stock	162,673,321	–	–	162,673,321
	Balance at April 1, 2022	Increase	Decrease	Balance at March 31, 2023
	<i>(Number of shares)</i>			
Treasury stock:				
Common stock	6,382,798	5,031	207,314	6,180,515

Note 1: Increase of common stock is due to the purchase of fractional 5,031 shares.

Note 2: Decrease of common stock is due to the sale of fractional 626 shares in response to shareholder requests and the disposition of treasury stock of 206,688 shares as the compensation of restricted stocks based on the resolution of the board of directors held on July 15, 2022.

For the year ended March 31, 2022

	Balance at April 1, 2021	Increase	Decrease	Balance at March 31, 2022
	<i>(Number of shares)</i>			
Shares issued:				
Common stock	162,673,321	–	–	162,673,321
	Balance at April 1, 2021	Increase	Decrease	Balance at March 31, 2022
	<i>(Number of shares)</i>			
Treasury stock:				
Common stock	5,511,604	1,035,490	164,296	6,382,798

Note 1: Increase of common stock is due to the purchase of fractional 5,990 shares and the acquisition of treasury stock of 1,029,500 shares based on the resolution of the board of directors held on February 10, 2021.

Note 2: Decrease of common stock is due to the sale of fractional 277 shares in response to shareholder requests and the disposition of treasury stock of 164,019 shares as the compensation of restricted stocks based on the resolution of the board of directors held on July 20, 2021.

(b) Dividends

(1) Dividends paid

For the year ended March 31, 2023

Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Total dividends (Thousands of U.S. dollars)	Dividends per share (U.S. dollars)	Cut-off date	Effective date
Annual general meeting of the shareholders on June 29, 2022	Common stock	¥3,125	¥20.00	\$23,402	\$0.150	March 31, 2022	June 30, 2022

For the year ended March 31, 2022

Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Cut-off date	Effective date
Annual general meeting of the shareholders on June 29, 2021	Common stock	¥2,828	¥18.00	March 31, 2021	June 30, 2021

(2) Dividends with the cut-off date in the year ended March 31, 2023 and the effective date in the year ending March 31, 2024 were as follows:

Resolution	Type of shares	Source of dividends	Total dividends (Millions of yen)	Dividends per share (Yen)	Total dividends (Thousands of U.S. dollars)	Dividends per share (U.S. dollars)	Cut-off date	Effective date
Annual general meeting of the shareholders on June 29, 2023	Common stock	Retained earnings	¥2,190	¥14.00	\$16,400	\$0.105	March 31, 2023	June 30, 2023

Dividends with the cut-off date in the year ended March 31, 2022 and the effective date in the year ending March 31, 2023 were as follows:

Resolution	Type of shares	Source of dividends	Total dividends (Millions of yen)	Dividends per share (Yen)	Cut-off date	Effective date
Annual general meeting of the shareholders on June 29, 2022	Common stock	Retained earnings	¥3,125	¥20.00	March 31, 2022	June 30, 2022

10. Notes to Consolidated Statements of Cash Flows

Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2023 and 2022 were as follows:

	As of March 31,		
	<u>2023</u>	<u>2022</u>	<u>2023</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Cash and deposits	¥65,142	¥70,974	\$487,845
Time deposits with maturities of over three months	(4,314)	(5,865)	(32,307)
Cash and cash equivalents	<u>¥60,828</u>	<u>¥65,108</u>	<u>\$455,538</u>

Assets and liabilities of a company that became a consolidated subsidiary due to acquisition of stock

For the year ended March 31, 2023

Not applicable.

For the year ended March 31, 2022

Antara Koh Private Limited and its subsidiaries Antara Koh (Myanmar) Ltd, AKM Sdn. Bhd and Antara Koh (Malaysia) Sdn. Bhd were consolidated as the company's subsidiaries by acquisition of stocks. Detail of assets and liabilities of the subsidiaries at the time of consolidation, acquisition price of stocks and net payments for acquisition at March 31, 2022 were as follows:

	Years ended
	March 31,
	<u>2022</u>
	<i>(Millions of yen)</i>
Current assets	¥2,515
Non-current assets	4,668
Goodwill	2,919
Current liabilities	(1,589)
Non-current liabilities	(859)
Acquisition price of stocks	7,654
Accounts payable included in acquisition price of stocks	(638)
Cash and cash equivalents	(804)
Balance: payments for acquisition	<u>¥6,211</u>

11. Financial Instruments

(a) Overview

(1) Policy for financial instruments

The Group limits investments of surplus funds to short-term bank deposits and raises necessary funds through bank loans.

In addition, the Group only uses derivatives for hedging risk of fluctuation of foreign currency exchange rates or interest rates, not for speculative transactions.

(2) Types of financial instruments and related risk and risk management system

Trade notes receivable, accounts receivable on completed construction contracts and other are exposed to credit risk in relation to customers and trading partners. Also, the Group's main investments in securities are shares of companies, and they are exposed to market price fluctuation risk.

Management of credit risks (Risks of default by customers and trading partners)

The Company manages due dates and balances of trade notes receivable, accounts receivable on completed construction contracts and other for individual customers and trading partners through its internal systems and monitors their credit status. These systems enable the Group to identify any concerns for doubtful receivables at an early stage and reduce risks of uncollectible amounts. Consolidated subsidiaries also manage credit risks in the same manner as the Company. The Company minimizes credit risks by mainly holding held-to-maturity securities with high credit ratings.

Management of market risks (Risks of fluctuations in currency exchange and interest rates)

The Company and certain consolidated subsidiaries hold trade receivables in foreign currencies. However, the risk of fluctuations in the currency exchange rate is not significant because a similar amount of trade payables is also held, and the Company utilizes foreign exchange forward contracts to hedge the risk of changes in the foreign currency exchange rate.

Loan payables are mainly used for operating funds. The Group manages loan payables by flexibly preparing or revising its fund management plans.

Derivatives are foreign currency exchange forward contracts held for the purpose of hedging future risk of fluctuation of foreign currency exchange rate of the monetary liabilities denominated in foreign currencies, and interest rate swaps held for the purpose of hedging future risk of fluctuation of interest rates on loan payables.

Derivative transactions are carried out in accordance with the Companies' internal rules on transactions, and with highly rated financial institutions used as counter parties to reduce the risk of default.

Information regarding the method of hedge accounting, hedging instruments and hedged items, hedging policy, and assessment of hedge effectiveness is found in Note 2-(n).

(a) Overview (continued)

(3) Supplementary explanation of the fair value of financial instruments

Since variable factors are incorporated in the calculation of the fair value of financial instruments, applying different assumptions may result in different fair values.

In addition, the amounts of derivatives in Note 13 “Derivatives and Hedge Accounting” are not necessarily indicative of the actual market risk involved in the derivative transactions.

(b) Fair Value of Financial Instruments

Amounts recognized in the consolidated balance sheets, fair value, and the difference at March 31, 2023 and 2022, were as shown below.

	As of March 31, 2023					
	Carrying value (Millions of yen)	Fair value	Difference	Carrying value (Thousands of U.S. dollars)	Fair value	Difference
Trade notes receivable, accounts receivable on completed construction contracts and other	¥215,220	¥215,106	¥(113)	\$1,611,772	\$1,610,918	\$ (846)
Securities and investments in securities (*2)	16,115	16,121	6	120,684	120,729	44
Held-to-maturity securities	348	354	6	2,606	2,651	44
Other securities	15,767	15,767	–	118,078	118,078	–
Total assets	¥231,335	¥231,228	¥(107)	\$1,732,457	\$1,731,655	\$ (801)
Trade notes payable, accounts payable on construction contracts and other	¥ 84,771	¥ 84,771	¥ –	\$ 634,846	\$634,846	\$ –
Electronically recorded payable	36,150	36,150	–	270,725	270,725	–
Short-term bank loans and current portion of long-term debt	10,812	10,837	24	80,970	81,157	179
Corporate bonds	10,000	9,918	(81)	74,889	74,275	(606)
Long-term debt	63,443	61,246	(2,196)	475,121	458,668	(16,445)
Total liabilities	¥205,177	¥202,924	¥(2,252)	\$1,536,561	\$1,519,688	\$(16,865)
Derivative transactions (*3)	¥ (40)	¥ (40)	¥ –	\$ (299)	\$ (299)	\$ –

(*1): Since “cash and deposits” are cash and deposits are settled in a short period of time, their fair value approximates their book value. Therefore, information on “cash and deposits” is omitted.

(*2): Shares, etc. with no market value are not included in “Securities and investments in securities.” The consolidated balance sheet amount of such financial instruments (unlisted stocks) was ¥4,090 million (\$30,629 thousand).

(*3): Assets and liabilities arising from derivative transactions are shown at net value. If total is liabilities, amounts is shown as “().”

(b) Fair Value of Financial Instruments (continued)

	As of March 31, 2022		
	Carrying value	Fair value	Difference
	<i>(Millions of yen)</i>		
Trade notes receivable, accounts receivable on completed construction contracts and other	¥197,169	¥197,102	¥ (67)
Securities and investments in securities (*2)	17,554	17,556	2
Held-to-maturity securities	209	211	2
Other securities	17,345	17,345	–
Total assets	<u>¥214,724</u>	<u>¥214,658</u>	<u>¥ (65)</u>
Trade notes payable, accounts payable on construction contracts and other	¥ 89,634	¥ 89,634	¥ –
Electronically recorded payable	29,347	29,347	–
Short-term bank loans and current portion of long-term debt	1,988	1,986	(1)
Corporate bonds	5,000	4,974	(25)
Long-term debt	57,806	57,393	(412)
Total liabilities	<u>¥183,776</u>	<u>¥183,336</u>	<u>¥(440)</u>
Derivative transactions (*3)	¥ (133)	¥ (133)	¥ –

(*1): Since “cash and deposits” are cash and deposits are settled in a short period of time, their fair value approximates their book value. Therefore, information on “cash and deposits” is omitted.

(*2): Shares, etc. with no market value are not included in “Securities and investments in securities.” The consolidated balance sheet amount of such financial instruments (unlisted stocks) was ¥4,095 million.

(*3): Assets and liabilities arising from derivative transactions are shown at net value. If total is liabilities, amounts is shown as “(.)”

(b) Fair Value of Financial Instruments (continued)

Note 1: The redemption schedule for monetary claims and held-to-maturity debt securities with maturity dates subsequent to March 31, 2023 and 2022

	As of March 31, 2023							
	Within 1 year	Over 1 year and within 5 years	Over 5 years and within 10 years	Over 10 years	Within 1 year	Over 1 year and within 5 years	Over 5 years and within 10 years	Over 10 years
	<i>(Millions of yen)</i>				<i>(Thousands of U.S. dollars)</i>			
Deposits	¥ 65,106	¥ –	¥–	¥–	\$ 487,575	\$ –	\$–	\$–
Trade notes receivable, accounts receivable on completed construction contracts and other	195,730	19,489	–	–	1,465,812	145,952	–	–
Securities and investments in securities								
Held-to-maturity securities (bonds)	348	–	–	–	2,606	–	–	–
	<u>¥261,185</u>	<u>¥19,489</u>	<u>¥–</u>	<u>¥–</u>	<u>\$1,956,002</u>	<u>\$145,952</u>	<u>\$–</u>	<u>\$–</u>
	As of March 31, 2022							
	Within 1 year	Over 1 year and within 5 years	Over 5 years and within 10 years	Over 10 years				
	<i>(Millions of yen)</i>							
Deposits	¥ 70,947	¥ –	¥–	¥–				
Trade notes receivable, accounts receivable on completed construction contracts and other	179,144	18,025	–	–				
Securities and Investments in securities								
Held-to-maturity securities (bonds)	147	62	–	–				
	<u>¥250,238</u>	<u>¥18,087</u>	<u>¥–</u>	<u>¥–</u>				

Note 2: The redemption schedule for corporate bonds, long-term debt and other interest bearing debt with maturity dates subsequent to March 31, 2023 and 2022. See Notes 21 and 22.

(c) Fair Value Information by Level within the Fair Value Hierarchy

The fair value of financial instruments is classified into the following three levels according to the observability and materiality of inputs used to measure fair value.

- Level 1 fair value: Fair value measured using observable inputs, i.e. quoted prices in active markets for assets or liabilities that are the subject of the measurement.
- Level 2 fair value: Fair value measured using observable inputs other than Level 1 inputs.
- Level 3 fair value: Fair value measured using unobservable inputs.

If multiple inputs are used that are significant to the fair value measurement, the fair value measurement is categorized in its entirety in the level of the lowest level input that is significant to the entire measurement.

(c) Fair Value Information by Level within the Fair Value Hierarchy (continued)

(1) Financial assets and liabilities measured at fair value

	As of March 31, 2023							
	Fair Value				Fair Value			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	<i>(Millions of yen)</i>				<i>(Thousands of U.S. dollars)</i>			
Securities and investments in securities								
Other securities								
Stock	¥15,767	¥ –	¥–	¥15,767	\$118,078	\$ –	\$–	\$118,078
Total assets	¥15,767	¥ –	¥–	¥15,767	\$118,078	\$ –	\$–	\$118,078
Derivative transactions								
Hedge accounting is applied	¥ –	¥40	¥–	¥ 40	\$ –	\$299	\$–	\$ 299
Total liabilities	¥ –	¥40	¥–	¥ 40	\$ –	\$299	\$–	\$ 299

	As of March 31, 2022			
	Fair Value			
	Level 1	Level 2	Level 3	Total
	<i>(Millions of yen)</i>			
Securities and investments in securities				
Other securities				
Stock	¥17,345	¥ –	¥–	¥17,345
Total assets	¥17,345	¥ –	¥–	¥17,345
Derivative transactions				
Hedge accounting is applied	¥ –	¥133	¥–	¥ 133
Total liabilities	¥ –	¥133	¥–	¥ 133

(2) Financial instruments other than those measured at fair value

	As of March 31, 2023							
	Fair Value				Fair Value			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	<i>(Millions of yen)</i>				<i>(Thousands of U.S. dollars)</i>			
Trade notes receivable, accounts receivable on completed construction contracts and other	¥ –	¥215,106	¥–	¥215,106	\$–	\$1,610,918	\$–	\$1,610,918
Securities and investments in securities								
Held-to-maturity securities								
Bonds	354	–	–	354	2,651	–	–	2,651
Total assets	¥354	¥215,106	¥–	¥215,460	\$2,651	\$1,610,918	\$–	\$1,613,569
Trade notes payable, accounts payable on construction contracts and other	¥ –	¥ 84,771	¥–	¥ 84,771	\$–	\$ 634,846	\$–	\$ 634,846
Electronically recorded payable	–	36,150	–	36,150	–	270,725	–	270,725
Short-term bank loans and current portion of long-term debt	–	10,837	–	10,837	–	81,157	–	81,157
Corporate bonds	–	9,918	–	9,918	–	74,275	–	74,275
Long-term debt	–	61,246	–	61,246	–	458,668	–	458,668
Total liabilities	¥ –	¥202,924	¥–	¥202,924	\$–	\$1,519,688	\$–	\$1,519,688

	As of March 31, 2022			
	Fair Value			
	Level 1	Level 2	Level 3	Total
	<i>(Millions of yen)</i>			
Trade notes receivable, accounts receivable on completed construction contracts and other	¥ -	¥197,102	¥-	¥197,102
Securities and investments in securities				
Held-to-maturity securities				
Bonds	211	-	-	211
Total assets	<u>¥211</u>	<u>¥197,102</u>	<u>¥-</u>	<u>¥197,313</u>
Trade notes payable, accounts payable on construction contracts and other	¥ -	¥ 89,634	¥-	¥ 89,634
Electronically recorded payable	-	29,347	-	29,347
Short-term bank loans and current portion of long-term debt	-	1,986	-	1,986
Corporate bonds	-	4,974	-	4,974
Long-term debt	-	57,393	-	57,393
Total liabilities	<u>¥ -</u>	<u>¥183,336</u>	<u>¥-</u>	<u>¥183,336</u>

Note 1: Description of the valuation techniques and inputs used in the fair value measurements

Securities and investments in securities

Listed stocks and bonds are valued using quoted market prices. Since listed stocks and bonds are traded in active markets, their fair value is classified as Level 1 fair value.

Trade notes receivable, accounts receivable on completed construction contracts and other

The fair value of these receivables is calculated for each receivable classified by a certain period using the discounted present value method based on the amount of the receivables, the period to maturity, and an interest rate that takes into account credit risk, and is classified as Level 2 fair value.

Trade notes payable, accounts payable on construction contracts and other, and electronically recorded payable

The fair value of these payables is based on their book value as most of them are settled within one year, and is classified as Level 2 fair value.

Short-term bank loans and current portion of long-term debt

For the current portion of long-term debt, the fair value is calculated in the same manner as for long-term debt. Since other short-term bank loans are settled in a short period of time, their fair value is almost equal to their book value, and is therefore classified as Level 2 fair value.

(c) Fair Value Information by Level within the Fair Value Hierarchy (continued)

Corporate bonds

The fair value of bonds issued by the Company is calculated by discounting the total amount of principal and interest at an interest rate that takes into account the remaining term of the bonds and credit risk. The fair value of bonds is classified as Level 2 fair value because they have a quoted market price but are not traded in an active market.

Long-term debt

The fair value of long-term debt is calculated based on the present value of the total principal and interest discounted at the interest rate that would be applicable to a new similar borrowing, and is classified as Level 2 fair value. The fair value of long-term debt with floating interest rates that is subject to the short-cut method is calculated by discounting the total amount of principal and interest treated together with the interest rate swaps by the reasonably estimated interest rate that would be applicable to a new similar borrowing.

Derivative transactions

The fair value of interest rate swaps is based on the price quoted by the counterparty financial institutions and is classified as Level 2 fair value. The fair value of interest rate swaps accounted for using the short-cut method is included in the fair value of the relevant long-term debt because they are accounted for as an integral part of the long-term debt that is hedged.

12. Securities

Securities at March 31, 2023 and 2022 were summarized as follows:

(a) Held-to-maturity Securities

	As of March 31, 2023					
	Carrying value	Fair value	Unrealized gain	Carrying value	Fair value	Unrealized gain
	(Millions of yen)			(Thousands of U.S. dollars)		
Securities whose fair value exceeds their carrying value:						
Bonds	¥348	¥354	¥6	\$2,606	\$2,651	\$44

	As of March 31, 2022		
	Carrying value	Fair value	Unrealized gain
	(Millions of yen)		
Securities whose fair value exceeds their carrying value:			
Bonds	¥209	¥211	¥2

(b) Other Securities

	As of March 31, 2023					
	Balance sheet amount	Cost	Unrealized gain (loss)	Balance sheet amount	Cost	Unrealized gain (loss)
	(Millions of yen)			(Thousands of U.S. dollars)		
Unrealized gain:						
Stock	¥ 4,078	¥ 2,425	¥1,652	\$ 30,539	\$ 18,160	\$12,371
Unrealized loss:						
Stock	11,689	15,511	(3,822)	87,538	116,161	(28,622)
Total	<u>¥15,767</u>	<u>¥17,936</u>	<u>¥(2,169)</u>	<u>\$118,078</u>	<u>\$134,321</u>	<u>\$(16,243)</u>

	As of March 31, 2022		
	Balance sheet amount	Cost	Unrealized gain (loss)
	(Millions of yen)		
Unrealized gain:			
Stock	¥ 4,118	¥ 2,339	¥1,778
Unrealized loss:			
Stock	13,226	15,789	(2,562)
Total	<u>¥17,345</u>	<u>¥18,129</u>	<u>¥ (784)</u>

(c) Sales of Other Securities

	Year ended March 31,		
	2023	2022	2023
	(Millions of yen)		(Thousands of U.S. dollars)
Sales proceeds	¥388	¥302	\$2,905
Total gain on sales of security	187	19	1,400
Total loss on sales of security	(6)	—	(44)

13. Derivatives and Hedge Accounting

Derivative transactions for the years ended March 31, 2023 and 2022 were summarized as follows:

(a) Derivative Transactions to which the Hedge Accounting is Applied

(1) Currency-related transactions

For the year ended March 31, 2023

Not applicable.

For the year ended March 31, 2022

Not applicable.

(2) Interest-related transactions

As of March 31, 2023								
Method of hedge accounting	Transaction type	Hedged item	Contract amount	Over 1 year	Fair value	Contract amount	Over 1 year	Fair value
			<i>(Millions of yen)</i>			<i>(Thousands of U.S. dollars)</i>		
Fair value	Interest-rate swaps: Pay fixed/ Receive floating	Long-term debt	¥ 7,500	¥ -	¥ (20)	\$56,167	\$ -	\$ (149)
	Pay fixed/ Receive floating	Long-term debt	2,500	2,500	(19)	18,722	18,722	(142)
Total			<u>¥10,000</u>	<u>¥ 2,500</u>	<u>¥(40)</u>	<u>\$74,889</u>	<u>\$18,722</u>	<u>\$(299)</u>

As of March 31, 2023								
Method of hedge accounting	Transaction type	Hedged item	Contract amount	Over 1 year	Fair value	Contract amount	Over 1 year	Fair value
			<i>(Millions of yen)</i>			<i>(Thousands of U.S. dollars)</i>		
Short-cut method	Interest-rate swaps: Pay fixed/ Receive floating	Long-term debt	¥ 6,000	¥ 6,000	(Note)	\$44,933	\$44,933	(Note)
	Pay fixed/ Receive floating	Long-term debt	4,000	4,000	(Note)	29,955	29,955	(Note)
Total			<u>¥10,000</u>	<u>¥10,000</u>		<u>\$74,889</u>	<u>\$74,889</u>	

Note: Since these interest rate swaps accounted for by short-cut method are included in that of the long-term debt as the hedged item, the fair values of the contracts are included in the long-term debt.

(a) Derivative Transactions to which the Hedge Accounting is Applied (continued)

As of March 31, 2022					
Method of hedge accounting	Transaction type	Hedged item	Contract amount	Over 1 year	Fair value
<i>(Millions of yen)</i>					
Fair value	Interest-rate swaps: Pay fixed/ Receive floating	Long-term debt	¥ 7,500	¥ 7,500	¥(56)
	Pay fixed/ Receive floating	Long-term debt	2,500	2,500	(77)
Total			<u>¥10,000</u>	<u>¥10,000</u>	<u>¥(133)</u>

As of March 31, 2022					
Method of hedge accounting	Transaction type	Hedged item	Contract amount	Over 1 year	Fair value
<i>(Millions of yen)</i>					
Short-cut method	Interest-rate swaps: Pay fixed/ Receive floating	Long-term debt	¥ 6,000	¥ 6,000	(Note)
	Pay fixed/ Receive floating	Long-term debt	4,000	4,000	(Note)
Total			<u>¥10,000</u>	<u>¥10,000</u>	

Note: Since these interest rate swaps accounted for by short-cut method are included in that of the long-term debt as the hedged item, the fair values of the contracts are included in the long-term debt.

14. Retirement Benefit Plans

For the year ended March 31, 2023, the Group has either funded or unfunded defined benefit and defined contribution plans.

The Group has a defined benefits pension plan, i.e. defined benefit company pension plan and lump-sum retirement benefit plans. Certain consolidated domestic subsidiaries participate in the Small and Medium Enterprise Retirement Allowance Mutual Aid Scheme. Certain foreign consolidated subsidiaries have an employee pension trust. The Company and certain consolidated subsidiaries have a defined contribution pension plan.

In addition, for certain defined benefit company pension plan and lump-sum retirement benefit plans and the defined contribution pension plan of the Company and certain consolidated subsidiaries, the simplified method is applied to calculate their liability for retirement benefits and retirement benefits expenses.

The changes in the retirement benefit obligation during the years ended March 31, 2023 and 2022 were as follows (excluding plans for which the simplified method is applied):

	Year ended March 31,		
	2023	2022	2023
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Balance at the beginning of year	¥16,845	¥17,022	\$126,151
Service cost	898	878	6,725
Interest cost	84	81	629
Actuarial loss	26	32	194
Retirement benefit paid	(1,575)	(1,197)	(11,795)
Foreign currency translation	22	30	164
Other	(6)	(3)	(44)
Balance at the end of year	<u>¥16,294</u>	<u>¥16,845</u>	<u>\$122,025</u>

The changes in plan assets during the years ended March 31, 2023 and 2022 were as follows (excluding plans for which the simplified method is applied):

	Years ended March 31,		
	2023	2022	2023
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Balance at the beginning of year	¥511	¥517	\$3,826
Expected return on plan assets	12	0	89
Actuarial loss	(27)	(2)	(202)
Contribution of the employer	18	18	134
Retirement benefit paid	(46)	(24)	(344)
Foreign currency translation	2	1	14
Balance at the end of year	<u>¥470</u>	<u>¥511</u>	<u>\$3,519</u>

14. Retirement Benefit Plans (continued)

The changes in liability for retirement benefits based on the simplified method during the years ended March 31, 2023 and 2022 were as follows:

	Years ended March 31,		
	2023	2022	2023
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Balance at the beginning of year	¥1,928	¥1,896	\$14,438
Retirement benefit expense	226	253	1,692
Retirement benefit paid	(75)	(201)	(561)
Contribution to defined contribution plan	(19)	(19)	(142)
Balance at the end of year	<u>¥2,059</u>	<u>¥1,928</u>	<u>\$15,419</u>

A reconciliation of the funded retirement benefit obligation and plan assets and the net liability for retirement benefits recognized in the consolidated balance sheet at March 31, 2023 and 2022 is as follows:

	As of March 31,		
	2023	2022	2023
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Funded retirement benefit obligation	¥ 1,560	¥ 1,633	\$ 11,682
Plan assets at fair value	(1,405)	(1,526)	(10,521)
	155	106	1,160
Unfunded retirement benefit obligation	17,727	18,155	132,756
Net liability for retirement benefits in the consolidated balance sheet	<u>17,882</u>	<u>18,262</u>	<u>133,917</u>
Liability for retirement benefits	17,971	18,389	134,583
Assets for retirement benefits	(88)	(127)	(659)
Net liability for retirement benefits in the consolidated balance sheet	<u>¥17,882</u>	<u>¥18,262</u>	<u>\$133,917</u>

Note: Including plans for which the simplified method is applied.

14. Retirement Benefit Plans (continued)

The components of retirement benefit expense during the years ended March 31, 2023 and 2022 were as follows:

	Year ended March 31,		
	2023	2022	2023
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Service cost	¥ 898	¥ 878	\$ 6,725
Interest cost	84	81	629
Expected return on plan assets	(12)	(0)	(89)
Amortization of actuarial loss	260	379	1,947
Amortization of prior service cost	(121)	(362)	(906)
Retirement benefit expense calculated by the simplified method	226	253	1,692
Total retirement benefit expense	¥1,335	¥1,230	\$9,997

The components of retirement benefit liability adjustments included in other comprehensive income (before tax effect) during the years ended March 31, 2023 and 2022 were as follows:

	Years ended March 31,		
	2023	2022	2023
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Actuarial loss	¥206	¥344	\$1,542
Prior service cost	(122)	(362)	(913)
Total	¥ 83	¥(17)	\$ 621

The components of retirement benefit liability adjustments included in accumulated other comprehensive income (before tax effect) as of March 31, 2023 and 2022 were follows:

	As of March 31,		
	2023	2022	2023
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Unrecognized actuarial loss	¥862	¥1,068	\$6,455
Unrecognized prior service cost	(21)	(143)	(157)
Total	¥ 841	¥ 925	\$6,298

14. Retirement Benefit Plans (continued)

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2023 and 2022 were follows:

	As of March 31,	
	2023	2022
Bonds	78%	89%
Stocks	11%	5%
Other	11%	6%
Total	100%	100%

The expected return on plan assets has been estimated based on the anticipated allocation to each asset class and the expected long-term returns on assets held in each category.

The principal assumptions used for above plans were as follows:

	Years ended March 31,	
	2023	2022
Discount rate	Principally 0.3%	Principally 0.3%
Expected rate of return on plan assets	Principally 0.9%	Principally 0.7%
Expected rate of increase in salaries	Principally 4.9%	Principally 4.8%

The contribution to defined contribution plans in the company and consolidated subsidiaries were as follows:

	Years ended March 31,		
	2023	2022	2023
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Contribution to defined contribution plans	¥764	¥768	\$5,721

15. Income Taxes

The significant components of deferred tax assets and liabilities at March 31, 2023 and 2022 were as follows:

	As of March 31,		
	2023	2022	2023
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Deferred tax assets:			
Liability for retirement benefits	¥ 5,506	¥5,631	\$41,234
Accounts payable and accrued expenses	2,571	3,201	19,254
Impairment loss	84	65	629
Loss on valuation of investment securities	8	249	59
Allowance for losses on construction contracts	13,869	6,608	103,864
Provision for contingent loss	661	661	4,950
Other	2,286	1,626	17,119
Gross deferred tax assets	24,989	18,043	187,141
Valuation allowance (Note)	(17,963)	(6,336)	(134,524)
Total deferred tax assets	7,025	11,706	52,609
Deferred tax liabilities:			
Retained earnings of foreign consolidated subsidiaries	(961)	(970)	(7,196)
Unrealized holding gain on securities	(0)	(2)	(0)
Unrealized gain on business combinations	(393)	(453)	(2,943)
Other	(271)	(58)	(2,029)
Total deferred tax liabilities	(1,627)	(1,485)	(12,184)
Net deferred tax assets	¥5,397	¥10,221	\$40,417

Note: Valuation allowance increased by ¥11,626 million (\$87,066 thousand). The main reason for this increase was the reversal of deferred tax assets due to a review of the recoverability of deferred tax assets.

The significant differences between the statutory tax rates and the effective tax rates

The note is omitted due to the posting of loss before income taxes for the years ended March 31, 2023 and 2022.

The accounting treatment of corporate and local income taxes, and related tax effect accounting

The Company and some of its domestic consolidated subsidiaries have adopted the group tax sharing system from the current consolidated fiscal year. In addition, the Company conducts accounting treatment and disclosure of corporate and local income taxes, and related tax effect accounting in accordance with the “Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System” (ASBJ PITF No. 42 issued on August 12, 2021).

16. Revenue Recognition

(a) Disaggregation of Revenue from Contracts with Customers

Information on the disaggregation of revenue from contracts with customers is presented in “17. Segment Information, etc.”

(b) Useful Information in Understanding Revenue from Contracts with Customers

The Group is primarily engaged in civil construction and building construction, providing construction design and construction work services as well as other related services to its domestic and overseas customers.

In civil and building construction, the Group primarily enters into long-term construction contracts. For such contracts, the completion and delivery of construction work is identified as a performance obligation. Performance obligations are deemed to be satisfied over time, and revenue is recognized based on progress toward complete satisfaction of a performance obligation. The progress toward complete satisfaction of a performance obligation is measured based on the proportion of construction costs incurred by the end of the reporting period to the total expected construction costs. When the progress toward complete satisfaction of a performance obligation cannot be reasonably measured, but the costs to be incurred are expected to be recovered, revenue is recognized only to the extent of the costs incurred, except for those contracts that are in the initial stages of construction. For construction contracts whose period between the date of commencement of the transaction and the point in time when the performance obligation is expected to be fully satisfied is very short, an alternative treatment is applied, whereby revenue is not recognized over time, but is recognized when the performance obligation is fully satisfied.

Some construction contracts include variable consideration as they contain sliding clauses (overall sliding, single item sliding, or inflationary sliding) or clauses related to penalties for delays in construction. Variable consideration is estimated using the mode method based on contract terms and past performance.

Consideration for transactions related to construction contracts is generally received within approximately one year after the performance obligation is satisfied (in some cases, advance payments are received based on the contract). However, when the period between the satisfaction of the performance obligation and the customer’s payment of the consideration is expected to be long, and the related market interest rate is expected to be considerably high and the impact on the financial component is expected to be significant, then the receivables are considered to contain a significant financial component. The financial component of the receivables based on the contract with the customer is adjusted accordingly.

(c) Balance of Contract Assets and Liabilities and the Transaction Price Allocated to the Remaining Performance Obligations

For the year ended March 31, 2023

(1) Balances of contract assets and contract liabilities

	Year ended March 31,	
	2023	
	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Receivables from contracts with customers (beginning balance) (Note)	¥81,419	\$609,743
Receivables from contracts with customers (ending balance) (Note)	90,777	679,824
Contract assets (beginning balance)	115,750	866,846
Contract assets (ending balance)	124,443	931,947
Contract liabilities (beginning balance)	28,635	214,446
Contract liabilities (ending balance)	35,262	264,075

Note: Receivables from contracts with customers are included in the amount of accounts receivable on completed construction contracts and other for the year ended March 31, 2022, however, they are included in the amount of trade notes receivable, accounts receivable on completed construction contracts and other for the year ended March 31, 2023. Therefore, in the year ended March 31, 2022, the Company reclassified receivables from contracts with customers.

Contract assets relate to the rights of the Group to consideration for the completion and delivery of construction contracts with customers that have been completed but unbilled as of the end of the fiscal year. Contract assets are reclassified to receivables from contracts with customers when the Group's rights to the consideration become unconditional. Consideration for such construction is billed and received in accordance with the payment terms of the construction contracts.

Contract liabilities mainly relate to advances received from customers in accordance with the payment clauses of construction contracts. The contract liabilities are reversed upon recognition of revenue.

The portion of revenue recognized in the current fiscal year and included in the beginning balance of contract liabilities amounted to ¥24,777 million (\$185,553 thousand)

The amount of revenue recognized in the current fiscal year from performance obligations that were satisfied (or partially satisfied) in prior years was ¥4,763 million (\$35,669 thousand).

(2) Transaction price allocated to the remaining performance obligations

The total transaction price allocated to the remaining performance obligations as of March 31, 2023 amounted to ¥829,681 million (\$6,213,442 thousand).

The transaction price allocated to the remaining performance obligations represents the aggregate amount of the transaction price of contracts for which the Group has been awarded as of the end of the current fiscal year, but for which no revenue is recognized because the performance obligations have not been satisfied as of that date. The Group expects to recognize revenue from such transaction prices within approximately two years as performance obligations are satisfied.

For the year ended March 31, 2022

(1) Balances of contract assets and contract liabilities

	<u>Year ended March 31,</u> <u>2022</u>
	<i>(Millions of yen)</i>
Receivables from contracts with customers (beginning balance)	¥75,046
Receivables from contracts with customers (ending balance)	81,419
Contract assets (beginning balance)	117,681
Contract assets (ending balance)	115,750
Contract liabilities (beginning balance)	24,091
Contract liabilities (ending balance)	28,635

Contract assets relate to the rights of the Group to consideration for the completion and delivery of construction contracts with customers that have been completed but unbilled as of the end of the fiscal year. Contract assets are reclassified to receivables from contracts with customers when the Group's rights to the consideration become unconditional. Consideration for such construction is billed and received in accordance with the payment terms of the construction contracts.

Contract liabilities mainly relate to advances received from customers in accordance with the payment clauses of construction contracts. The contract liabilities are reversed upon recognition of revenue.

The portion of revenue recognized in the current fiscal year and included in the beginning balance of contract liabilities amounted to ¥20,350 million.

The amount of revenue recognized in the current fiscal year from performance obligations that were satisfied (or partially satisfied) in prior years was ¥3,889 million.

(2) Transaction price allocated to the remaining performance obligations

The total transaction price allocated to the remaining performance obligations as of March 31, 2022 amounted to ¥836,011 million.

The transaction price allocated to the remaining performance obligations represents the aggregate amount of the transaction price of contracts for which the Group has been awarded as of the end of the current fiscal year, but for which no revenue is recognized because the performance obligations have not been satisfied as of that date. The Group expects to recognize revenue from such transaction prices within approximately two years as performance obligations are satisfied.

17. Segment Information, etc.

Segment Information

(a) Outline of Segments

The Company's reportable operating segments are components for which separate financial information is available and that are evaluated regularly by the board of directors in determining the allocation of management resources and in assessing performance.

The Company currently divides its operations into Civil Construction and Building Construction, managed by the Civil Engineering Division and the Building Administration Division, respectively. Business strategies are formulated by each segment.

Accordingly, the Company divides its operations into two reportable operating segments on the same basis as it uses internally; Civil Construction and Building Construction.

Civil Construction consists mainly of governmental public works like bridge construction. Building Construction is awarded by private sector companies for things like high rise apartment buildings.

(b) Accounting Methods Used to Calculate Segment Income (Loss), Segment Assets and Other Items for Reportable Segments

Accounts for reportable segments are for the most part calculated in line with the generally accepted standards used for the preparation of the consolidated financial statements.

Segment income (loss) for reportable segments is based on gross profit.

Amounts for intersegment transactions or transfers are based on the market prices determined by third party transactions.

The Company does not allocate any assets to reportable operating segments.

(c) Segment income, segment assets and other items for reportable segments

	Year ended March 31, 2023						
	Reportable operating segments			Others	Total	Adjustments	Consolidated
	Civil	Building	Total	(Note 1)		(Note 2)	(Note 3)
	<i>(Millions of yen)</i>						
Sales							
External customers	¥220,471	¥237,662	¥458,134	¥488	¥458,622	¥ –	¥458,622
Intersegment transactions or transfers	1,430	9	1,439	142	1,581	(1,581)	–
Net sales	¥221,902	¥237,671	¥459,574	¥630	¥460,204	¥(1,581)	¥458,622
Segment income (loss)	¥ 29,003	¥(20,058)	¥ 8,945	¥213	¥ 9,159	¥ (89)	¥ 9,069

	Year ended March 31, 2023						
	Reportable operating segments			Others	Total	Adjustments	Consolidated
	Civil	Building	Total	(Note 1)		(Note 2)	(Note 3)
	<i>(Thousands of U.S. dollars)</i>						
Sales							
External customers	\$1,651,097	\$1,779,839	\$3,430,944	\$3,654	\$3,434,598	\$ –	\$3,434,598
Intersegment transactions or transfers	10,709	67	10,776	1,063	11,840	(11,840)	–
Net sales	\$1,661,813	\$1,779,907	\$3,441,728	\$4,718	\$3,446,446	\$(11,840)	\$3,434,598
Segment income (loss)	\$ 217,202	\$ (150,213)	\$ 66,988	\$1,595	\$ 68,591	\$ (666)	\$ 67,917

Note 1: “Others” which includes the Company’s business of solar power and insurance agent, does not qualify as a reportable operating segment.

Note 2: Adjustment for segment income (loss) is the reduction of income recognized between reportable operating segments.

Note 3: Segment income (loss) corresponds to gross profit in the consolidated statement of income.

	Year ended March 31, 2022						
	Reportable operating segments			Others	Total	Adjustments	Consolidated
	Civil	Building	Total	(Note 1)		(Note 2)	(Note 3)
	<i>(Millions of yen)</i>						
Sales							
External customers	¥191,446	¥211,063	¥402,510	¥765	¥403,275	¥ –	¥403,275
Intersegment transactions or transfers	680	–	680	146	827	(827)	–
Net sales	¥192,127	¥211,063	¥403,190	¥912	¥404,103	¥(827)	¥403,275
Segment income (loss)	¥ 24,589	¥ (6,470)	¥ 18,119	¥119	¥ 18,239	¥ (60)	¥ 18,178

Note 1: “Others” which includes the Company’s business of solar power, elder care facilities and insurance agent, does not qualify as a reportable operating segment.

Note 2: Adjustment for segment income (loss) is the reduction of income recognized between reportable operating segments.

Note 3: Segment income (loss) corresponds to gross profit in the consolidated statement of income.

(d) Information on Disaggregation of Revenue by Reportable Segment

	Year ended March 31, 2023				
	Reportable operating segments			Others	Total
	Civil	Building	Total	(Note)	
	<i>(Millions of yen)</i>				
Japan	¥168,256	¥196,860	¥365,117	¥419	¥365,536
Asia	50,446	36,510	86,956	68	87,025
Others	1,604	4,081	5,685	—	5,685
Revenue from contracts with customers	220,307	237,452	457,759	488	458,247
Other revenue	164	210	374	—	374
Sales to external customers	¥220,471	¥237,662	¥458,134	¥488	¥458,622

	Year ended March 31, 2023				
	Reportable operating segments			Others	Total
	Civil	Building	Total	(Note)	
	<i>(Thousands of U.S. dollars)</i>				
Japan	\$1,260,061	\$1,474,275	\$2,734,344	\$3,137	\$2,737,482
Asia	377,787	273,421	651,209	509	651,726
Others	12,012	30,562	42,574	—	42,574
Revenue from contracts with customers	1,649,868	1,778,267	3,428,135	3,654	3,431,790
Other revenue	1,228	1,572	2,800	—	2,800
Sales to external customers	\$1,651,097	\$1,779,839	\$3,430,944	\$3,654	\$3,434,598

Note: “Others” which includes the Company’s business of solar power and insurance agent, does not qualify as a reportable operating segment.

	Year ended March 31, 2022				
	Reportable operating segments			Others	Total
	Civil	Building	Total	(Note)	
	<i>(Millions of yen)</i>				
Japan	¥150,737	¥182,532	¥333,269	¥551	¥333,821
Asia	39,639	25,110	64,750	213	64,963
Others	912	3,204	4,117	—	4,117
Revenue from contracts with customers	191,289	210,847	402,137	765	402,902
Other revenue	156	215	372	—	372
Sales to external customers	¥191,446	¥211,063	¥402,510	¥765	¥403,275

Note: “Others” which includes the Company’s business of solar power and insurance agent, does not qualify as a reportable operating segment.

Related Information

For the year ended March 31, 2023

(a) Product and Service Information

See “Segment income, segment assets and other items for reportable segments.”

(b) Geographical Segment Information

(1) Sales

Year ended March 31, 2023							
Japan	Asia	Others	Total	Japan	Asia	Others	Total
<i>(Millions of yen)</i>				<i>(Thousands of U.S. dollars)</i>			
¥365,911	¥87,025	¥5,685	¥458,622	\$2,740,290	\$651,726	\$42,574	\$3,434,598

Note: Geographical segments are determined based on the country/region of domicile of customers.

(2) Property and equipment

Year ended March 31, 2023							
Japan	Asia	Others	Total	Japan	Asia	Others	Total
<i>(Millions of yen)</i>				<i>(Thousands of U.S. dollars)</i>			
¥31,335	¥4,981	¥159	¥36,476	\$234,666	\$37,302	\$1,190	\$273,167

Note 1: Countries and regions are classified according to geographical proximity.

Note 2: Asia includes Singapore, amounting to ¥4,167 million (\$31,206 thousand).

(c) Major Customer Information

Information on major customers has been omitted as there were no sales to a single customer constituting over 10% of net sales for the year ended March 31, 2023.

For the year ended March 31, 2022

(a) Product and Service Information

See “Segment income, segment assets and other items for reportable segments.”

(b) Geographical Segment Information

(1) Sales

Year ended March 31, 2022			
Japan	Asia	Others	Total
<i>(Millions of yen)</i>			
¥334,194	¥64,963	¥4,117	¥403,275

Notes: Geographical segments are determined based on the country/region of domicile of customers.

(b) Geographical Segment Information (continued)

(2) Property and equipment

Year ended March 31, 2022			
Japan	Asia	Others	Total
<i>(Millions of yen)</i>			
¥29,245	¥4,645	¥149	¥34,040

Note 1: Countries and regions are classified according to geographical proximity.

Note 2: Asia includes Singapore, amounting to ¥3,848 million.

(c) Major Customer Information

Information on major customers has been omitted as there were no sales to a single customer constituting over 10% of net sales for the year ended March 31, 2022.

Losses on impairment by reportable segment

	Year ended March 31, 2023				
	Reportable operating segments			Others	Total
	Civil	Building	Total	(Note)	
<i>(Millions of yen)</i>					
Losses on impairment	¥62	¥—	¥62	¥—	¥62

	Year ended March 31, 2023				
	Reportable operating segments			Others	Total
	Civil	Building	Total	(Note)	
<i>(Thousands of U.S. dollars)</i>					
Losses on impairment	\$464	\$—	\$464	\$—	\$464

For the year ended March 31, 2022, there were no losses on impairment by reportable segment.

Amortization of goodwill and unamortized balance by reportable segment

	Year ended March 31, 2023				
	Reportable operating segments			Others	Total
	Civil	Building	Total	(Note)	
<i>(Millions of yen)</i>					
Amortization for the year	¥405	¥—	¥405	¥—	¥405
Balance at the end of the year	2,838	—	2,838	—	2,838

	Year ended March 31, 2023				
	Reportable operating segments			Others	Total
	Civil	Building	Total	(Note)	
<i>(Thousands of U.S. dollars)</i>					
Amortization for the year	\$3,033	\$—	\$3,033	\$—	\$3,033
Balance at the end of the year	21,253	—	21,253	—	21,253

	Year ended March 31, 2022				
	Reportable operating segments			Others	Total
	Civil	Building	Total	(Note)	
<i>(Millions of yen)</i>					
Amortization for the year	¥—	¥—	¥—	¥—	¥—
Balance at the end of the year	2,919	—	2,919	—	2,919

(c) Major Customer Information (continued)

Gain on negative goodwill by reportable segment

For the years ended March 31, 2023 and 2022, there were no gain on negative goodwill by reportable segment.

18. Related Party Transactions

Related party transaction

There were no transactions with affiliates for the year ended March 31, 2023.

Transactions with affiliates for the year ended March 31, 2022 were summarized as follows:

Year ended March 31, 2022					
Capital investment	Number of voting shares held as a percentage of voting shares issued	Nature of transaction	Total amount of transaction	Balance sheet account	Balance at March 31, 2022
<i>(Millions of yen)</i>					
Affiliated company: Yoshiikikaku Co., Ltd. (Real estate business)	¥10 30.0%	Long-term non-operating accounts receivable	¥–	Long-term non-operating accounts receivable	¥2,918
		Long-term accounts payable	¥–	Long-term accounts payable	¥2,339

Note 1: Total amount of transaction represents the amount of a claim for damage from Yoshiikikaku Co., Ltd. and the amount of guarantee for financial institutions.

Note 2: Allowance for the above long-term non-operating accounts receivable was recognized in the amount of ¥2,889 million.

19. Per Share Information

Net assets and basic loss per share as of and for the years ended March 31, 2023 and 2022 were as follows:

	2023	2022	2023
	<i>(Yen)</i>		<i>(U.S. dollars)</i>
Net assets per share	¥406.53	¥584.73	\$3.04
Loss per share	(164.32)	(44.93)	(1.231)

Note: For the years ended March 31, 2023 and 2022, Profit per share – diluted was omitted as loss per share was recorded and there were no diluted shares.

19. Per Share Information (continued)

The basis of calculation for net assets per share at March 31, 2023 and 2022 were as follows:

	As of March 31,		
	2023	2022	2023
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Total net assets	¥71,137	¥99,701	\$532,741
Amounts deducted from total net assets [Including non-controlling interests]	7,519 [7,519]	8,313 [8,313]	56,309 [56,309]
Total net assets attributable to common stock	<u>¥63,618</u>	<u>¥91,388</u>	<u>\$476,432</u>
	<i>(Thousands of shares)</i>		
Number of shares of common stock used to determine net assets per share	156,492	156,290	

The basis for calculating basic loss per share for the years ended March 31, 2023 and 2022 were as follows:

	Years ended March 31,		
	2023	2022	2023
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Loss per share – basic:			
Loss attributable to owners of parent	¥(25,702)	¥(7,022)	\$(192,481)
Amount not available to common shareholders	–	–	–
Loss attributable to owners of parent per share – basic	<u>¥(25,702)</u>	<u>¥(7,022)</u>	<u>\$(192,481)</u>
	<i>(Thousands of shares)</i>		
Average number of shares of common stock outstanding	156,420	156,284	

20. Subsequent Event

Not applicable.

21. Corporate Bond

Corporate bonds at March 31, 2023 was summarized as follows:

Year ended March 31, 2023							
Company	Bond	Issued Date	Balance at April 1, 2022	Balance at March 31, 2023	Interest Rate	Collateral	Redemption Deadline
<i>(Millions of yen)</i>							
The Company	1st Unsecured Bond (with inter-bond pari passu clause)	October 22, 2020	5,000	5,000	0.30%	Nil	October 22, 2025
The Company	2nd Unsecured Bond (with inter-bond pari passu clause)	June 14, 2022	—	5,000	0.52%	Nil	June 14, 2027
Total	—	—	5,000	10,000	—	—	—

Year ended March 31, 2023							
Company	Bond	Issued Date	Balance at April 1, 2021	Balance at March 31, 2022	Interest Rate	Collateral	Redemption Deadline
<i>(Thousands of U.S. dollars)</i>							
The Company	1st Unsecured Bond (with inter-bond pari passu clause)	October 22, 2020	37,444	37,444	0.30%	Nil	October 22, 2025
The Company	2nd Unsecured Bond (with inter-bond pari passu clause)	June 14, 2022	—	37,444	0.52%	Nil	June 14, 2027
Total	—	—	37,444	74,889	—	—	—

Scheduled redemption of corporate bonds are summarized as follows:

Year ended March 31, 2023	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Within 1 year	¥—	\$—
Over 1 year and within 2 years	—	—
Over 2 years and within 3 years	5,000	37,444
Over 3 years and within 4 years	—	—
Over 4 years and within 5 years	5,000	37,444

22. Short-Term Debt and Long-Term Debt

Short-term debt at March 31, 2023 and 2022 were summarized as follows:

	As of March 31,		
	2023	2022	2023
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Short-term bank loans (at weighted-average interest rates of 4.4% at 2023 and 3.3% at 2022)	¥ 150	¥276	\$ 1,123
Deposits from employees (at interest rates of 1.0% at 2023 and 2022)	¥4,305	¥4,157	\$32,239

Long-term debt at March 31, 2023 and 2022 were summarized as follows:

	As of March 31,		
	2023	2022	2023
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Debt with collateral (at weighted-average interest rates of 2.5% at 2023 and 2022)	¥56	¥68	\$419
Debt without collateral (at weighted-average interest rates of 1.2% at 2023 and 2022)	74,050	59,450	554,557
Lease obligations	2,563	2,670	19,194
Current portion (excluding lease obligations)	(10,662)	(1,712)	(79,847)
Current portion of lease obligations	(749)	(781)	(5,609)

The aggregate annual maturities of long-term debt subsequent to March 31, 2023 were summarized as follows:

<u>Year ending March 31,</u>	<u><i>(Millions of yen)</i></u>	<u><i>(Thousands of U.S. dollars)</i></u>
2024	¥10,662	\$ 79,847
2025	20,912	156,609
2026	6,813	51,022
2027	14,213	106,440
2028	14,003	104,867
2029 and thereafter	7,500	56,167
	<u>¥74,106</u>	<u>\$554,976</u>

22. Short-Term Debt and Long-Term Debt (continued)

The aggregate annual maturities of lease obligations subsequent to March 31, 2023 were summarized as follows:

<u>Year ending March 31,</u>	<u>(Millions of yen)</u>	<u>(Thousands of U.S. dollars)</u>
2024	¥ 749	\$ 5,609
2025	585	4,381
2026	349	2,613
2027	284	2,126
2028	144	1,078
2029 and thereafter	449	3,362
	<u>¥2,563</u>	<u>\$19,194</u>

Independent Auditor's Report

The Board of Directors
Sumitomo Mitsui Construction Co., Ltd.

Opinion

We have audited the accompanying consolidated financial statements of Sumitomo Mitsui Construction Co., Ltd. and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2023, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

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 its consolidated financial performance and its consolidated cash flows for the year 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 the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters.

Estimates of total construction costs under the method of recognizing revenue as performance obligations are satisfied over time

Description of Key Audit Matter	Auditor's Response
<p>Sumitomo Mitsui Construction Co., Ltd. (the Company) and its consolidated subsidiaries are engaged in the civil construction business and building construction business, as well as other businesses related to thereto. As described in “(m) Recognition of Revenues and Costs” of “2. Summary of Significant Accounting Policies” under Notes to Consolidated Financial Statements, in recording net sales (net sales on construction contracts) and cost of sales (cost of sales of completed construction contracts), the Company and its consolidated subsidiaries mainly use the method of recognizing revenue as performance obligations are satisfied over time (cost-based input method is applied for estimates of progress towards satisfaction of the performance obligation) for construction that is deemed to satisfy performance obligations for the portion of work completed up to the end of the fiscal year ended March 31, 2023. Additionally, as described in “(b). Recognition of Revenues from Construction Contracts” of “4. Significant Accounting Estimates” under Notes to Consolidated Financial Statements, net sales of 403,453 million yen were recorded using the method of recognizing revenue as performance obligations are satisfied over time in the consolidated financial statements, accounting for approximately 88% of net sales of</p>	<p>We mainly performed the following procedures to evaluate the reasonableness of estimates of total construction costs under the method of recognizing revenue as performance obligations are satisfied over time.</p> <p>(1) Assessment of internal controls In considering the system for estimating total construction costs, we obtained an understanding of the Company's company-level internal controls and evaluated the design and performance of internal controls related to approval of operating budgets, which serve as the basis for estimates of total construction costs, and verification of final expected profit (loss) on construction.</p> <p>(2) Evaluation of the reasonableness of estimates of total construction costs We mainly performed the following procedures for material construction works, construction works with other characteristics, and construction works extracted by sampling method, including large-scale building construction in Japan in which significant losses were recorded in the fiscal year ended March 31, 2023.</p> <ul style="list-style-type: none"> • We mainly performed the following procedures to evaluate the reasonableness of total construction costs estimated in initial operating budgets. -We considered whether construction difficulty, specialized construction methods,

458,622 million yen for the fiscal year ended March 31, 2023.

Revenue recognition using the method of recognizing revenue as performance obligations are satisfied over time is measured based on the progress towards the satisfaction of the performance obligation, and such progress is determined based on the ratio of actual incurred costs up to the end of the fiscal year to total construction costs.

Considering that construction is very individual in nature and made in accordance with fundamental specifications and work details instructed by customers, it is difficult to apply a uniform rule for making determinations in estimating such amounts. Accordingly, estimates of total construction costs are based on certain assumptions and determinations, and are subject to uncertainty. Further, given that construction work generally spans long periods of time, unanticipated costs may arise in line with changes in work details due to unforeseen changes in social, economic, and political conditions overseas, natural disasters, certain facts coming to light after the start of construction, and changes in conditions at construction sites, thus making timely and appropriate revisions of total construction costs complex.

Based on the above, we have determined that estimates of total construction costs made in calculating construction revenue and progress towards satisfaction of the performance obligation are of particular significance in the current period and, accordingly, that estimates of total construction costs under the

and instructions from ordering parties were reflected in estimates of costs for each type of work in initial operating budgets by inspecting overviews of construction projects, floor plans, and architectural renderings and making inquiries of managers in construction management departments.

-We considered whether total construction costs are estimated based on realistic construction plans by inspecting work schedules and making inquiries of managers in construction management departments.

-We considered estimates of total construction costs by each individual cost type by comparing such costs to budgets prepared upon order receipt, making inquiries of managers in construction management departments, and reconciling, as necessary, costs to quotations from subcontractors.

- We mainly performed the following procedures to evaluate the reasonableness of total construction costs estimated at fiscal year-end.

-We considered whether there are any future concerns about matters such as construction period extensions and inflation, and whether such concerns are reflected in total construction costs by inspecting materials used to calculate total construction costs and making inquiries of managers in construction management departments.

-We considered whether current construction details deviate from the status of costs incurred

<p>method of recognizing revenue as performance obligations are satisfied over time is a key audit matter.</p>	<p>and whether such deviations are reflected in total construction costs by inspecting construction management materials, comparing these materials to work schedules, making inquiries of managers in construction management departments, and reconciling, as necessary, these materials to quotations from subcontractors.</p> <p>-We performed on-site observations for a portion of construction projects and considered whether the actual status of construction work was consistent with estimates of total construction costs. We also made inquiries of multiple members of management and assessed the consistency of the information provided.</p> <ul style="list-style-type: none"> • We compared estimates of total construction costs from prior fiscal years to costs that were actually incurred to evaluate the effectiveness of the process for estimating total construction costs.
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Amount recorded for allowance for contingency loss	
Description of Key Audit Matter	Auditor's Response
<p>In response to defective piling work performed by the Company at a condominium in Yokohama, Mitsui Fudosan Residential Co., Ltd. filed a lawsuit on November 28, 2017 seeking damages of approximately 45.9 billion yen and subsequently changed the amount of its compensation claim to approximately 51.0 billion yen on July 11, 2018. A lawsuit to change the compensation claim to approximately 50.6 billion yen was then filed on September 30, 2022.</p> <p>As described in “(j) Allowance for Contingency Loss” in “2. Summary of Significant Accounting Policies” under Notes to Consolidated Financial Statements, the Company recorded an allowance for contingency loss of 2,159 million yen that was deemed necessary as a result of determining the amount to be borne as the contractor in accordance with the defect liability applicable to construction contracts to which the Company was a party.</p> <p>The significant assumption forming the basis for the amount of the loss contingency arising as a result of the aforementioned lawsuit is the scope of the defect liability, and given that this assumption is subject to uncertainty and the judgment of management since the outcome of the lawsuit has yet to be determined, we have determined that the amount recorded for allowance for contingency loss is a key audit matter.</p>	<p>We mainly performed the following procedures to consider the assessment of the amount recorded for allowance for contingency loss and evaluate the completeness of the scope of the defect liability as well as the reasonableness of disclosures.</p> <ul style="list-style-type: none"> • We mainly performed the following procedures to evaluate the impact of the lawsuit on the scope of the defect liability. <ul style="list-style-type: none"> -We inspected, complaints, hearing reports and internal reporting materials, and held discussions with management. -We evaluated the ability and independence of the attorney retained by the Company. -We considered the attorney's professional opinion received from the Company and obtained a confirmation letter directly with the attorney. • We inspected minutes of board meetings, made inquiries of management, and obtained a management representation letter to confirm that the Company does not accept liabilities for any amount beyond the scope of the defect liability that it had anticipated. • We held discussions with management to assess the reasonableness of financial statement disclosures.

Other Information

The other information comprises the information included in the Annual Report that contains audited consolidated financial statements but does not include the consolidated financial statements and our auditor's report thereon. Management is responsible for preparation and disclosure of the other information. The Corporate Auditor and the Board of Corporate Auditors are responsible for overseeing the Group's reporting process of the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of these 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 and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Corporate Auditor and the Board of Corporate Auditors are responsible for overseeing 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. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate 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 in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the Corporate Auditor and the Board of Corporate Auditors with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the consolidated financial statements in Japan, and to 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 the Corporate Auditor 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.

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

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

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 Japanese 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.

Ernst & Young ShinNihon LLC
Tokyo, Japan

July 25, 2023

福本 千人

Kazuo Fukumoto
Designated Engagement Partner
Certified Public Accountant

中原 義勝

Yoshikatsu Nakahara
Designated Engagement Partner
Certified Public Accountant

Non-Consolidated Financial Statements

Sumitomo Mitsui Construction Co., Ltd.

*Year ended March 31, 2023
with Independent Auditor's Report*

Sumitomo Mitsui Construction Co., Ltd.
Non-Consolidated Balance Sheets
 March 31, 2023

	As of March 31,		
	2023	2022	2023
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 2)</i>
Assets			
Current assets:			
Cash and deposits	¥ 30,020	¥ 39,422	\$ 224,818
Trade notes receivable	508	634	3,804
Accounts receivable on completed construction contracts	173,895	159,136	1,302,291
Securities <i>(Note 4-(b))</i>	348	147	2,606
Inventories	18,578	20,487	139,129
Other current assets	41,799	25,001	313,030
Allowance for doubtful receivables	(2,510)	(214)	(18,797)
Total current assets	262,640	244,615	1,966,898
Non-current assets:			
Property and equipment, at cost:			
Land <i>(Note 4-(b))</i>	5,129	5,328	38,410
Buildings <i>(Note 4-(b))</i>	6,607	5,187	49,479
Structures <i>(Note 4-(b))</i>	927	844	6,942
Machinery and equipment	5,210	5,191	39,017
Vehicles	312	288	2,336
Tools, furniture and fixtures	4,745	4,657	35,535
Construction in progress	683	253	5,114
Accumulated depreciation	(11,647)	(11,168)	(87,223)
Property and equipment, net	11,969	10,584	89,635
Intangible fixed assets	2,407	2,222	18,025
Investments and other assets:			
Investments in securities	19,054	20,697	142,694
Investments in subsidiaries and affiliates <i>(Notes 4-(b) and 6)</i>	22,498	26,856	168,486
Long-term loans receivable	73	72	546
Long-term loans to employees	303	360	2,269
Long-term prepaid expenses	176	181	1,318
Deferred tax assets <i>(Note 7)</i>	5,280	9,634	39,541
Other	3,624	3,979	27,139
Allowance for doubtful receivables	(925)	(3,262)	(6,927)
Total investments and other assets	50,086	58,518	375,091
Total non-current assets	64,463	71,325	482,760
Total assets	<u>¥327,104</u>	<u>¥315,941</u>	<u>\$2,449,666</u>

Sumitomo Mitsui Construction Co., Ltd.
Non-Consolidated Balance Sheets
 March 31, 2023

	As of March 31,		
	2023	2022	2023
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 2)</i>
Liabilities and net assets			
Current liabilities:			
Trade notes payable <i>(Note 4-(a))</i>	¥ 6,571	¥ 4,922	\$ 49,209
Electronically recorded payable <i>(Note 4-(a))</i>	24,385	19,592	182,618
Accounts payable on construction contracts <i>(Note 4-(a))</i>	61,612	67,269	461,409
Short-term bank loans and current portion of long-term debt <i>(Note 4-(d))</i>	10,650	1,700	79,757
Lease obligations	132	207	988
Income taxes payable	75	2,424	561
Deposit received	18,117	16,083	135,677
Advances received on construction contracts in progress	25,664	19,845	192,196
Reserve for defects on completed construction projects	424	399	3,175
Allowance for losses on construction contracts	37,522	19,238	281,000
Allowance for contingency loss	2,159	2,159	16,168
Other current liabilities	13,211	13,021	98,936
Total current liabilities	200,527	166,864	1,501,737
Long-term liabilities:			
Corporate bond payable	10,000	5,000	74,889
Long-term debt <i>(Note 4-(d))</i>	63,400	57,750	474,799
Lease obligations	139	214	1,040
Accrued retirement benefits	12,497	12,889	93,589
Other long-term liabilities	151	2,596	1,130
Total long-term liabilities	86,188	78,449	645,457
Contingent liabilities <i>(Note 4-(c))</i>			
Net assets:			
Shareholders' equity:			
Capital stock:	12,003	12,003	89,889
Common stock:			
Authorized:			
533,892,994 shares in 2023 and 2022			
Issued and outstanding:			
162,673,321 shares in 2023 and 2022			
Capital surplus:			
Other capital surplus	293	326	2,194
Total capital surpluses	293	326	2,194
Retained earnings:			
Legal retained earnings	2,243	1,931	16,797
Earned surplus carried forward	31,850	60,908	238,523
Total retained earnings	34,094	62,839	255,328
Treasury stock, at cost:			
6,180,515 shares in 2023 and 6,382,798 shares in 2022	(3,782)	(3,907)	(28,323)
Total shareholders' equity	42,608	71,262	319,089
Valuation, translation adjustments and other:			
Unrealized holding gain on securities	(2,180)	(542)	(16,325)
Deferred loss on hedging instruments, net of taxes	(40)	(92)	(299)
Total valuation, translation adjustments and other	(2,220)	(635)	(16,625)
Total net assets	40,388	70,627	302,463
Total liabilities and net assets	¥327,104	¥315,941	\$2,449,666

See accompanying notes to non-consolidated financial statements.

Sumitomo Mitsui Construction Co., Ltd.
Non-Consolidated Statements of Income
 March 31, 2023

	Years ended March 31,		
	2023	2022	2023
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 2)</i>
Net sales <i>(Note 8)</i> :			
Completed construction	¥337,298	¥303,964	\$2,526,009
Others	292	422	2,186
	<u>337,591</u>	<u>304,387</u>	<u>2,528,203</u>
Cost of sales:			
Completed construction	342,249	298,087	2,563,086
Others	187	323	1,400
	<u>342,437</u>	<u>298,411</u>	<u>2,564,494</u>
Gross profit (loss)			
Completed construction	(4,951)	5,876	(37,077)
Others	105	99	786
	<u>(4,845)</u>	<u>5,975</u>	<u>(36,283)</u>
Selling, general and administrative expenses <i>(Note 5-(d))</i>	18,216	17,622	136,418
Operating loss	<u>(23,062)</u>	<u>(11,647)</u>	<u>(172,710)</u>
Other income (expenses):			
Interest and dividend income <i>(Note 5-(a))</i>	2,380	2,178	17,823
Payments received from insurance claims	81	85	606
Interest expense	(1,427)	(1,086)	(10,686)
Exchange gain, net	1,669	348	12,499
Financing related expenses	(338)	(410)	(2,531)
Litigation related expenses	(416)	(185)	(3,115)
Commission for loan commitment agreement	(381)	(512)	(2,853)
Gain on sales of property and equipment <i>(Note 5-(b))</i>	84	0	629
Gain on sales of investments in securities	185	18	1,385
Gain on liquidation of subsidiaries and affiliates	—	6	—
Loss on sales and disposal of property and equipment <i>(Note 5-(c))</i>	(18)	(130)	(134)
Loss on sales of investments in securities	(6)	—	(44)
Other, net <i>(Note 5-(a))</i>	81	(775)	606
	<u>1,892</u>	<u>(461)</u>	<u>14,169</u>
Loss before income taxes	<u>(21,169)</u>	<u>(12,109)</u>	<u>(158,533)</u>
Income taxes <i>(Note 7)</i> :			
Current	377	2,668	2,823
Deferred	4,072	(6,220)	30,495
	<u>4,449</u>	<u>(3,551)</u>	<u>33,318</u>
Loss	<u>¥(25,619)</u>	<u>¥(8,557)</u>	<u>\$ (191,859)</u>
	<i>(Yen)</i>		<i>(U.S. dollars)</i> <i>(Note 2)</i>
Loss per share – basic	¥(163.79)	¥(54.76)	\$(1.227)

See accompanying notes to non-consolidated financial statements.

Non-Consolidated Statements of Changes In Net Assets

March 31, 2023

	Year ended March 31, 2023						Total shareholders' equity
	Shareholders' equity						
	Capital stock	Additional paid-in capital		Retained earnings		Treasury stock, at cost	
		Other capital surplus	Earned reserve	Earned surplus carried forward	Total retained earnings		
<i>(Millions of yen)</i>							
Balance at the beginning of the period	¥12,003	¥326	¥1,931	¥60,908	¥62,839	¥(3,907)	¥71,262
Cumulative effects of changes in accounting policies							
Restated balance	12,003	326	1,931	60,908	62,839	(3,907)	71,262
Changes in items during the period							
Dividends from surplus				(3,125)	(3,125)		(3,125)
Provision of legal retained earnings			312	(312)	—		—
Loss				(25,619)	(25,619)		(25,619)
Purchases of treasury stock						(2)	(2)
Disposition of treasury stock		(33)				126	93
Net changes in items other than shareholders' equity							
Total changes in items during the period	—	(33)	312	(29,057)	(28,745)	124	(28,653)
Balance at the end of the period	¥12,003	¥293	¥2,243	¥31,850	¥34,094	¥(3,782)	¥42,608

	Year ended March 31, 2023			
	Valuation, translation adjustments and other			
	Unrealized holding loss on securities	Deferred loss on hedging instruments, net of taxes	Total valuation, translation adjustments and other	Total net assets
Balance at the beginning of the period	¥(542)	¥(92)	¥(635)	¥70,627
Cumulative effects of changes in accounting policies				
Restated balance	(542)	(92)	(635)	70,627
Changes in items during the period				
Dividends from surplus				(3,125)
Provision of legal retained earnings				—
Loss				(25,619)
Purchases of treasury stock				(2)
Disposition of treasury stock				93
Net changes in items other than shareholders' equity	(1,637)	52	(1,584)	(1,584)
Total changes in items during the period	(1,637)	52	(1,584)	(30,238)
Balance at the end of the period	¥(2,180)	¥(40)	¥(2,220)	¥40,388

Non-Consolidated Statements of Changes In Net Assets

March 31, 2023

	Year ended March 31, 2023						Total shareholders' equity
	Shareholders' equity						
	Capital stock	Additional paid-in capital		Retained earnings		Treasury stock, at cost	
		Other capital surplus	Earned reserve	Earned surplus carried forward	Total retained earnings		
	<i>(Thousands of U.S. dollars) (Note 2)</i>						
Balance at the beginning of the period	\$89,889	\$2,441	\$14,461	\$456,137	\$470,598	\$(29,259)	\$533,677
Cumulative effects of changes in accounting policies							
Restated balance	89,889	2,441	14,461	456,137	470,598	(29,259)	533,677
Changes in items during the period							
Dividends from surplus				(23,402)	(23,402)		(23,402)
Provision of legal retained earnings			2,336	(2,336)	—		—
Loss				(191,859)	(191,859)		(191,859)
Purchases of treasury stock						(14)	(14)
Disposition of treasury stock		(247)				943	696
Net changes in items other than shareholders' equity							
Total changes in items during the period	—	(247)	2,336	(217,606)	(215,269)	928	(214,580)
Balance at the end of the period	\$89,889	\$2,194	\$16,797	\$238,523	\$255,328	\$(28,323)	\$319,089

	Year ended March 31, 2023			
	Valuation, translation adjustments and other			
	Unrealized holding loss on securities	Deferred loss on hedging instruments, net of taxes	Total valuation, translation adjustments and other	Total net assets
	<i>(Thousands of U.S. dollars) (Note 2)</i>			
Balance at the beginning of the period	\$(4,059)	\$(688)	\$(4,755)	\$528,922
Cumulative effects of changes in accounting policies				
Restated balance	(4,059)	(688)	(4,755)	528,922
Changes in items during the period				
Dividends from surplus				(23,402)
Provision of legal retained earnings				—
Loss				(191,859)
Purchases of treasury stock				(14)
Disposition of treasury stock				696
Net changes in items other than shareholders' equity	(12,259)	389	(11,862)	(11,862)
Total changes in items during the period	(12,259)	389	(11,862)	(226,450)
Balance at the end of the period	\$(16,325)	\$(299)	\$(16,625)	\$302,463

Non-Consolidated Statements of Changes In Net Assets

March 31, 2023

	Year ended March 31, 2022						Total shareholders' equity
	Shareholders' equity						
	Capital stock	Additional paid-in capital		Retained earnings		Treasury stock, at cost	
		Other capital surplus	Earned reserve	Earned surplus carried forward	Total retained earnings		
<i>(Millions of yen)</i>							
Balance at the beginning of the period	¥12,003	¥347	¥1,648	¥73,004	¥74,652	¥(3,504)	¥83,498
Cumulative effects of changes in accounting policies				(426)	(426)		(426)
Restated balance	12,003	347	1,648	72,577	74,226	(3,504)	83,072
Changes in items during the period							
Dividends from surplus				(2,828)	(2,828)		(2,828)
Provision of legal retained earnings			282	(282)	—		—
Loss				(8,557)	(8,557)		(8,557)
Purchases of treasury stock						(502)	(502)
Disposition of treasury stock		(20)				100	79
Net changes in items other than shareholders' equity							
Total changes in items during the period	—	(20)	282	(11,669)	(11,386)	(402)	(11,809)
Balance at the end of the period	¥12,003	¥326	¥1,931	¥60,908	¥62,839	¥(3,907)	¥71,262

	Year ended March 31, 2022			
	Valuation, translation adjustments and other			
	Unrealized holding gain (loss) on securities	Deferred loss on hedging instruments, net of taxes	Total valuation, translation adjustments and other	Total net assets
Balance at the beginning of the period	¥418	¥(147)	¥271	¥83,770
Cumulative effects of changes in accounting policies				(426)
Restated balance	418	(147)	271	83,343
Changes in items during the period				
Dividends from surplus				(2,828)
Provision of legal retained earnings				—
Loss				(8,557)
Purchases of treasury stock				(502)
Disposition of treasury stock				79
Net changes in items other than shareholders' equity	(961)	54	(907)	(907)
Total changes in items during the period	(961)	54	(907)	(12,716)
Balance at the end of the period	¥ (542)	¥ (92)	¥ (635)	¥70,627

See accompanying notes to non-consolidated financial statements.

1. Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying non-consolidated financial statements of Sumitomo Mitsui Construction Co., Ltd. (the “Company”) are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and have been compiled from the non-consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

Certain reclassifications have been made to present the accompanying financial statements in a format which is familiar to readers outside Japan. In addition, certain amounts in the prior year’s financial statements have been reclassified to conform to the current year’s presentation.

As permitted, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying financial statements do not necessarily agree with the sums of the individual amounts.

(b) Securities and Investments in Subsidiaries and Affiliates

The accounting standard for financial instruments requires that securities be classified into three categories: trading, held-to-maturity or other securities. Under this standard, trading securities are carried at fair value and held-to-maturity securities are carried at amortized cost. For other securities, securities other than shares, etc. with no market value are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Shares, etc. with no market value are carried at cost. Cost of securities sold is determined by the moving average method. Investments in subsidiaries and affiliates are stated at cost determined by the moving average method.

(c) Inventories

Inventories other than materials and supplies are stated at cost determined by the specific identification method. Materials and supplies are valued at cost determined by the average method (cost of materials and supplies is written down when their carrying amounts become unrecoverable).

(d) Depreciation and Amortization

(1) Property and equipment (except leased assets)

Depreciation of property and equipment (except leased assets) is determined by the declining-balance method based on the estimated useful lives and the residual value of the respective assets as prescribed in the Corporation Tax Law of Japan except that the straight-line method is applied to office buildings (except facilities attached to buildings) acquired on or after April 1, 1998 and facilities attached to buildings and structures acquired on or after April 1, 2016.

(2) Intangible fixed assets (except leased assets) and long-term prepaid expenses

Amortization of intangible fixed assets (except leased assets) and long-term prepaid expenses is calculated by the straight-line method based on the estimated useful lives of the respective assets as prescribed in the Corporation Tax Law of Japan. Amortization of computer software for internal use is calculated by the straight-line method over the estimated useful lives of 5 years.

(3) Leased assets

Depreciation of leased assets under finance leases other than those that transfer the ownership of the leased assets to the lessees is calculated by the straight-line method over the lease term with a residual value of zero.

(e) Advances Received on Construction Contracts in Progress

As is customary in Japan, the Company receives payments from customers on an installment basis in accordance with the terms of the respective construction contracts.

(f) Allowance for Doubtful Receivables

An allowance for doubtful receivables has been provided for future losses on general receivables at an amount calculated by applying the percentage of actual losses on collection experienced in the past, and an uncollectible amount for doubtful receivables estimated based on an individual assessment of each receivable and probability of collection.

(g) Reserve for Defects on Completed Construction Projects

A reserve has been provided at an estimated amount for the fiscal year's sales proceeds in order to cover the liability for future costs of defects of the completed construction projects.

(h) Allowance for Losses on Construction Contracts

An allowance has been provided based on the estimated amount for the future losses on construction projects in progress at the fiscal year end which are anticipated to be substantial losses in the future.

(i) Allowance for Contingency Loss

An allowance for contingency loss related to the defective piling work at a condominium in Yokohama has been provided based on the reasonably estimated amount necessary for payments to be borne as the contractor in accordance with defect liability applicable to the construction contract.

(j) Employees' Retirement Benefits

(1) Method of attributing expected retirement benefits to periods

In calculating the retirement benefit obligation, the benefit formula method is applied to attribute the expected retirement benefits to the periods up to year ended March 31, 2023.

(2) Amortization of actuarial gain or loss and prior service cost

Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized by the straight-line method over periods (11 years), which are shorter than the average remaining years of service of the employees.

Prior service cost is being amortized as incurred by the straight-line method over periods (11 years), which are shorter than the average remaining years of service of the employees.

(k) Recognition of Revenues and Costs

Recognition of sales and costs of the completed construction

The Company is primarily engaged in civil construction and building construction, providing construction design and construction work services as well as other related services to its domestic and overseas customers.

In civil and building construction, the Company primarily enters into long-term construction contracts. For such contracts, the completion and delivery of construction work is identified as a performance obligation. Performance obligations are deemed to be satisfied over time, and revenue is recognized based on progress toward complete satisfaction of a performance obligation. The progress toward complete satisfaction of a performance obligation is measured based on the proportion of construction costs incurred by the end of the reporting period to the total expected construction costs. When the progress toward complete satisfaction of a performance obligation cannot be reasonably measured, but the costs to be incurred are expected to be recovered, revenue is recognized only to the extent of the costs incurred, except for those contracts that are in the initial stages of construction. For construction contracts whose period between the date of commencement of the transaction and the point in time when the performance obligation is expected to be fully satisfied is very short, an alternative treatment is applied, whereby revenue is not recognized over time, but is recognized when the performance obligation is fully satisfied.

(l) Derivatives and Hedge Accounting

(1) Method of hedge accounting

Derivative financial instruments are mainly stated at fair value except those accounted for under deferred hedge accounting.

Interest rate swaps qualifying for hedge accounting and meeting specific matching criteria are not re-measured at market value, but the differential paid or received under the swap agreements is charged or credited to income (short-cut method).

(2) Hedging instruments and hedged items

Hedging instruments: Interest rate swaps

Hedged items: Interest on debt

(3) Hedging policy

The Company utilizes interest rate swaps only for the purpose of hedging future risks of fluctuation of interest rates.

(4) Assessment of hedge effectiveness

An evaluation of hedge effectiveness for interest rate swaps by principle method is performed on a quarterly basis to confirm that there is a strong correlation between hedged items and hedging instruments by comparing accumulated amount of the change of cash flows of hedged items and accumulated amount of the change of cash flows of hedging instruments to assess whether the forward contract qualifies for hedge accounting. However, the evaluation of hedge effectiveness is omitted in case of interest rate swaps meeting specific matching criteria.

(m) Accounting for Retirement Benefits

Accounting for unrecognized actuarial loss and unrecognized prior service cost on non-consolidated financial statements is different from the accounting on consolidated financial statements.

(n) Income Taxes

Deferred tax assets and liabilities are determined based on the differences between the amounts calculated for financial reporting purposes and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(o) Accounting Method of Joint Ventures for Construction Project

Assets, liabilities, costs and profits for a joint venture project are mainly recognized on pro-rata basis of investment ratio of each members.

2. 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 at ¥133.53 = U.S.\$1.00, the approximate rate of exchange prevailing on March 31, 2023. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at that or any other rate.

3. Significant Accounting Estimates

For the year ended March 31, 2023

(a) Allowance for Contingency Loss

(1) Amounts recognized on the financial statements for this fiscal year

	As of March 31, 2023	
	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Allowance for contingency loss	¥2,159	\$16,168

(a) Allowance for Contingent Loss (continued)

(2) Information of significant accounting estimates for the item above

An allowance for contingency loss related to the defective piling work at a condominium in Yokohama has been provided based on the reasonably estimated amount necessary for payments to be borne as the contractor in accordance with defect liability applicable to the construction contract.

Mitsui Fudosan Residential Co., Ltd. (hereinafter as “MFR”), which is one of the developers of the apartment, initiated a lawsuit against the Company and two piling companies on November 28, 2017, claiming about 45.9 billion yen (which amount increased to approximately 51.0 billion yen on July 11, 2018, and decreased from approximately 51.0 billion yen to approximately 50.6 billion yen on September 30, 2022) as alleged rebuilding cost for the whole structure of the apartment. The Company considers that MFR’s claim lacks legal foundation and reason, and will continue to make appropriate arguments in that court proceeding.

(b) Recognition of Revenues from Construction Contracts

(1) Amounts recognized on the financial statements for this fiscal year

	Year ended March 31, 2023	
	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Net sales of construction contracts, etc. related to performance obligations to be satisfied over time	¥309,586	\$2,318,475

(2) Information of significant accounting estimates for the item above

For construction contracts, etc. whose performance obligations are satisfied over time, the progress toward complete satisfaction of a performance obligation is measured and net sales of completed construction contracts are recognized over time based on such progress toward satisfaction of the performance obligation.

It is necessary to estimate total revenues and costs of a project reasonably upon recognition. The Company’s results may fluctuate due to changes in net sales and costs of completed construction contracts as a result of negotiations with clients, unanticipated incurrence of costs, or other reasons.

3. Significant Accounting Estimates (continued)

For the year ended March 31, 2022

(a) Allowance for Contingency Loss

- (1) Amounts recognized on the financial statements for this fiscal year

	As of March 31, 2022
	<i>(Millions of yen)</i>
Allowance for contingency loss	¥2,159

- (2) Information of significant accounting estimates for the item above

An allowance for contingency loss related to the defective piling work at a condominium in Yokohama has been provided based on the reasonably estimated amount necessary for payments to be borne as the contractor in accordance with defect liability applicable to the construction contract.

Mitsui Fudosan Residential Co., Ltd. (hereinafter as “MFR”), which is one of the developers of the apartment, initiated a lawsuit against the Company and two piling companies on November 28, 2017, claiming about 45.9 billion yen (which amount increased to approximately 51.0 billion yen on July 11, 2018) as alleged rebuilding cost for the whole structure of the apartment. The Company considers that MFR’s claim lacks legal foundation and reason, and will continue to make appropriate arguments in that court proceeding.

(b) Recognition of Revenues from Construction Contracts

- (1) Amounts recognized on financial statements for this fiscal year

	Year ended March 31, 2022
	<i>(Millions of yen)</i>
Net sales of construction contracts, etc. related to performance obligations to be satisfied over time	¥274,053

- (2) Information of significant accounting estimates for the item above

For construction contracts, etc. whose performance obligations are satisfied over time, the progress toward complete satisfaction of a performance obligation is measured and net sales of completed construction contracts are recognized over time based on such progress toward satisfaction of the performance obligation.

It is necessary to estimate total revenues and costs of a project reasonably upon recognition. The Company’s results may fluctuate due to changes in net sales and costs of completed construction contracts as a result of negotiations with clients, unanticipated incurrence of costs, or other reasons.

4. Notes to Non-Consolidated Balance Sheets

(a) Outstanding Balances with Subsidiaries and Affiliates

Significant outstanding balances for subsidiaries and affiliates other than individually presented on the accompanying non-consolidated balance sheets at March 31, 2023 and 2022 were as follows:

	As of March 31,		
	2023	2022	2023
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Trade notes payable	¥211	¥437	\$1,580
Electronically recorded payable	6,202	4,120	46,446
Accounts payable on construction contracts	10,791	8,225	80,813

(b) Pledged Assets

The following assets were pledged at March 31, 2023 and 2022 principally as collateral for guarantees (such as guarantees for the completion of construction contracts):

	As of March 31,		
	2023	2022	2023
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Land	¥1,537	¥1,735	\$11,510
Buildings, net of accumulated depreciation	1,153	101	8,634
Structures, net of accumulated depreciation	149	28	1,115
Investments in subsidiaries and affiliates	363	363	2,718
Total	<u>¥3,204</u>	<u>¥2,227</u>	<u>\$23,994</u>

There were no secured liabilities as of March 31, 2023 and 2022.

The following assets were pledged at March 31, 2023 and 2022 as collateral for business security deposits:

	As of March 31,		
	2023	2022	2023
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Securities	¥285	¥139	\$2,134

4. Notes to Non-Consolidated Balance Sheets (continued)

(c) Contingent Liabilities

At March 31, 2023 and 2022, the Company was contingently liable for the following:

	As of March 31,		
	2023	2022	2023
	(Millions of yen)		(Thousands of U.S. dollars)
As guarantor of bank loans to subsidiaries and other	¥8,214	¥7,142	\$61,514
Advance deposits	609	482	4,560

(d) Financial Covenants

As of March 31, 2023

- (1) The Company has entered into a loan commitment agreement dated on March 31, 2016 with its seven banks with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2016 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2014 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

In addition, there was no balance of bank borrowings under the loan commitment agreement as of March 31, 2023.

Unused amount on loan commitment agreement as of March 31, 2023 and 2022 were as follows.

	As of March 31,		
	2023	2022	2023
	(Millions of yen)		(Thousands of U.S. dollars)
Maximum limit under the agreement	¥20,000	¥20,000	\$149,779
Loan balance outstanding	—	—	—
Difference (unused portion)	¥20,000	¥20,000	\$149,779

(d) Financial Covenants (continued)

- (2) The Company has entered into a syndicated loan contract dated on September 28, 2016 with its seven banks (including five different banks from (1) above) with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2017 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2016 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In addition, the balance of bank borrowings under this syndicated loan contract is ¥1,750 million (\$13,105 thousand) in long-term debt (including the current portion) as of March 31, 2023.

- (3) The Company has entered into a committed syndicated loan contract dated on March 30, 2018 with its seven banks (same bank as we had contracted for the year ended March 31, 2016) with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2018 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2017 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

In addition, the balance of bank borrowings under the committed syndicated loan contract is ¥10,000 million (\$74,889 thousand) in long-term debt (including the current portion) as of March 31, 2023.

Unused amount on the committed syndicated loan contract as of March 31, 2023 and 2022 were as follows.

	As of March 31,		
	2023	2022	2023
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Maximum limit under the contract	¥10,000	¥10,000	\$74,889
Loan balance outstanding	10,000	10,000	74,889
Difference (unused portion)	¥ —	¥ —	\$ —

(d) Financial Covenants (continued)

- (4) The Company has entered into a committed syndicated loan contract dated on December 26, 2019 with its ten banks (including six different banks from (3) above) with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2020 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2019 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

In addition, the balance of bank borrowings under the committed syndicated loan contract is ¥10,000 million (\$74,889 thousand) in long-term debt as of March 31, 2023.

Unused amount on the committed syndicated loan contract as of March 31, 2023 and 2022 were as follows.

	As of March 31,		
	<u>2023</u>	<u>2022</u>	<u>2023</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Maximum limit under the contract	¥10,000	¥10,000	\$74,889
Loan balance outstanding	10,000	10,000	74,889
Difference (unused portion)	<u>¥ –</u>	<u>¥ –</u>	<u>\$ –</u>

- (5) The Company has entered into a general syndicated committed loan contract dated on June 25, 2020 with its twenty-five banks with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2021 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2020 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In addition, the balance of bank borrowings under the committed syndicated loan contract is ¥15,000 million (\$112,334 thousand) in long-term debt as of March 31, 2023.

(d) Financial Covenants (continued)

Unused amount on the committed syndicated loan contract as of March 31, 2023 and 2022 were as follows.

	As of March 31,		
	2023	2021	2023
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Maximum limit under the contract	¥15,000	¥15,000	\$112,334
Loan balance outstanding	15,000	15,000	112,334
Difference (unused portion)	¥ —	¥ —	\$ —

- (6) The Company has entered into a syndicated loan contract dated on September 29, 2020 with Sumitomo Mitsui Banking Corporation and Sumitomo Mitsui Trust Bank, Limited. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2021 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2020 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

In addition, the balance of bank borrowings under this syndicated loan contract is ¥1,000 million (\$7,488 thousand) in long-term debt (including the current portion) as of March 31, 2023.

- (7) The Company has entered into a syndicated loan contract dated on March 29, 2021 with its seven banks (same bank as we had contracted for the year ended March 31, 2016) with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2021 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2020 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

In addition, the balance of bank borrowings under this syndicated loan contract is ¥10,000 million (\$74,889 thousand) in long-term debt as of March 31, 2023.

(d) Financial Covenants (continued)

- (8) The Company has entered into a syndicated loan contract dated on March 28, 2022 with its eight banks (same bank as we had contracted for the year ended March 31, 2016) with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2022 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2021 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

In addition, the balance of bank borrowings under this syndicated loan contract is ¥10,000 million (\$74,889 thousand) in long-term debt as of March 31, 2023.

- (9) The Company has entered into a committed syndicated loan contract dated on March 28, 2022 with Sumitomo Mitsui Banking Corporation and Sumitomo Mitsui Trust Bank, Limited. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2022 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2021 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

In addition, the balance of bank borrowings under the committed syndicated loan contract is ¥6,300 million (\$47,180 thousand) in long-term debt (including the current portion) as of March 31, 2023.

Unused amount on the committed syndicated loan contract as of March 31, 2023 and 2022 were as follows.

	As of March 31,		
	2023	2022	2023
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Maximum limit under the agreement	¥7,000	¥7,000	\$52,422
Loan balance outstanding	7,000	–	52,422
Difference (unused portion)	¥ –	¥7,000	\$ –

(d) Financial Covenants (continued)

- (10) The Company has entered into a loan commitment agreement dated on May 24, 2022 with its seven banks (same bank as we had contracted for the year ended March 31, 2016) with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of the second quarter of the fiscal year ended March 31, 2023 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2022.

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

In addition, there was no balance of bank borrowings under the loan commitment agreement as of March 31, 2023.

Unused amount on loan commitment agreement as of March 31, 2023 and 2022 were as follows.

	As of March 31,		
	2023	2022	2023
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Maximum limit under the agreement	¥30,000	¥–	\$224,668
Loan balance outstanding	–	–	–
Difference (unused portion)	<u>¥30,000</u>	<u>¥–</u>	<u>\$224,668</u>

- (11) The Company has entered into a loan commitment agreement dated on June 27, 2022 with Sumitomo Mitsui Banking Corporation and Sumitomo Mitsui Trust Bank, Limited. The following financial covenant is included in the contract:

Total consolidated net assets at the end of the second quarter of the fiscal year ended March 31, 2023 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2022.

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

In addition, there was no balance of bank borrowings under the loan commitment agreement as of March 31, 2023.

(d) Financial Covenants (continued)

Unused amount on loan commitment agreement as of March 31, 2023 and 2022 were as follows.

	As of March 31,		
	2023	2022	2023
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Maximum limit under the agreement	¥20,000	¥—	\$149,779
Loan balance outstanding	—	—	—
Difference (unused portion)	<u>¥20,000</u>	<u>¥—</u>	<u>\$149,779</u>

- (12) The Company has entered into a general syndicated loan contract dated on September 27, 2022 with its twenty-one banks with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2023 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2022 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In addition, the balance of bank borrowings under this syndicated loan contract is ¥10,000 million (\$74,889 thousand) in long-term debt as of March 31, 2023.

Contracts other than (10) and (11) above are in conflict with financial covenants at the end of the current fiscal year, however, as of May 19, 2023, the Company obtained approval from our financial institutions to not exercise their rights to lose profits for the time limit due to such conflicts.

As of March 31, 2022

- (1) The Company has entered into a loan commitment agreement dated on March 31, 2016 with its seven banks with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2016 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2014 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

In addition, there was no balance of bank borrowings under the loan commitment agreement as of March 31, 2022.

Unused amount on loan commitment agreement as of March 31, 2022 and 2021 were as follows.

(d) Financial Covenants (continued)

	As of March 31,	
	2022	2021
	<i>(Millions of yen)</i>	
Maximum limit under the agreement	¥20,000	¥20,000
Loan balance outstanding	—	—
Difference (unused portion)	<u>¥20,000</u>	<u>¥20,000</u>

- (2) The Company has entered into a syndicated loan contract dated on September 28, 2016 with its seven banks (including five different banks from (1) above) with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2017 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2016 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In addition, the balance of bank borrowings under this syndicated loan contract is ¥2,250 million in long-term debt (including the current portion) as of March 31, 2022.

- (3) The Company has entered into a committed syndicated loan contract dated on March 30, 2018 with its seven banks (same bank as we had contracted for the year ended March 31, 2016) with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2018 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2017 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

In addition, the balance of bank borrowings under the committed syndicated loan contract is ¥10,000 million in long-term debt as of March 31, 2022.

Unused amount on the committed syndicated loan contract as of March 31, 2022 and 2021 were as follows.

	As of March 31,	
	2022	2021
	<i>(Millions of yen)</i>	
Maximum limit under the contract	¥10,000	¥10,000
Loan balance outstanding	10,000	10,000
Difference (unused portion)	<u>¥ —</u>	<u>¥ —</u>

(d) Financial Covenants (continued)

- (4) The Company has entered into a committed syndicated loan contract dated on December 26, 2019 with its ten banks (including six different banks from (3) above) with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2020 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2019 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

In addition, the balance of bank borrowings under the committed syndicated loan contract is ¥10,000 million in long-term debt as of March 31, 2022.

Unused amount on the committed syndicated loan contract as of March 31, 2022 and 2021 were as follows.

	As of March 31,	
	2022	2021
	<i>(Millions of yen)</i>	
Maximum limit under the contract	¥10,000	¥10,000
Loan balance outstanding	10,000	10,000
Difference (unused portion)	¥ —	¥ —

- (5) The Company has entered into a general syndicated committed loan contract dated on June 25, 2020 with its twenty-five banks with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2021 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2020 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In addition, the balance of bank borrowings under the committed syndicated loan contract is ¥15,000 million in long-term debt as of March 31, 2022.

(d) Financial Covenants (continued)

Unused amount on the committed syndicated loan contract as of March 31, 2022 and 2021 were as follows.

	<u>As of March 31,</u>	
	<u>2022</u>	<u>2021</u>
	<i>(Millions of yen)</i>	
Maximum limit under the contract	¥15,000	¥15,000
Loan balance outstanding	15,000	15,000
Difference (unused portion)	<u>¥ –</u>	<u>¥ –</u>

- (6) The Company has entered into a syndicated loan contract dated on September 29, 2020 with Sumitomo Mitsui Banking Corporation and Sumitomo Mitsui Trust Bank, Limited. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2021 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2020 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

In addition, the balance of bank borrowings under this syndicated loan contract is ¥2,200 million in long-term debt (including the current portion) as of March 31, 2022.

- (7) The Company has entered into a syndicated loan contract dated on March 29, 2021 with its seven banks (same bank as we had contracted for the year ended March 31, 2016) with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2021 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2020 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

In addition, the balance of bank borrowings under this syndicated loan contract is ¥10,000 million in long-term debt as of March 31, 2022.

(d) Financial Covenants (continued)

- (8) The Company has entered into a loan commitment agreement dated on May 25, 2021 with its seven banks (same bank as we had contracted for the year ended March 31, 2016) with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of the second quarter of the fiscal year ended March 31, 2022 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2021.

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

In addition, there was no balance of bank borrowings under the loan commitment agreement as of March 31, 2022.

Unused amount on loan commitment agreement as of March 31, 2022 and 2021 were as follows.

	As of March 31,	
	2022	2021
	<i>(Millions of yen)</i>	
Maximum limit under the agreement	¥30,000	¥—
Loan balance outstanding	—	—
Difference (unused portion)	<u>¥30,000</u>	<u>¥—</u>

- (9) The Company has entered into a loan commitment agreement dated on June 25, 2021 with Sumitomo Mitsui Banking Corporation and Sumitomo Mitsui Trust Bank, Limited. The following financial covenant is included in the contract:

Total consolidated net assets at the end of the second quarter of the fiscal year ended March 31, 2022 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2021.

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

In addition, there was no balance of bank borrowings under the loan commitment agreement as of March 31, 2022.

(d) Financial Covenants (continued)

Unused amount on loan commitment agreement as of March 31, 2022 and 2021 were as follows.

	As of March 31,	
	2022	2021
	<i>(Millions of yen)</i>	
Maximum limit under the agreement	¥20,000	¥—
Loan balance outstanding	—	—
Difference (unused portion)	<u>¥20,000</u>	<u>¥—</u>

- (10) The Company has entered into a syndicated loan contract dated on March 28, 2022 with its seven banks (same bank as we had contracted for the year ended March 31, 2016) with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2022 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2021 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

In addition, the balance of bank borrowings under this syndicated loan contract is ¥10,000 million in long-term debt as of March 31, 2022.

- (11) The Company has entered into a committed syndicated loan contract dated on March 28, 2022 with Sumitomo Mitsui Banking Corporation and Sumitomo Mitsui Trust Bank, Limited. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2022 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2021 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

In addition, there was no balance of bank borrowings under the committed syndicated loan contract as of March 31, 2022.

(d) Financial Covenants (continued)

Unused amount on the committed syndicated loan contract as of March 31, 2022 and 2021 were as follows.

	<u>As of March 31,</u>	
	<u>2022</u>	<u>2021</u>
	<i>(Millions of yen)</i>	
Maximum limit under the agreement	¥7,000	¥-
Loan balance outstanding	-	-
Difference (unused portion)	<u>¥7,000</u>	<u>¥-</u>

5. Notes to Non-Consolidated Statements of Income

(a) Transactions with Subsidiaries and Affiliates

Significant transactions with subsidiaries and affiliates other than those individually presented on the accompanying non-consolidated statements of income for the years ended March 31, 2023 and 2022 were as follows:

	<u>Years ended March 31,</u>		
	<u>2023</u>	<u>2022</u>	<u>2023</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Dividend income	¥1,406	¥1,399	\$10,529
Royalty income	388	252	2,905
Allowance for doubtful accounts	74	214	554

(b) Gain on Sales of Property and Equipment

The significant components of gain on sales of property and equipment for the years ended March 31, 2023 and 2022 were as follows:

	<u>Years ended March 31,</u>		
	<u>2023</u>	<u>2022</u>	<u>2023</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Buildings	¥9	¥-	\$67
Machinery and equipment	3	-	22
Vehicles	1	0	7
Tools, furniture and fixtures	0	0	0
Land	69	-	516
Total	<u>¥84</u>	<u>¥0</u>	<u>\$629</u>

5. Notes to Non-Consolidated Statements of Income (continued)

(c) Loss on Sales and Disposal of Property and Equipment

The significant components of loss on sales and disposal of property and equipment for the years ended March 31, 2023 and 2022 were as follows:

	Years ended March 31,		
	2023	2022	2023
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Loss on disposal	¥18	¥130	\$134
Loss on sales	—	0	—
Total	¥18	¥130	\$134

(d) Selling, General and Administrative Expenses

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

	Years ended March 31,		
	2023	2022	2023
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Salaries and wages	¥ 8,459	¥ 8,365	\$ 63,349
Depreciation expenses	837	918	6,268
Other	8,919	8,338	66,793
Total	¥18,216	¥17,622	\$136,418

6. Securities

Stocks of subsidiaries and affiliates at March 31, 2023 and 2022 were as follows:

	As of March 31, 2023					
	Carrying value	Fair value	Unrealized gain	Carrying value	Fair value	Unrealized gain
	<i>(Millions of yen)</i>			<i>(Thousands of U.S. dollars)</i>		
Stocks of a subsidiary	¥717	¥4,279	¥3,561	\$5,369	\$32,045	\$26,668

Note: Stocks of subsidiaries and affiliates with no market value that were excluded from the above were as follows:

	As of March 31,	
	2023	2023
	Carrying value	
	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Stocks of subsidiaries	¥15,253	\$114,229
Stocks of affiliates	40	299

6. Securities (continued)

	As of March 31, 2022		
	Carrying value	Fair value	Unrealized gain
	<i>(Millions of yen)</i>		
Stocks of a subsidiary	¥717	¥5,360	¥4,642

	As of March 31, 2022
	Carrying value
	<i>(Millions of yen)</i>
Stocks of subsidiaries	¥14,942
Stocks of affiliates	29

7. Income Taxes

The significant components of the Company's deferred tax assets and liabilities at March 31, 2023 and 2022 were as follows:

	As of March 31,		
	2023	2022	2023
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Deferred tax assets:			
Accrued retirement benefits	¥3,826	¥3,946	\$28,652
Account payable and accrued expenses	1,993	1,985	14,925
Allowance for bad debts	1,052	1,064	7,878
Loss on valuation of investment securities	—	240	—
Loss on devaluation of investments in subsidiaries and affiliates	952	896	7,129
Reserve for defects on completed construction projects	129	122	966
Allowance for losses on construction contracts	13,538	6,500	101,385
Other	975	1,017	7,301
Gross deferred tax assets	22,468	15,774	168,261
Valuation allowance	(17,172)	(6,123)	(128,600)
Total deferred tax assets	5,296	9,651	39,661
Deferred tax liabilities:			
Asset retirement obligations	(15)	(17)	(112)
Total deferred tax liabilities	(15)	(17)	(112)
Net deferred tax assets	¥5,280	¥9,634	\$39,541

7. Income Taxes (continued)

The significant differences between the statutory tax rates and the effective tax rates

The note is omitted due to the posting of loss before income taxes for the years ended March 31, 2023 and 2022.

The accounting treatment of corporate and local income taxes, and related tax effect accounting

The Company has adopted the group tax sharing system from the current consolidated fiscal year. In addition, the Company conducts accounting treatment and disclosure of corporate and local income taxes, and related tax effect accounting in accordance with the “Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System” (ASBJ PITF No. 42 issued on August 12, 2021).

8. Revenue Recognition

The note on useful information in understanding revenue from contracts with customers is omitted since the Consolidated Financial Statement (Notes to Consolidated Financial Statements, Revenue Recognition) provides the same information.

9. Subsequent Event

Not applicable.

Independent Auditor's Report

The Board of Directors
Sumitomo Mitsui Construction Co., Ltd.

Opinion

We have audited the accompanying non-consolidated financial statements of Sumitomo Mitsui Construction Co., Ltd. (the Company), which comprise the non-consolidated balance sheet as at March 31, 2023, and the non-consolidated statements of income and changes in net assets, for the year then ended, and notes to the non-consolidated financial statements.

In our opinion, the accompanying non-consolidated financial statements present fairly, in all material respects, the non-consolidated financial position of the Company as at March 31, 2023, and its non-consolidated financial performance for the year 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 Non-Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the non-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 non-consolidated financial statements of the current period. These matters were addressed in the context of the audit of the non-consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters.

Estimates of total construction costs under the method of recognizing revenue as performance obligations are satisfied over time

The details of this key audit matter have been omitted since they are the same as those described in the auditor's report for the consolidated financial statements.

Amount recorded for allowance for contingency loss

The details of this key audit matter have been omitted since they are the same as those described in the auditor's report for the consolidated financial statements.

Other Information

The other information comprises the information included in the Annual Report that contains audited non-consolidated financial statements but does not include the non-consolidated financial statements and our auditor's report thereon. Management is responsible for preparation and disclosure of the other information. The Corporate Auditor and the Board of Corporate Auditors are responsible for overseeing the Company's reporting process of the other information.

Our opinion on the non-consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the non-consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the non-consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management, the Corporate Auditor and the Board of Corporate Auditors for the Non-Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these non-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 non-consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the non-consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Corporate Auditor and the Board of Corporate Auditors are responsible for overseeing the Company's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the non-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. 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 non-consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the non-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.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the non-consolidated financial statements is not expressing an opinion on the effectiveness of the Company'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 Company'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 non-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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the non-consolidated financial statements, including the disclosures, and whether the non-consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the non-consolidated financial statements. We are responsible for the direction, supervision and performance of the company audit. We remain solely responsible for our audit opinion.

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

We also provide the Corporate Auditor and the Board of Corporate Auditors with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the non-consolidated financial statements in Japan, and to 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 the Corporate Auditor and the Board of Corporate Auditors, we determine those matters that were of most significance in the audit of the non-consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



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

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

Convenience Translation

The U.S. dollar amounts in the accompanying non-consolidated financial statements with respect to the year ended March 31, 2023 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the non-consolidated financial statements.

Ernst & Young ShinNihon LLC
Tokyo, Japan

July 25, 2023

福本 千人

Kazuo Fukumoto
Designated Engagement Partner
Certified Public Accountant

中原 義勝

Yoshikatsu Nakahara
Designated Engagement Partner
Certified Public Accountant

CORPORATE OUTLINE

Corporate Name:

Sumitomo Mitsui Construction Co.,Ltd.

Established:

October 14, 1941

Permission:

(Special-3)No.200, Specified Constructor, granted by the Minister of Land, Infrastructure, Transport and Tourism

License:

(16)No.1, Housing, Land and Building Dealer, granted by the Minister of Land, Infrastructure, Transport and Tourism

Main Scope of Business:

- 1) To contract, plan, design and/or supervise civil engineering, architectural, prestressed concrete, electrical, piping and other works
- 2) To plan, design and supervise marine development, regional development, urban development, natural resource development and environment maintenance
- 3) To manufacture, sell and lease materials for civil and building works, prestressed concrete products, seismic isolating device, seismic damping device, and other machinery and instruments

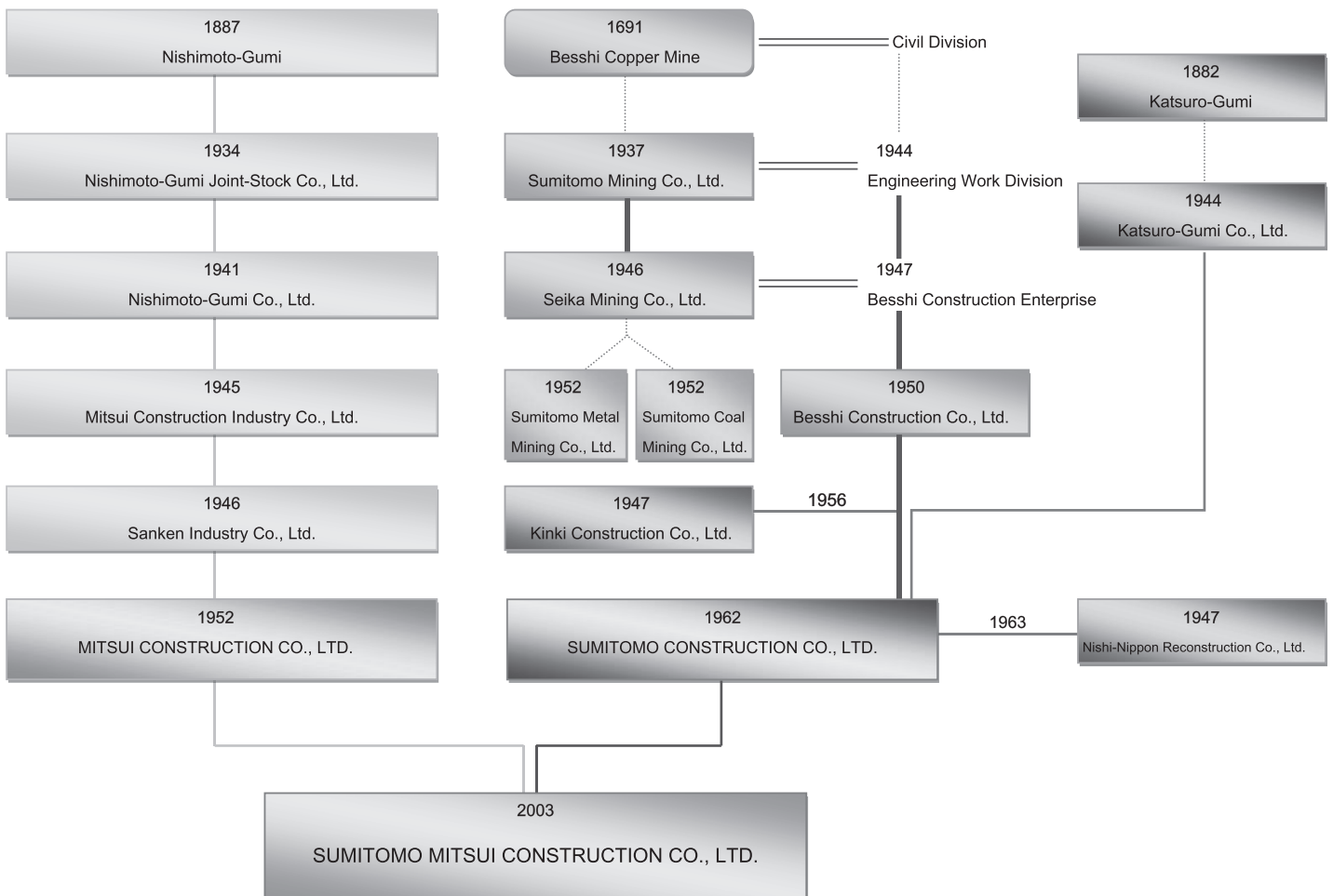
Main Banks

Sumitomo Mitsui Banking Corporation
Sumitomo Mitsui Trust Bank, Limited

Main Shareholders

The Master Trust Bank of Japan, Ltd.
CITY INDEX ELEVENTH CO., Ltd
Mitsui Fudosan Co., Ltd.
Sumitomo Realty & Development Co., Ltd.
Custody Bank of Japan, Ltd.

Corporate History



CORPORATE DATA

HEAD OFFICE

2-1-6 Tsukuda, Chuo-ku,
Tokyo, 104-0051, Japan

INTERNATIONAL DIVISION

2-1-6 Tsukuda, Chuo-ku,
Tokyo, 104-0051, Japan
TEL:81-3-4582-3171
FAX:81-3-4582-3247

OVERSEAS OFFICES

Manila (Philippines)

15th Floor, GT Tower International, 6813
Ayala Avenue corner H.V. Dela Costa Street,
Makati City, Metro Manila, Philippines
TEL:63-2-5304-5300/5301/5302

Guam (USA)

Suite 105-107, IBC Building, J.L. Baker Street,
Harmon Industrial Park, Harmon, Guam 96913
(P.O.Box 9670, Tamuning, Guam 96931)
TEL:1-671-649-7521
FAX:1-671-649-7550

Hanoi (Vietnam)

#502-504, 5th Floor, V-Tower, 649 Kim Ma str., Ba
Dinh Dist., Hanoi, Vietnam
TEL:84-24-3942-8888
FAX:84-24-3942-8808

Singapore

2 Bukit Merah Central #14-01 & 02, Singapore
159835
TEL:65-6933-8000
FAX:65-6933-8001

Jakarta (Indonesia)

Summitmas 2, 20th Floor JL. Jend. Sudirman Kav.
61-62, Jakarta Selatan 12190, Indonesia
TEL:62-21-520-1757
FAX:62-21-525-0905

Bangkok (Thailand)

26/49, 14th Floor, Orakarn Building, Soi Chidlom,
Ploenchit Road, Lumpini, Pathumwan, Bangkok
10330, Thailand
TEL:66-2-250-0560
FAX:66-2-254-7405

Yangon (Myanmar)

#16-06, Crystal office Tower, Kyun Taw Street,
Kamyut Township, Yangon, Myanmar
TEL:95-1-933-9256 / 95-9-25156-5442

Phnom Penh (Cambodia)

(Phnom Penh Center) South Building, 8 floor,
Room No. 871, Street Sothearos (3), Phom 1,
Sangkat Tonle Bassac, Khan Chamkarmon,
Phnom Penh, 120101, Cambodia
TEL:855-78-777-072

SUBSIDIARY COMPANIES IN OVERSEAS

SMCC(Thailand)Co.,Ltd.

26/49, 14th Floor, Orakarn Building, Soi Chidlom,
Ploenchit Road, Lumpini, Pathumwan, Bangkok
10330, Thailand
TEL:66-2-250-0560
FAX:66-2-254-7405

PT. SMCC Utama Indonesia

Summitmas 2, 20th Floor JL. Jend. Sudirman Kav.
61-62, Jakarta Selatan 12190, Indonesia
TEL:62-21-520-1757
FAX:62-21-525-0905

SMCC Construction India Ltd.

201, 2nd Floor, Plot No. -D1, Ras Vilas, Saket
District Centre, Saket, New Delhi 110017, India
TEL:91-11-41392800
FAX:91-11-41652592

SMCC Philippines, Inc.

10F Frabelle Corporate Plaza, 129 Tordesillas
Corner Bautista Salcedo Village Makati City,
Philippines.
TEL:63-2-840-4913
FAX:63-2-840-4912

SMCC Overseas Singapore Pte. Ltd.

2 Bukit Merah Central #14-01 & 02, Singapore
159835
TEL:65-6933-8000
FAX:65-6933-8001

SMCC Malaysia Sdn. Bhd.

Level 13, Suite 13.06, Johor Bahru City Square
(Office Tower)
106-108 Jalan Wong Ah Fook, 80000 Johor Bahru,
Malaysia
TEL:60-7-207-1133
FAX:60-7-207-3311

SMCC Taiwan Co., Ltd.

7F., No.26, Sec. 3, Najing E. Rd., Zhongshan Dist.,
Taipei City, Taiwan (R.O.C.)
TEL:81-3-4582-3171
FAX:81-3-4582-3247

Antara Koh Private Limited

27 Pioneer Road, Singapore 628500
TEL: 65-6862-2822
FAX: 65-6861-1335



**SUMITOMO MITSUI
CONSTRUCTION CO.,LTD.**