Consolidated Financial Statements

MITSUI E&S Co., Ltd.
and Consolidated Subsidiaries

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

MITSUI E&S

Contents

Definition of Abbreviations

Abbreviations	Definition
the Group	MITSUI E&S Co., Ltd. and its consolidated subsidiaries (MITSUI E&S Group)
the Company	MITSUI E&S Co., Ltd. on a standalone basis
2022	Fiscal year ended March 31, 2022
2023	Fiscal year ended March 31, 2023

Exchange Rate During the Period

Currency	2023
U.S. Dollar	133.53 yen

Consolidated Financial Statements

Consolidated Balance Sheets

As of March 31, 2023 and 2022

ASSETS

	Japanese Yen (millions)		U.S.Dollars (thousands)(Note 1(a))
Current Assets	2023	2022	2023
Cash and time deposits (Notes 1(q) , 2(f) and 6)	¥ 45,804	¥ 51,762	$ 343,024
Receivables			
Trade, and contract assets (Note 2(b))	81,851	78,564	612,978
Others	6,586	5,900	49,322
Allowance for doubtful accounts	(354)	(214)	(2,651)
Merchandise and finished goods	6,096	5,762	45,653
Raw materials and supplies	6,137	4,183	45,960
Work in progress	46,799	36,562	350,476
Others	19,710	19,303	147,607
Total current assets	212,629	201,822	1,592,369
Property, Plant and Equipment			
Land (Notes 2(e) and 2(f))	68,544	70,078	513,323
Buildings and structures (Note 2(c) and 2(f))	115,911	130,455	868,052
Machinery, equipment and vehicles (Note 2(c))	82,462	87,110	617,554
Lease assets (Note 2(c))	12,747	12,061	95,462
Construction in progress	3,166	2,160	23,710
	282,830	301,864	2,118,101
Less accumulated depreciation	(167,063)	(183,525)	(1,251,127)
Net property, plant and equipment (Note 2(g))	115,767	118,339	866,974
Intangible Assets			
Intangible assets	15,503	16,042	116,101
Investments and Other Assets			
Investment securities (Notes 2(a) , 2(f) and 9)	68,802	43,280	515,255
Long-term loans (Note 2(f))	2,126	2,130	15,921
Net defined benefit assets (Note 11)	9,957	10,917	74,567
Deferred tax assets (Note 13)	2,984	2,670	22,347
Others (Note 2(a))	12,477	14,249	93,440
Allowance for doubtful accounts	(285)	(299)	(2,134)
Total investments and other assets	96,061	72,947	719,396
Total assets	¥ 439,960	¥ 409,150	$ 3,294,840

The accompanying notes to the consolidated financial statements are integral parts of these statements.

LIABILITIES AND NET ASSETS

	Japanese Yen (millions)		U.S.Dollars (thousands)(Note 1(a))
Current Liabilities	2023	2022	2023
Short-term borrowings (Notes 2(h), 2(i) and 21)	¥ 115,246	¥ 94,615	$ 863,072
Current portion of long-term indebtedness (Notes 2(f) , 2(i) and 21)	14,375	23,101	107,654
Lease obligations	1,863	1,808	13,952
Trade payables	54,939	48,706	411,435
Contract liabilities	25,300	30,901	189,470
Accrued expenses	39,312	4,120	294,406
Accrued income taxes (Note 13)	797	1,381	5,969
Provision for losses on construction contracts (Note 1(l))	14,026	59,608	105,040
Provision for construction warranties (Note 1(k))	2,403	2,780	17,996
Provision for bonuses (Note 1(m))	4,059	4,479	30,398
Others	14,660	17,012	109,788
Total current liabilities	286,980	288,511	2,149,180
Long-term Liabilities			
Long-term indebtedness (Notes 2(f), 2(i) and 21)	11,928	24,658	89,328
Lease obligations	7,061	6,497	52,880
Provision for business restructuring (Note 1(n))	853	1,357	6,388
Net defined benefit liabilities (Note 11)	5,049	5,866	37,812
Deferred tax liabilities			
On revaluation reserve for land (Notes 2(e) and 13)	12,242	12,242	91,680
Others (Note 13)	1,846	3,177	13,825
Asset retirement obligations	1,729	2,219	12,948
Others	1,586	1,674	11,877
Total long-term liabilities	42,294	57,690	316,738
Total liabilities	329,274	346,201	2,465,918
Net Assets (Note 19)			
Share capital	3,830	44,385	28,683
Capital surplus	10,553	18,132	79,031
Retained earnings	42,292	(33,278)	316,723
Treasury stock	(4,633)	(4,664)	(34,696)
Net unrealized holding gains on securities (Note 9)	48	615	359
Unrealized gains (losses) on hedging derivatives	8,310	(5,960)	62,233
Revaluation reserve for land (Note 2(e))	27,601	27,603	206,702
Foreign currency translation adjustments	10,692	2,120	80,072
Remeasurements of defined benefit plans (Note 11)	7,711	8,138	57,747
Subscription rights to shares	133	124	996
Non-controlling interests	4,149	5,734	31,072
Total net assets	110,686	62,949	828,922
Total liabilities and net assets	¥ 439,960	¥ 409,150	$ 3,294,840

Consolidated Statements of Operations

For the Years Ended March 31, 2023 and 2022

	Japanese Yen (millions)		U.S.Dollars (thousands)(Note 1(a))
	2023	2022	2023
Net Sales (Note 3(a))	¥ 262,301	¥ 579,364	$ 1,964,360
Cost of Sales (Note 3(c),(g) and (h))	225,376	550,611	1,687,830
Gross Profit	36,925	28,753	276,530
Selling, general and administrative expenses (Note 3(b),(c))	27,549	38,783	206,314
Operating income (loss)	9,376	(10,030)	70,216
Other Income (Expenses)			
Interest and dividend income	597	3,906	4,471
Interest expenses	(2,882)	(2,713)	(21,583)
Commission expenses	(2,420)	(3,821)	(18,123)
Share of profit (loss) of entities accounted for using equity method	3,811	(14,646)	28,540
Foreign currency exchange gains	4,610	1,212	34,525
Gain on disposal of non-current assets (Note 3(d))	185	2,356	1,385
Gain on sales of investment securities (Note 9)	686	41	5,137
Gain on sales of subsidiaries and affiliates' stocks	2,836	6,583	21,239
Insurance income	1,337	-	10,013
Recovery of extraordinary repair expenses (Note 3(i))	-	1,316	-
Gain on return of assets from retirement benefit trust	-	1,224	-
Loss on disposal of non-current assets (Note 3(e))	(173)	(381)	(1,296)
Loss on impairment of non-current assets (Note 3(f))	-	(83)	-
Loss on sales of investment securities (Note 9)	-	(137)	-
Loss on sales of subsidiaries and affiliates' stocks	(274)	(2,421)	(2,052)
Loss due to transportation accidents	(1,041)	-	(7,796)
Loss on liquidation of business	(108)	-	(809)
Others, net	(560)	350	(4,194)
Total	6,604	(7,214)	49,457
Profit (loss) before income taxes	15,980	(17,244)	119,673
Income Taxes (Note 13)			
Current	1,371	3,374	10,267
Deferred	(1,011)	4,501	(7,571)
	360	7,875	2,696
Profit (loss)	15,620	(25,119)	116,977
Profit (loss) attributable to non-controlling interests	66	(3,294)	494
Profit (loss) attributable to owners of parent	¥ 15,554	¥ (21,825)	$ 116,483

Consolidated Statements of Comprehensive Income

For the Years Ended March 31, 2023 and 2022

	Japanese Yen (millions)		U.S.Dollars (thousands)(Note 1(a))
	2023	2022	2023
Profit (loss)	¥ 15,620	¥ (25,119)	$ 116,977
Other comprehensive income (Note 4)			
Net unrealized holding gains (losses) on securities	(572)	422	(4,284)
Unrealized losses on hedging derivatives	(848)	(1,302)	(6,351)
Foreign currency translation adjustments	2,463	5,671	18,445
Remeasurements of defined benefit plans	(1,111)	2,684	(8,320)
Share of other comprehensive income of affiliates accounted for using equity method	21,921	8,863	164,166
Total	21,853	16,338	163,656
Comprehensive income	¥ 37,473	¥ (8,781)	$ 280,633
Comprehensive income attributable to			
Owners of parent	¥ 37,400	¥ (6,832)	$ 280,086
Non-controlling interests	¥ 73	¥ (1,949)	$ 547

Consolidated Statements of Changes in Net Assets

For the Years ended March 31, 2023 and 2022

	Japanese Yen (millions)											
	Share capital	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains (losses) on securities	Unrealized gains (losses) on hedging derivatives	Revaluation reserve for land	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Subscription rights to shares	Non-controlling interests	Total net assets
Balance as of April 1, 2021	¥ 44,385	¥ 18,396	¥ (11,458)	¥ (4,696)	¥ 193	¥ (9,767)	¥ 27,609	¥ (5,828)	¥ 5,322	¥ 152	¥ 24,173	¥ 88,481
Loss attributable to owners of parent			(21,825)									(21,825)
Change of scope of consolidation			(1)									(1)
Purchases of treasury stock				(2)								(2)
Disposal of treasury stock		(6)		34								28
Transfer from revaluation reserve for land			6									6
Change in ownership interest of parent due to transactions with non-controlling interests		(258)										(258)
Net changes of items other than those in Shareholders' equity					422	3,807	(6)	7,948	2,816	(28)	(18,439)	(3,480)
Total changes during the year		(264)	(21,820)	32	422	3,807	(6)	7,948	2,816	(28)	(18,439)	(25,532)
Balance as of April 1, 2022	¥ 44,385	¥ 18,132	¥ (33,278)	¥ (4,664)	¥ 615	¥ (5,960)	¥ 27,603	¥ 2,120	¥ 8,138	¥ 124	¥ 5,734	¥ 62,949
Issuance of new shares	6,330	4,957										11,287
Capital reduction	(46,885)	46,885										-
Deficit disposition		(60,015)	60,015									-
Profit attributable to owners of parent			15,554									15,554
Purchases of treasury stock				(1)								(1)
Disposal of treasury stock		(7)		32								25
Transfer from revaluation reserve for land			1									1
Change in ownership interest of parent due to transactions with non-controlling interests		601										601
Net changes of items other than those in Shareholders' equity					(567)	14,270	(2)	8,572	(427)	9	(1,585)	20,270
Total changes during the year	(40,555)	(7,579)	75,570	31	(567)	14,270	(2)	8,572	(427)	9	(1,585)	47,737
Balance as of March 31, 2023	¥ 3,830	¥ 10,553	¥ 42,292	¥ (4,633)	¥ 48	¥ 8,310	¥ 27,601	¥ 10,692	¥ 7,711	¥ 133	¥ 4,149	¥ 110,686

	U.S.Dollars (thousands) (Note 1(a))											
	Share capital	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains (losses) on securities	Unrealized gains (losses) on hedging derivatives	Revaluation reserve for land	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Subscription rights to shares	Non-controlling interests	Total net assets
Balance as of April 1, 2022	$ 332,397	$ 135,790	$ (249,217)	$ (34,928)	$ 4,606	$ (44,634)	$ 206,718	$ 15,878	$ 60,945	$ 929	$ 42,942	$ 471,426
Issuance of new shares	47,405	37,123										84,528
Capital reduction	(351,119)	351,119										-
Deficit disposition		(449,450)	449,450									-
Profit attributable to owners of parent			116,483									116,483
Purchases of treasury stock				(7)								(7)
Disposal of treasury stock		(52)		239								187
Transfer from revaluation reserve for land			7									7
Change in ownership interest of parent due to transactions with non-controlling interests		4,501										4,501
Net changes of items other than those in Shareholders' equity					(4,247)	106,867	(16)	64,194	(3,198)	67	(11,870)	151,797
Total changes during the year	(303,714)	(56,759)	565,940	232	(4,247)	106,867	(16)	64,194	(3,198)	67	(11,870)	357,496
Balance as of March 31, 2023	$ 28,683	$ 79,031	$ 316,723	$ (34,696)	$ 359	$ 62,233	$ 206,702	$ 80,072	$ 57,747	$ 996	$ 31,072	$ 828,922

Consolidated Statements of Cash Flows

For the Years Ended March 31, 2023 and 2022

	Japanese Yen (millions)		U.S.Dollars (thousands)(Note 1(a))
Cash Flows from Operating Activities :	2023	2022	2023
Profit (loss) before income taxes	¥ 15,980	¥ (17,244)	$ 119,673
Adjustments to reconcile Profit (loss) before income taxes to net cash provided by (used in) operating activities			
Depreciation and amortization	7,044	10,649	52,752
Loss on impairment of non-current assets	-	83	-
Amortization of goodwill	901	1,048	6,748
Increase of allowance for doubtful accounts	154	161	1,153
Increase in net defined benefit liabilities	1,108	3,183	8,298
Decrease in net defined benefit assets	1,220	438	9,136
Decrease in provision for losses on construction contracts	(45,523)	(12,063)	(340,920)
Increase in provision for repairs	-	417	-
Interest and dividend income	(597)	(3,906)	(4,471)
Interest expenses	2,882	2,713	21,583
Share of (profit) loss of entities accounted for using equity method	(3,811)	14,646	(28,540)
Foreign currency exchange losses, net	30	3,854	225
Loss (gain) on sales of investment securities, net	(686)	96	(5,137)
Gain on sales of subsidiaries and affiliates' stocks	(2,562)	(4,162)	(19,187)
Gain on disposal of non-current assets, net	(12)	(1,975)	(89)
Insurance income	(1,337)	-	(10,013)
Changes in assets and liabilities :			
Decrease (increase) in			
Trade receivables and contract assets	(6,500)	(49,246)	(48,678)
Inventories	(13,055)	16,862	(97,768)
Other assets	(1,916)	(4,048)	(14,349)
Increase (decrease) in			
Trade payables	44,101	23,998	330,270
Contract liabilities	(3,552)	43,495	(26,601)
Other liabilities	(3,138)	(51,128)	(23,500)
Others, net	(2,431)	(2,635)	(18,206)
Sub-total	(11,700)	(24,764)	(87,621)
Interest and dividend received	1,143	10,172	8,560
Interest paid	(2,982)	(2,864)	(22,332)
Proceeds from insurance income	1,337	-	10,013
Income taxes paid	(2,842)	(2,810)	(21,284)
Net cash provided by (used in) operating activities	¥ (15,044)	¥ (20,266)	$ (112,664)

	Japanese Yen (millions)		U.S.Dollars (thousands)(Note 1(a))
Cash Flows from Investing Activities :	2023	2022	2023
Net increase in time deposits	(1,265)	(80)	(9,474)
Capital expenditure	(7,393)	(8,981)	(55,366)
Proceeds from sales of non-current assets	843	10,134	6,313
Proceeds from sales of investment securities	1,061	262	7,946
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	3,062	5,941	22,931
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	(637)	(60,092)	(4,770)
Purchases of shares of subsidiaries and affiliates	-	(1,711)	-
Proceeds from sales of shares of subsidiaries and affiliates	543	2,172	4,066
Payments for investments in capital of subsidiaries and affiliates	-	(800)	-
Disbursements of loans receivable	(17)	(13,043)	(127)
Collection of loans receivable	617	367	4,621
Payments for transfer of business	-	(4,596)	-
Others, net	186	(497)	1,393
Net cash provided by (used in) investing activities	¥ (3,000)	¥ (70,924)	$ (22,467)

Cash Flows from Financing Activities :			
Net increase in short-term borrowings	20,630	28,053	154,497
Proceeds from long-term borrowings	1,700	15,510	12,731
Repayments of long-term borrowings	(8,165)	(25,464)	(61,147)
Repayments of lease obligations	(1,654)	(2,556)	(12,387)
Repayments on bonds	(15,000)	(15,000)	(112,334)
Proceeds from issuance of preferred shares	9,000	-	67,401
Proceeds from issuance of subscription rights to shares	52	-	389
Proceeds from issuance of shares resulting from exercise of subscription rights to shares	2,270	-	17,000
Dividends paid to non-controlling interests	(95)	(1,143)	(711)
Purchases of shares of subsidiaries not resulting in change in scope of consolidation	-	(291)	-
Proceeds from sales of shares of subsidiaries not resulting in change in scope of consolidation	747	1,352	5,594
Others, net	31	346	232
Net cash provided by (used in) financing activities	¥ 9,516	¥ 807	$ 71,265

Effect of Exchange Rate Changes on Cash and Cash Equivalents	1,178	5,659	8,822
Net decrease in Cash and Cash Equivalents	(7,350)	(84,724)	(55,044)
Increase due to changes in scope of consolidation	-	60	-
Cash and Cash Equivalents at Beginning of Year	50,818	135,482	380,574
Cash and Cash Equivalents at End of Year (Notes 1(q) and 6)	¥ 43,468	¥ 50,818	$ 325,530

Notes to Consolidated Financial Statements

1. Significant Accounting and Reporting Policies

The following is a summary of the significant accounting and reporting policies adopted by the Mitsui E&S Group (the "Group"), which consists of Mitsui E&S Holdings Co., Ltd. (name changed to MITSUI E&S Co., Ltd. on April 1, 2023) (the "Company") and its consolidated subsidiaries (the "Subsidiaries") in the preparation of the accompanying consolidated financial statements.

(a) Basis of Presenting Consolidated Financial Statements

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

The accounts of the overseas Subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile ("Local GAAP") and significant differences between Japanese GAAP and Local GAAP are adjusted in consolidation. The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of the Group prepared in accordance with Japanese GAAP and filed with the appropriate Finance Bureau of the Ministry of Finance as required by the "Financial Instruments and Exchange Act." Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2023, which was ¥133.53 to U.S. $1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

(b) Translation of Foreign Currency Accounts

Under Japanese accounting standard for foreign currency translation, monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing at each balance sheet date with the resulting gain or loss included in the current statements of income.

Assets and liabilities of foreign subsidiaries and affiliates are translated into Japanese yen at the exchange rates in effect at each balance sheet date, except for share capital and capital surplus, which are translated at historical rates. Revenue and expense accounts are also translated at the exchange rates in effect at each balance sheet date.

(c) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Group, over which the Company has power of control through majority voting rights or existence of certain conditions requiring control by the Company.

Material inter-company balances, transactions and profits have been eliminated in consolidation.

The assets and liabilities of the Subsidiaries, including the portion attributable to non-controlling shareholders, were evaluated using the fair value at the time the Company acquired control of the respective subsidiaries.

Investments in all significant unconsolidated subsidiaries and affiliates are accounted for using equity method.

Goodwill is generally amortized over certain periods on the straight-line method.

Fiscal years of some of the Subsidiaries end on the 31st of December. The Company consolidates these subsidiaries' financial statements as of each subsidiary's latest fiscal year and significant transactions occurred between each subsidiary's fiscal year-end and the Company's fiscal year-end are adjusted on consolidation.

(d) Securities

The Company and the domestic Subsidiaries examined the intent of holding each security and classified those securities as securities held for trading purposes ("trading securities"), debt securities intended to be held to maturity ("held-to-maturity debt securities"), equity securities issued by subsidiaries and affiliated companies, and all other securities that are not classified in any of the above categories ("available-for-sale securities"). The Company and the domestic Subsidiaries did not have trading securities or held-to-maturity debt securities.

Equity securities issued by the Subsidiaries and affiliated companies, which are not accounted for using equity method, are stated at moving-average cost.

Available-for-sale securities other than shares without available fair market values are mainly stated at fair market value (valuation difference is recognized directly in a separate component of net assets, and costs of securities sold are calculated using moving average cost). The fair market value is calculated using mainly market prices on the consolidated balance sheet date. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on sale of such securities are computed using moving-average cost. Available-for-sale securities without fair market value available are stated at moving-average cost.

If the market value of held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliated companies which are not accounted for using equity method, and available-for-sale securities decline significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of the decline. If the fair market values of these securities are not readily available, they should be written down to net asset value with a corresponding charge in the statements of income in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

(e) Derivative Transaction and Hedge Accounting

Japanese accounting standard for financial instruments requires the Company and the domestic Subsidiaries to measure derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.
If derivative financial instruments are used as hedges and meet certain hedging criteria, the Group defers recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the instruments are applied to hedged items.
In cases where forward foreign exchange contracts are used as hedges and meet certain hedging criteria, the forward foreign exchange contracts and hedging items are accounted for in the following manner.

1) If forward foreign exchange contracts are entered into to hedge existing foreign currency receivables or payables,
   i. the difference, if any, between the Japanese yen amount of the hedged foreign currency receivables or payables converted by the contracted forward foreign exchange rate and the book value of the receivables or payables is recognized in the statement of income of the fiscal year in which such contracts are entered into, and
   ii. the difference between the Japanese yen amount converted by the contracted forward foreign exchange rate and the Japanese yen amount by spot rate at the trade date of the contract is allocated to every fiscal period over the term of the contract.

2) If forward foreign exchange contracts are entered into to hedge a future transaction (be contracted but not stated in financial statements) denominated in foreign currency, recognition of gains and losses resulting from fair value of the forward foreign exchange contracts are deferred until the contracts are applied to the hedged item.

Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was allocated.

(f) Inventories

Merchandise, finished goods, raw materials and supplies are stated at cost determined mainly by the moving-average method (Balance sheet value reflects downturn in profitability). Work in progress is stated using identified cost method (Balance sheet value reflects downturn in profitability). Construction costs, which are accumulated in inventory, consist of direct materials, labor, other items directly attributable to each contract and an allocable portion of general manufacturing and construction overheads.

(g) Property, Plant and Equipment and Depreciation

Depreciation of plant and equipment is mainly computed using the straight-line method over their estimated useful lives. Ordinary maintenance and repairs are charged to the profit and loss account as incurred.

(h) Intangible Assets

Intangible assets primarily consist of software, customer-related assets and goodwill. Software for own use is depreciated using the straight-line method over the estimated useful life (five years). Customer-related assets is also amortized using the straight-line method based on effected period (mainly eighteen years). Goodwill is generally amortized using the straight-line method over a reasonable period in which the economic benefits are expected to be realized.

(i) Finance Lease Transactions without Transfer of Ownership

Lessee:
The method of amortization of the lease assets related to finance lease transactions without transfer of ownership is by the straight-line method corresponding to lease period. The residual value is the guaranteed residual value in case such value is set forth in the lease contract but otherwise is zero value.
The method of amortization of the lease assets related to finance lease transactions that transfer ownership is based on the same standard as the depreciation method that is applied for self-owned non-current assets.

Lessor:
Revenues and costs of sales on finance lease transactions, other than those that transfer ownership of the leased property to the lessee, are recognized when lease payments are received.

(j) Allowance for Doubtful Accounts

In order to provide for credit losses, non-recoverable amount is recorded based on write-off ratio for general accounts. For doubtful accounts, collectability is examined and recoverable amount is estimated individually.

(k) Provision for Construction Warranties

Provision for construction warranties is provided based on the estimated amounts calculated by using mainly the average proportion of construction warranties against amounts of construction revenue for past two years.

(l) Provision for Losses on Construction Contracts

Provision for losses on construction contracts, etc., is provided based on an estimate of the total losses which can probably occur for the next fiscal year and beyond with respect to construction projects, etc., on which eventual losses are deemed inevitable and amounts thereof can reasonably be estimated.

(m) Provision for Bonuses

Of the estimated amount of bonuses to be paid, the amount estimated to cover the bonus payment for services rendered in the current fiscal year is recorded in order to prepare for payment of bonuses to employees.

(n) Provision for Business Restructuring

Provision for business restructuring is provided based on an estimate of the total costs or losses which are expected to be incurred with the business restructuring.

(o) Employees' Severance and Retirement Benefits

In calculating retirement benefit obligations, the benefit formula basis is used to allocate projected retirement benefits over the period to the end of this consolidated fiscal year. Actuarial gains and losses are recognized in the Consolidated Statements of Operations commencing with the following year using the straight-line method mainly for five or ten years. Prior service costs are recognized in the Consolidated Statements of Operations using the straight-line method mainly for one or five years.

After being adjusted for tax effect, unrecognized actuarial gains and losses, unrecognized prior service costs are added to "Remeasurements of defined benefit plans", an item within "Accumulated other comprehensive income (net assets)."

(p) Revenue Recognition

The Group recognizes revenue based on the following five-step approach.
Step 1: Identify the contract with the customer
Step 2: Identify performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the separate performance obligations
Step 5: Recognize revenue when (or as) each performance obligation is satisfied
Details of major performance obligations in principal businesses related to revenue from contracts with customers of the Company and its consolidated subsidiaries, and normal timing of satisfying these performance obligations (normal timing of recognizing revenue) are as follows:

1) Sales of products

The Group is engaged in sales and provision of after-sales services of marine propulsion engines etc. in the Machinery business, and assumes performance obligations to deliver goods or services on its own under contracts with customers. As for these performance obligations, revenue is mainly recognized when goods or services are delivered to customers because the Group determines that the control is transferred to the customers when the goods or services are delivered. As for sales of parts related to after-sales services in the Machinery business, the alternative treatment stipulated in paragraph 98 of the "Implementation Guidance on Accounting Standard for Revenue Recognition" is applied, and revenue is recognized when the parts are shipped if the period from the shipment to the transfer of the control of the parts to the customer is a standard period. In many cases, consideration for transactions is received within three months from the time when the performance obligation is satisfied, and does not contain any significant financial component.

2) Construction contracts and provision of services

The Group has entered into various long-term construction contracts, such as contracts to build cranes in the Machinery business, and agreements to provide services, etc. For these construction contracts and the provision of services, because the Group has determined that the actual costs incurred are proportional to the work progress in satisfying the performance obligations, the Group principally estimates the work progress towards satisfaction of the performance obligations and recognizes revenue over a certain period of time based on this work progress. The work progress is measured for each contract based on the proportion of construction cost incurred by the balance sheet date to the estimated total construction cost. Consideration for these performance obligations is received in stages during the contract period based on payment terms under the contract with the customer, separately from satisfaction of the performance obligations in normal cases, and the remaining amount is received after a certain period of time from the time when all the performance obligations are satisfied. The consideration does not contain any significant financial component.

(q) Cash and Cash Equivalents

In preparing the Consolidated Statements of Cash Flows, Cash and Cash Equivalents consists of cash on hand, readily available deposits including short-term loans and short-term highly liquid investments with maturities not exceeding three months at the time of purchase which involve only an insignificant risk in their movements of value.

(r) Income Taxes

Deferred income tax is recognized from temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting.
The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

(s) Significant Accounting Estimates

1) **Estimating total construction cost for provision for losses on construction contracts**

As stated in "1. Significant Accounting and Reporting Policies, (l) Provision for Losses on Construction Contracts" in the notes to consolidated financial statements, in order to provide for losses on construction contracts, the Group records an estimated amount of loss for the following and subsequent fiscal years as Provision for Losses on Construction Contracts when a loss is expected to be recognized for undelivered construction, etc. in the fiscal year under review and such amounts can be reasonably estimated.

The total amount of provision for losses on construction contracts recorded as of March 31, 2022 and 2023, and major components were as follows.

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2023	2022	2023
Provision for losses on construction contracts	¥ 14,026	¥ 59,608	$ 105,040
Of the above, provision for losses on construction contracts related to the civil engineering construction project for a thermal power plant in the Republic of Indonesia	12,781	58,430	95,716

The estimate for the total construction cost for the aforementioned construction work was calculated by specifying the content of all the operations required for the completion of the construction contract, and including the estimated cost of executing that content in the budget. With respect to this particular construction, however, the power plants has already commenced commercial operation, and the remaining work is limited to parts of the plants that will not affect its operation. Meanwhile, financial uncertainty has decreased compared to the previous fiscal year, as a result of the settlement of costs with related companies and the conclusion of forward foreign exchange contracts.

2) **Valuation of goodwill**

The total amount of goodwill recorded as of March 31, 2022 and 2023, and major components were as follows.

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2023	2022	2023
Goodwill	¥ 7,626	¥ 7,996	$ 57,111
Of the above, goodwill allocated to the ship engineering business which arose when MES Germany Beteiligungs GmbH, a consolidated subsidiary in the ship segment of the Group located in Germany, acquired control of TGE Marine AG	7,608	7,977	56,976

MES Germany Beteiligungs GmbH applies International Financial Reporting Standards (IFRS), and for the cash generating unit to which goodwill is included, impairment tests are required to be carried out on an annual basis in addition to when indicators of impairment have been identified.

The value in use is used for the recoverable amount for impairment tests on goodwill, and the future cash flows that are used to measure this value in use are estimated on the basis of the medium-term business plan for the ship engineering business, including the growth forecast for the LNG tanker market, etc. and the medium-term plan for orders.

Although the Group deems that the possibility of a significant impairment loss arising is low based on the result of the most recent impairment test, if the recoverable amount falls below the carrying amount, the carrying amount will be reduced to the recoverable amount, and the amount of that decrease in carrying amount will be recognized as impairment loss, and it is possible that such impairment loss could have a significant effect on the Group's financial position, business results and cash flow position.

3) **Revenue recognition based on the work progress towards satisfaction of performance obligations**

As stated in "1. Significant Accounting and Reporting Policies, (p) Revenue Recognition, 2) Construction contracts and provision of services" in the notes to consolidated financial statements, when the control of goods or services is transferred to the customer over a certain period of time, the work progress towards satisfaction of performance obligations is estimated and revenue is recognized based on this work progress.

In applying the method where the work progress towards satisfaction of performance obligations is estimated and revenue is recognized based on this work progress, the Group recognizes revenue based on the work progress calculated at the proportion of construction cost incurred according to the progress of construction as at the end of the current fiscal year to the estimated total construction cost. The amount recorded in the consolidated financial statements for the year ended March 31, 2023, was as follows:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2023	2022	2023
Revenue based on the work progress towards satisfaction of performance obligations	¥ 82,211	¥ 338,173	$ 615,674

If there is a change in the estimate for the total cost of construction arising from a need to revise the assumptions upon which such estimate was based, the effect of such change shall be recognized for the fiscal year in which such effect can be reliably estimated. It is possible that there will be changes from the initial estimate of the total construction cost due to changes in the incurred costs arising from assumptions, the progress of construction, etc., and that might have a significant effect on the Group's financial position, business results and cash flow position.

(t) Accounting Standards and Guidance Issued but not yet Applied

- “Accounting Standard for Current Income Taxes, etc.” (ASBJ Statement No. 27, October 28, 2022)
- “Accounting Standard for Presentation of Comprehensive Income” (ASBJ Statement No. 25, October 28, 2022)
- “Implementation Guidance on Tax Effect Accounting” (ASBJ Guidance No. 28, October 28, 2022)

1) Outline:

In February 2018, ASBJ Statement No. 28 “Partial Amendments to Accounting Standard for Tax Effect Accounting, etc.” (“ASBJ Statement No. 28, etc.”) was issued, thereby completing the transfer of jurisdiction concerning the practical guidelines on tax effect accounting from The Japanese Institute of Certified Public Accountants to the Accounting Standards Board of Japan. The above statement was issued based on a debate regarding the following two points, which had, in the course of deliberations for the aforementioned transfer of jurisdiction, been scheduled to be reviewed after the issuance of ASBJ Statement No. 28, etc.

- Accounting classification for tax expenses (taxation of other comprehensive income)
- Tax effects concerning sales of the shares of subsidiaries, etc. (shares of subsidiaries or shares of affiliates) under the group taxation regime

2) Planned date of application:

To be applied from the beginning of the fiscal year ending March 31, 2025.

3) Impact of application of the accounting standards:

The impacts of the application of the “Accounting Standard for Current Income Taxes, etc.” and others on the Group’s consolidated financial statements are currently being evaluated.

(u) Changes in Presentation

Consolidated Balance Sheets

“Short-term loans,” which was presented individually in “Current assets” in the year ended March 31, 2022, has been included in “Others” from the year ended March 31, 2023, since its materiality in amount has decreased. Consolidated financial statements for the year ended March 31, 2022, have been reclassified in order to reflect this change in presentation.
As a result, in the consolidated balance sheets as of March 31, 2022, ¥18 million previously presented in “Short-term loans” under “Current assets” has been reclassified as “Others.”

“Advances from customers”, which was presented individually in “Current liabilities” in the year ended March 31, 2022, has been included in “Others” from the year ended March 31, 2023, since its materiality in amount has decreased. Consolidated financial statements for the year ended March 31, 2022, have been reclassified in order to reflect this change in presentation.
As a result, in the consolidated balance sheets as of March 31, 2022, ¥329 million previously presented in “Advances from customers” under “Current liabilities” has been reclassified as “Others.”

Consolidated Statements of Operations

“Gain on valuation of derivatives,” which was presented individually in “Other income” in the year ended March 31, 2022, did not arise in the year ended March 31, 2023. Consolidated financial statements for the year ended March 31, 2022, have been reclassified in order to reflect this change in presentation.
As a result, in the consolidated statements of operations for the year ended March 31, 2022, ¥20 million previously presented in “Gain on valuation of derivatives” under “Other income” has been reclassified as “Others, net.”

Consolidated Statements of Cash Flows

A part of “Decrease (increase) in trade receivables” which was presented individually in “Cash Flows from Operating Activities” in the year ended March 31, 2022, has been split and included in “Increase (decrease) in contract liabilities” and “Increase (decrease) in other liabilities” from the year ended March 31, 2023, for the purpose of providing a clarified presentation that better reflects the actual situation, taking the recent withdrawal from the ship business as an opportunity. “Decrease (increase) in trade receivables,” which was presented individually in “Cash Flows from Operating Activities” in the year ended March 31, 2022, has been renamed as “Decrease (increase) in trade receivables and contract assets” from the year ended March 31, 2023. Consolidated financial statements for the year ended March 31, 2022, have been reclassified in order to reflect these changes in presentation.
As a result, in the consolidated statements of cash flows for the year ended March 31, 2022, (¥67,372) million previously presented in “Decrease (increase) in trade receivables” under “Cash Flows from Operating Activities” and ¥10,493 million previously presented in “Increase (decrease) in other liabilities” have been reclassified as (¥49,246) million in “Decrease (increase) in trade receivables and contract assets,” ¥43,495 million in “Increase (decrease) in contract liabilities”, and (¥51,128) million in “Increase (decrease) in other liabilities.”

“Purchases of investment securities,” which was presented individually in “Cash Flows from Investing Activities” in the year ended March 31, 2022, has been included in “Others, net” from the year ended March 31, 2023, since its materiality in amount has decreased. Consolidated financial statements for the year ended March 31, 2022, have been reclassified in order to reflect this change in presentation.
As a result, in the consolidated statements of cash flows for the year ended March 31, 2022, ¥(1) million previously presented in “Purchases of investment securities” under “Cash Flows from Investing Activities” has been reclassified as “Others, net.”

2. Consolidated Balance Sheets

(a) Investments in Unconsolidated Subsidiaries and Affiliates

Investments in unconsolidated subsidiaries and affiliates included in investment securities as of March 31, 2023 and 2022 were ¥65,929 million ($493,739 thousand) and ¥39,199 million, respectively. Investments in unconsolidated subsidiaries and affiliates included in other assets as of March 31, 2023 and 2022 were ¥9,775 million ($73,205 thousand) and ¥11,345 million, respectively.

(b) Trade Receivables from Contracts with Customers and Contract Assets

The notes receivable, accounts receivable and contract assets (arising from contracts with customers and contract assets) as of March 31, 2023 and 2022 were as follows:

	Japanese Yen (millions)		U.S. Dollars (thousands)
	2023	2022	2023
Notes receivable	¥ 4,928	¥ 4,689	$ 36,906
Accounts receivable	50,584	46,074	378,821
Contract assets	26,330	27,788	197,184

(c) Accumulated Impairment Losses Included in Accumulated Depreciation

Accumulated impairment losses included in accumulated depreciation as of March 31, 2023 and 2022 were ¥13,404 million ($100,382 thousand) and ¥14,638 million, respectively.

(d) Contingent Liabilities

1) Contingent liabilities of the Group as of March 31, 2023 and 2022 were as follows:

	Japanese Yen (millions)		U.S. Dollars (thousands)
	2023	2022	2023
Guarantees of bank loans and other indebtedness	¥ 1,314	¥ 1,446	$ 9,840

2) Others

Two companies, namely, Burmeister & Wain Scandinavian Contractor A/S and BWSC (Mauritius) Ltd., consolidated subsidiaries of Mesco Denmark A/S, received a document giving notice of additional levies in August 2020, as a result of tax examinations for the years from 2016 to 2019 by the Mauritius Revenue Authority. However, the Group believes that the two companies that received the indication have appropriately filed tax returns in accordance with the local tax law, and has submitted a written counterargument against the additional levies to the authorities. Therefore, the impacts of this indication have not been recorded as liabilities in the consolidated financial statements for the year ended March 31, 2023, and the Company recognizes that this will have no major impact on its operating results in the future.

(e) Revaluation Reserve for Land

The land used for business operations is revaluated based on real estate tax value on March 31, 2000, in accordance with Enforcement Ordinance for the Law Concerning Revaluation Reserve for Land (the "Law") effective March 31, 1998. The related unrealized gain, net of income taxes was recorded as "Revaluation reserve for land" in Net assets and the deferred income tax effects were recorded as Deferred tax liabilities on "Revaluation reserve for land" in Long-term liabilities.
According to the Law, revaluation of the land is not permitted at any time after the above revaluation even in cases where the fair value of the land declines. Such unrecorded revaluation losses are ¥31,032 million ($232,397 thousand) and ¥30,862 million as of March 31, 2023 and 2022, respectively. That amounts related to rental properties are ¥10,523 million ($78,806 thousand) and ¥9,407 million as of March 31, 2023 and 2022, respectively.

(f) Pledged Assets

Assets pledged as collateral for long-term indebtedness as of March 31, 2023 and 2022 were as follows:

	Japanese Yen (millions)		U.S. Dollars (thousands)
	2023	2022	2023
Land	¥ 2,692	¥ 3,240	$ 20,160
Buildings and structures	1,273	1,387	9,533
Investment securities	638	638	4,778
Cash and time deposits	26	24	195
Long-term loans	2,095	2,095	15,689
Total	¥ 6,724	¥ 7,385	$ 50,355

Long-term indebtedness secured by the above pledged assets as of March 31, 2023 and 2022 were as follows:

	Japanese Yen (millions)		U.S. Dollars (thousands)
	2023	2022	2023
Long-term indebtedness	¥ 1,699	¥ 1,981	$ 12,724

(note) Long-term indebtedness include the current portion.

(g) Tax Purpose Reduction Entry

The amounts of tax purpose reduction entries deducted from the acquisition cost of property, plant and equipment acquired through national subsidies, etc. as of March 31, 2023 and 2022 were ¥898 million ($6,725 thousand) and ¥898 million, respectively.

(h) Unexecuted Balance of Overdraft Facilities and Lending Commitments

The unexecuted balance of overdraft facilities and lending commitments at the Group as of March 31, 2023 and 2022 were as follows:

	Japanese Yen (millions)		U.S. Dollars (thousands)
	2023	2022	2023
Total overdraft facilities and lending commitments	¥ 135,351	¥ 119,401	$ 1,013,637
Less amounts currently executed	90,751	73,501	679,630
Unexecuted balance	¥ 44,600	¥ 45,900	$ 334,007

(i) Financial Covenants

Long-term borrowings include those based on syndicated loan contracts and commitment line contracts entered into between the Company and financial institutions, which are subject to financial covenants. Main covenants are as follows:

Syndicated loans (Long-term borrowings, current portion of long-term borrowings):

- At the end of each fiscal year, total shareholders' equity in the consolidated balance sheets must be maintained above a defined level.
- Ratings by rating agencies must be maintained above a defined level.

Commitment line contracts (short-term borrowings):

- At the end of each fiscal period (including quarter period), total shareholders' equity in the consolidated balance sheets must be maintained above a defined level.

The balance of short-term borrowings and long-term borrowings based on such contracts as of March 31, 2023 and 2022 were as follows:

	Japanese Yen (millions)		U. S. Dollars (thousands)
	2023	2022	2023
Short-term borrowings	¥ 90,741	¥ 72,491	$ 679,555
Long-term borrowings	-	1,500	-
Total	¥ 90,741	¥ 73,991	$ 679,555

(note) Long-term borrowings include the current portion.

3. Consolidated Statements of Operations

(a) Revenue from Contracts with Customers

For net sales, revenue from contracts with customers and other revenues are not stated separately. Revenue from contracts with customers is stated in Note 16 “Revenue Recognition (a) Disaggregation of Revenue."

(b) Main Expense Items and Amounts under Selling, General and Administrative Expenses are as Follows:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2023	2022	2023
Remuneration, salaries and allowances for directors (and other officers)	¥ 11,942	¥ 17,286	$ 89,433

(c) Costs Relating to Research and Development Activities Included in the Profit and Loss Account as Incurred are as Follows:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2023	2022	2023
Costs relating to research and development activities	¥ 1,762	¥ 2,101	$ 13,196

(d) Details of Gain on Disposal of Non-current Assets are as Follows:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2023	2022	2023
Buildings and structures	¥ 68	¥ 22	$ 509
Machinery, equipment and vehicles	6	2,516	45
Land	98	2	734
Others	13	18	97
Removal cost	-	(202)	-
Total	¥ 185	¥ 2,356	$ 1,385

(e) Details of Loss on Disposal of Non-current Assets are as Follows:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2023	2022	2023
Buildings and structures	¥ 6	¥ 77	$ 45
Machinery, equipment and vehicles	54	21	404
Land	9	-	67
Others	13	151	98
Removal cost	91	132	682
Total	¥ 173	¥ 381	$ 1,296

(f) Loss on Impairment of Non-current Assets

The Group adopted the accounting standard for impairment of non-current assets. The non-current assets are grouped by each segment. Idle non-current assets are grouped individually. The book value of the non-current assets is reduced to the collectable amount.

The loss on impairment of non-current assets for the years ended March 31, 2023 and 2022 were comprised of the following.

2023

Not applicable

2022

Location	: Chuo-ku, Tokyo and Ichihara City, Chiba Prefecture
Major use	: Business assets
Asset category	: Construction in progress, etc.
Amount	: ¥55 million
Reason	: Deterioration of business environment

Location	: Chiba City, Chiba Prefecture and Fukuoka City, Fukuoka Prefecture
Major use	: Assets to be disposed
Asset category	: Facilities attached to buildings, etc.
Amount	: ¥28 million
Reason	: Determination of disposal

(g) Ending Inventory is Presented at an Amount after Reduction of Book Value due to Declining Profitability, and Cost of Sales Includes Loss on Valuation of Inventories, as Follows (Deduction of Reversal of the Provision from Cost of Sales is Shown in Brackets):

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2023	2022	2023
Loss on valuation of inventories	¥ (60)	¥ (88)	$ (449)

(h) Provision for Loss on Construction Contracts Included in the Cost of Sales is as Follows (Deduction of Reversal of the Provision from Cost of Sales is Shown in Brackets):

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2023	2022	2023
Provision for loss on construction contracts	¥ (45,582)	¥ (17,436)	$ (341,361)

(i) Details of Recovery of Extraordinary Repair Expenses are as Follows:

In the year ended March 31, 2020, the estimated amount of repair expenses and related expenses paid for FPSO Cidade do Rio de Janeiro MV14, of which charter services were provided by MODEC, Inc. that was a consolidated subsidiary of the Company (currently, affiliate accounted for using equity method) and its consolidated subsidiaries (whose fiscal year ends in December) off the coast of Brazil, were recorded as extraordinary repair expenses. However, in the year ended March 31, 2022, because the extraordinary repair expenses could be partially recovered from affiliates, the recovered amount was fully recorded in recovery of extraordinary repair expenses.

4. Comprehensive Income

Each component of other comprehensive income for the years ended of March 31, 2023 and 2022 were the following:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2023	2022	2023
Net unrealized holding gains (losses) on securities:			
Amount of generation at this fiscal term	¥ 119	¥ 156	$ 891
Amount of rearrangement adjustment	(917)	340	(6,867)
Before adjusting the tax effect	(798)	496	(5,976)
Tax effect	226	(74)	1,692
Net unrealized holding gains (losses) on securities	(572)	422	(4,284)
Unrealized losses on hedging derivatives:			
Amount of generation at this fiscal term	(1,430)	(2,029)	(10,709)
Amount of rearrangement adjustment	-	592	-
Before adjusting the tax effect	(1,430)	(1,437)	(10,709)
Tax effect	582	135	4,358
Unrealized losses on hedging derivatives	(848)	(1,302)	(6,351)
Foreign currency translation adjustments:			
Amount of generation at this fiscal term	2,463	5,787	18,445
Amount of rearrangement adjustment	-	(116)	-
Before adjusting the tax effect	2,463	5,671	18,445
Tax effect	-	-	-
Foreign currency translation adjustments	2,463	5,671	18,445
Remeasurements of defined benefit plans:			
Amount of generation at this fiscal term	1,788	6,953	13,390
Amount of rearrangement adjustment	(3,244)	(3,294)	(24,294)
Before adjusting the tax effect	(1,456)	3,659	(10,904)
Tax effect	345	(975)	2,584
Remeasurements of defined benefit plans	(1,111)	2,684	(8,320)
Share of other comprehensive income of affiliates accounted for using equity method:			
Amount of generation at this fiscal term	21,954	8,861	164,413
Amount of rearrangement adjustment	(33)	2	(247)
Share of other comprehensive income of affiliates accounted for using equity method	21,921	8,863	164,166
Total	¥ 21,853	¥ 16,338	$ 163,656

5. Consolidated Statements of Changes in Net Assets

(a) Class and number of issued shares

2023

	Number of shares (Thousands of shares)			
	At the beginning of the period	Increase in the period	Decrease in the period	At the end of the period
Common stock	83,099	6,638	-	89,737
Class-A preferred shares	-	18,000	-	18,000
Total	83,099	24,638	-	107,737

(note 1) The increase of 6,638 thousand shares in the number of Common stock issued is due to the exercise of subscription rights to shares.

(note 2) The increase of 18,000 thousand shares in the number of Class-A preferred shares issued is due to the issuance of new shares by third-party allotment.

2022

	Number of shares (Thousands of shares)			
	At the beginning of the period	Increase in the period	Decrease in the period	At the end of the period
Common stock	83,099	-	-	83,099

(b) Class and number of treasury stock

2023

	Number of shares (Thousands of shares)			
	At the beginning of the period	Increase in the period	Decrease in the period	At the end of the period
Common stock	2,239	4	16	2,227

(note 1) Reason for the increase in the number of shares is as follows:

Increase due to requests for the purchase of shares less than one share unit: 4 thousand shares

(note 2) Reason for the decrease in the number of shares is as follows:

Decrease due to requests for the additional purchase of shares less than one share unit: 0 thousand shares

Decrease due to the exercise of subscription rights to shares (stock options): 16 thousand shares

2022

	Number of shares (Thousands of shares)			
	At the beginning of the period	Increase in the period	Decrease in the period	At the end of the period
Common stock	2,250	5	16	2,239

(note 1) Reason for the increase in the number of shares is as follows:

Increase due to requests for the purchase of shares less than one share unit: 5 thousand shares

(note 2) Reason for the decrease in the number of shares is as follows:

Decrease due to requests for the additional purchase of shares less than one share unit: 0 thousand shares

Decrease due to the exercise of subscription rights to shares (stock options): 16 thousand shares

(c) Subscription rights to shares and treasury stock subscription rights

2023

Category	Description of subscription rights to shares	Class of the shares underlying the subscription rights to shares	Number of shares underlying the subscription rights to shares (thousands of shares) At the beginning of the period	Increase in the period	Decrease in the period	At the end of the period	Japanese Yen (millions) Balance at the end of the period	U.S. Dollars (thousands) Balance at the end of the period
Parent company	Subscription rights to shares as stock options	-	-	-	-	-	¥ 98	$ 734
	Subscription rights to shares through the third-party allotment (the first subscription rights to shares with exercise price amendment clause)	Common stock	-	20,000	6,638	13,362	¥ 35	$ 262
Total			-	20,000	6,638	13,362	¥ 133	$ 996

(note 1) The reason for the increase in the subscription rights to shares through the third-party allotment in the period is the issuance of the first subscription rights to shares with exercise price amendment clause.

(note 2) The reason for the decrease in the subscription rights to shares through the third-party allotment in the period is the exercise of the first subscription rights to shares with exercise price amendment clause.

2022

Category	Description of subscription rights to shares	Class of the shares underlying the subscription rights to shares	Number of shares underlying the subscription rights to shares (thousands of shares) At the beginning of the period	Increase in the period	Decrease in the period	At the end of the period	Japanese Yen (millions) Balance at the end of the period
Parent company	Subscription rights to shares as stock options	-	-	-	-	-	¥ 124

(d) Dividends

1) Amount of dividends paid

2023

Not applicable

2022

Not applicable

2) Dividends with a record date belonging to the fiscal year under review, but an effective date belonging to the next fiscal year

2023

Resolution	Class of shares	Source of dividends	Total amount of dividends	Dividend per share	Record date	Effective date
Ordinary General Meeting of Shareholders (June 28, 2023)	Common stock	Retained earnings	¥ 263 million ($ 1,970 thousand)	¥ 3.00 ($ 0.022)	March 31, 2023	June 29, 2023
	Class-A preferred shares	Retained earnings	¥ 529 million ($ 3,962 thousand)	¥ 29.38 ($ 0.220)	March 31, 2023	June 29, 2023

2022

Not applicable

6. Cash Flow Statement

Reconciliation of cash and time deposits shown in the Consolidated Balance Sheets and cash and cash equivalents in the Consolidated Statements of Cash Flows as of March 31, 2023 and 2022 were as follows.

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2023	2022	2023
Cash and time deposits	¥ 45,804	¥ 51,762	$ 343,024
Time deposits with maturities exceeding 3 months	(2,336)	(944)	(17,494)
Cash and cash equivalents	¥ 43,468	¥ 50,818	$ 325,530

The following tables summarize breakdown of assets and liabilities of subsidiaries excluded from the scope of consolidation due to the sale of its shares.

2023:

Breakdown of assets and liabilities of MES Facilities Co., Ltd. (name changed to NH Facilities Co., Ltd. on April 1, 2022), that were excluded from the scope of consolidation due to the sale of its shares and the relationship between the sale price of the shares and net payments for the sale of shares were as follows.

	Japanese Yen (millions)	U.S.Dollars (thousands)
Current assets	¥ 1,647	$ 12,334
Non-current assets	1,317	9,863
Current liabilities	(1,090)	(8,163)
Non-current liabilities	(336)	(2,516)
Others	(193)	(1,446)
Expenses for sales of shares	108	809
Gain on sales of subsidiaries and affiliates' stocks	2,407	18,026
Sales prices of shares	3,860	28,907
Expenses for sales of shares	(108)	(809)
Cash and cash equivalents	(690)	(5,167)
Net: Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	¥ 3,062	$ 22,931

Breakdown of assets and liabilities of Mitsui E&S Shipbuilding Co., Ltd. ("MES-S") and its subsidiaries Niigata Shipbuilding & Repair, Inc. and MES YURA DOCKYARD Co., Ltd. (name changed to YURA DOCKYARD Co., Ltd. on January 1, 2023), that were excluded from the scope of consolidation due to the sale of its shares were as follows.

The sale price of shares of MES-S is not disclosed from the perspective of confidentiality obligation in accordance with the agreement with the transferee.

	Japanese Yen (millions)	U.S.Dollars (thousands)
Current assets	¥ 7,098	$ 53,156
Non-current assets	5,765	43,174
Total assets	¥ 12,863	$ 96,330
Current liabilities	¥ (7,723)	$ (57,837)
Non-current liabilities	(366)	(2,741)
Total liabilities	¥ (8,089)	$ (60,578)

2022:

Breakdown of assets and liabilities of Mitsui E&S Environment Engineering Co., Ltd. (name changed to JFE Environment Technology Co., Ltd. on April 1, 2021; "MKE") and other 6 companies, that were excluded from the scope of consolidation due to the sale of its shares were as follows.

The sale price of shares of MKE is not disclosed from the perspective of confidentiality obligation in accordance with the agreement with the transferee.

	Japanese Yen (millions)
Current assets	¥ 12,138
Non-current assets	501
Total assets	¥ 12,639
Current liabilities	¥ (8,841)
Non-current liabilities	(649)
Total liabilities	¥ (9,490)

Breakdown of assets and liabilities of MODEC Inc. and its 23 subsidiaries, that were excluded from the scope of consolidation due to the sale of its shares and the relationship between the sale price of the shares and net payments for the sale of shares were as follows.

	Japanese Yen (millions)
Current assets	¥ 235,416
Non-current assets	77,338
Current liabilities	(246,249)
Non-current liabilities	(29,317)
Non-controlling interests	(18,873)
Others	10,019
Investment accounts after the sales of shares	(27,786)
Expenses for sales of shares	81
Gain on sales of subsidiaries and affiliates' stocks	227
Sales prices of shares	856
Expenses for sales of shares	(81)
Cash and cash equivalents	(59,861)
Net: Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	¥ (59,086)

Breakdown of assets and liabilities of Shikoku Dockyard Co., Ltd. (“Shikoku D”) , that were excluded from the scope of consolidation due to the sale of its shares were as follows.
The sale price of shares of Shikoku D is not disclosed from the perspective of confidentiality obligation in accordance with the agreement with the transferee.

	Japanese Yen (millions)
Current assets	¥ 5,613
Non-current assets	2,310
Total assets	¥ 7,923
Current liabilities	¥ (1,902)
Non-current liabilities	(319)
Total liabilities	¥ (2,221)

The following table summarizes breakdown of assets and liabilities related to transfer of business in exchange for cash and cash equivalents.

2023:
Not applicable

2022:
In relation to the succession of the naval ship business, etc. of Mitsui E&S Shipbuilding Co., Ltd., a consolidated subsidiary of the Company, by a stock company that the Company newly established (“New Company”) by conducting an absorption-type company split and the subsequent transfer of all of the shares of the New Company, the breakdown of assets and liabilities at the time of the transfer were as follows.
The sale price of shares of New Company is not disclosed from the perspective of confidentiality obligation in accordance with the agreement with the transferee.

	Japanese Yen (millions)
Current assets	¥ 16,530
Non-current assets	1,332
Total assets	¥ 17,862
Current liabilities	¥ (12,582)
Non-current liabilities	(2,705)
Total liabilities	¥ (15,287)

Amounts for assets and liabilities related to other transfer of businesses in exchange for cash and cash equivalents are not significant, and have therefore been omitted.

7. Leases

(a) Lessee

i) Unexpired lease payments of operating lease transactions as of March 31, 2023 and 2022 were as follows:

	Japanese Yen (millions)				U.S.Dollars (thousands)	
	2023		2022		2023	
Due within one year	¥	2,037	¥	2,211	$	15,255
Due after one year		11,606		13,580		86,917
Total	¥	13,643	¥	15,791	$	102,172

(b) Lessor

i) Unexpired lease receivables of operating lease transactions as of March 31, 2023 and 2022 were as follows:

	Japanese Yen (millions)				U.S.Dollars (thousands)	
	2023		2022		2023	
Due within one year	¥	16	¥	15	$	120
Due after one year		92		108		689
Total	¥	108	¥	123	$	809

8. Financial Instruments

(a) Articles concerning status of financial instruments

1) Policies for financial instruments

The Group restricts the fund management to short-term financial instruments. The Group transfers funds to each other through an inter-company cash management systems (CMS). Regarding the funding, the Group raises the short-term working capital through bank loans and the issuance of commercial paper (CP), and raises the long term capital investment through bank loans and the issuance of bonds. Derivative financial instruments are utilized to hedge the risks described hereinafter and not for speculative transactions as a matter of policy.

2) Substances and risks of financial instruments

Trade receivables are exposed to credit risks of customers. Trade receivables in foreign currency, which the Company and certain Subsidiaries receive from foreign operations, are exposed to currency fluctuation risks. Forward foreign exchange contracts are applied to these hedged items in principle. Investment securities, mainly of companies with business relationships, are exposed to market fluctuation risks. Short-term and long-term loans for operating funds and capital expenditures of SPC's, which are established for generating electricity, are exposed to credit risks of customers.

Almost all of the trade payables are due within one year. Foreign currency trade payables for overseas procurement are exposed to currency fluctuation risks, but those trade payables are controlled not to exceed the balance of trade receivables in the same foreign currencies. Short-term borrowings are mainly for the purpose of funding commercial transactions. Long-term borrowings and bonds are mainly for the purpose of funding capital investments. Although the portions of those debts with floating interest rates are exposed to interest rate fluctuation risks, interest rate swap contracts are applied to hedge the risks.

Derivative transactions are the above mentioned forward foreign exchange contracts, interest rate swap contracts, as well as interest rate and currency swap contracts. They are for the purpose of hedging currency fluctuation risks and rising interest rate risks.

As to details on hedging instruments, hedged items, hedging policy and hedge effectiveness testing, please refer to "1. Significant Accounting and Reporting Policies (e) Derivative Transaction and Hedge Accounting."

3) Risk management in financial instruments

i) Management of credit risks (Risks for breach of contracts)

The Group monitors due dates and balances of trade receivables and regularly investigates the credit standings of main customers for early detection and reduction of default risks according to internal regulation.

As to derivative transactions, credit risks are minimized by dealing solely with top-ranked financial institutions.

ii) Management of market risks (Exchange rate or interest rate fluctuation risks)

The Company and certain Subsidiaries utilize forward foreign exchange contracts, interest rate swap contracts, and interest rate and currency swap contracts. Forward foreign exchange contracts are for the purpose of hedging currency fluctuation risks arising from foreign currency receivables and payables in principle, and the others are utilized for the purpose of hedging interest rate fluctuation risks arising from short-term and long-term borrowings and bonds.

Holding position of investment securities are continuously reviewed by researching fair market value and financial status of important customers regularly and taking into account of market condition and relationship with customers.

Execution and management of derivative transactions are based on each company's internal regulation restricting scope of authority. As to derivative transactions, the Group utilizes them to offset risks within the range of trade demand.

iii) Management of liquidity risks of raising funds (Default risks)

The Finance department of the Group makes and updates finance plans, and maintains a certain level of liquidity on hand to minimize liquidity risks.

4) Supplementary explanation about fair value of financial instruments

Fair value of financial instruments includes not only fair market value based on market price but also reasonably estimated value if market price is not available. Reasonably estimated fair value may fluctuate because it depends on an estimation process which is based on certain preconditions.

The contract amounts for derivatives stated in the following "(b) Articles concerning fair value of financial instruments," do not indicate the market risks of derivatives.

(b) Articles concerning fair value of financial instruments

Consolidated balance sheet amounts, fair value of financial instruments and the differences between them for the fiscal years ended March 31, 2023 and 2022 were as follows. Information on "Cash and time deposits," "Trade receivables," "Short-term loans," "Trade payables," "Short-term borrowings" and "Accrued income taxes" is omitted because these items are cash, and time deposits, trade receivables, short-term loans, trade payables, short-term borrowings and accrued income taxes which are settled in the short term, so they are considered to be close to the book value.

2023	Japanese Yen (millions) Book value	Fair value	Difference
(1) Investment securities *1			
Available-for-sale securities	¥ 586	¥ 586	¥ -
Stocks of subsidiaries and affiliates	54,858	38,720	(16,138)
(2) Long-term loans	2,126		
Less allowance for doubtful accounts *2	(152)		
	1,974	1,850	(124)
Total assets	¥ 57,418	¥ 41,156	¥ (16,262)
(1) Current portion of long-term borrowings	¥ 9,375	¥ 9,143	¥ (232)
(2) Current portion of bonds	5,000	5,033	33
(3) Long-term borrowings	11,928	11,141	(787)
(4) Lease obligations	8,924	9,276	352
Total liabilities	¥ 35,227	¥ 34,593	¥ (634)
Derivative transactions *3			
i. Derivative transactions for which hedge accounting has not been applied	¥ (75)	¥ (75)	¥ -
ii. Derivative transactions for which hedge accounting has been applied	858	858	-
Total derivative transactions	¥ 783	¥ 783	¥ -

2022	Japanese Yen (millions) Book value	Fair value	Difference
(1) Investment securities *1			
Available-for-sale securities	¥ 1,774	¥ 1,774	¥ -
Stocks of subsidiaries and affiliates	31,826	35,314	3,488
(2) Long-term loans	2,130		
Less allowance for doubtful accounts *2	(152)		
	1,978	1,930	(48)
Total assets	¥ 35,578	¥ 39,018	¥ 3,440
(1) Current portion of long-term borrowings	¥ 8,101	¥ 8,044	¥ (57)
(2) Current portion of bonds	15,000	14,987	(13)
(3) Bonds	5,000	5,042	42
(4) Long-term borrowings	19,658	19,342	(316)
(5) Lease obligations	8,305	8,505	200
Total liabilities	¥ 56,064	¥ 55,920	¥ (144)
Derivative transactions *3			
i. Derivative transactions for which hedge accounting has not been applied	¥ (122)	¥ (122)	¥ -
ii. Derivative transactions for which hedge accounting has been applied	1,964	1,964	-
Total derivative transactions	¥ 1,842	¥ 1,842	¥ -

2023	U.S. Dollars (thousands)		
	Book value	Fair value	Difference
(1) Investment securities *1			
Available-for-sale securities	$ 4,389	$ 4,389	$ -
Stocks of subsidiaries and affiliates	410,829	289,972	(120,857)
(2) Long-term loans	15,921		
Less allowance for doubtful accounts *2	(1,138)		
	14,783	13,854	(929)
Total assets	$ 430,001	$ 308,215	$ (121,786)
(1) Current portion of long-term borrowings	$ 70,209	$ 68,472	$ (1,737)
(2) Current portion of bonds	37,445	37,692	247
(3) Long-term borrowings	89,328	83,434	(5,894)
(4) Lease obligations	66,832	69,468	2,636
Total liabilities	$ 263,814	$ 259,066	$ (4,748)
Derivative transactions *3			
i. Derivative transactions for which hedge accounting has not been applied	$ (562)	$ (562)	$ -
ii. Derivative transactions for which hedge accounting has been applied	6,426	6,426	-
Total derivative transactions	$ 5,864	$ 5,864	$ -

*1 As to the following financial instruments, there is no available fair market value and it is considered to cost a great deal to estimate future cash flows. So these financial instruments are not included in "(1) Investment securities" because it is considered to be extremely difficult to determine fair value. Consolidated balance sheet amounts of these financial instruments are as follows.

	Japanese Yen (millions)		U.S. Dollars (thousands)
	Book value		Book value
	2023	2022	2023
Unlisted equity securities	¥ 13,358	¥ 9,681	$ 100,037

*2 Allowance for doubtful accounts is deducted from Long-term loans.

*3 Net credit or debt arising from derivative transactions is indicated by the offset amount and which is indicated as ( ) in case of the offset amount is debt.

(note 1) The expected redemption amount of monetary credit and securities with maturity after the fiscal years ended March 31, 2023 and 2022 were as follows.

	Japanese Yen (millions)			
2023	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and time deposits	¥ 45,792	¥ -	¥ -	¥ -
Trade receivables	54,910	611	-	-
Short-term loans	16	-	-	-
Long-term loans	-	20	11	2,095
Total	¥ 100,718	¥ 631	¥ 11	¥ 2,095

	Japanese Yen (millions)			
2022	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and time deposits	¥ 51,723	¥ -	¥ -	¥ -
Trade receivables	50,761	15	-	-
Short-term loans	18	-	-	-
Long-term loans	-	20	12	2,098
Total	¥ 102,502	¥ 35	¥ 12	¥ 2,098

	U.S. Dollars (thousands)			
2023	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and time deposits	$ 342,934	$ -	$ -	$ -
Trade receivables	411,218	4,576	-	-
Short-term loans	120	-	-	-
Long-term loans	-	150	82	15,689
Total	$ 754,272	$ 4,726	$ 82	$ 15,689

(note 2) The expected redemption amount of bonds, long-term borrowings and lease obligations after the fiscal years ended March 31, 2023 and 2022 were as follows.

	Japanese Yen (millions)					
2023	Within one year	Over one year but within two years	Over two years but within three years	Over three years but within four years	Over four years but within five years	Over five years
Short-term borrowings	¥ 115,246	¥ -	¥ -	¥ -	¥ -	¥ -
Bonds	5,000	-	-	-	-	-
Long-term borrowings	9,375	1,377	1,444	1,255	1,144	6,708
Lease obligations	1,863	1,680	1,580	1,442	970	1,389
Total	¥ 131,484	¥ 3,057	¥ 3,024	¥ 2,697	¥ 2,114	¥ 8,097

	Japanese Yen (millions)					
2022	Within one year	Over one year but within two years	Over two years but within three years	Over three years but within four years	Over four years but within five years	Over five years
Short-term borrowings	¥ 94,615	¥ -	¥ -	¥ -	¥ -	¥ -
Bonds	15,000	5,000	-	-	-	-
Long-term borrowings	8,101	9,342	1,254	1,321	1,132	6,609
Lease obligations	1,808	1,453	1,378	1,249	1,083	1,334
Total	¥ 119,524	¥ 15,795	¥ 2,632	¥ 2,570	¥ 2,215	¥ 7,943

	U.S. Dollars (thousands)					
2023	Within one year	Over one year but within two years	Over two years but within three years	Over three years but within four years	Over four years but within five years	Over five years
Short-term borrowings	$ 863,072	$ -	$ -	$ -	$ -	$ -
Bonds	37,445	-	-	-	-	-
Long-term borrowings	70,209	10,312	10,814	9,399	8,567	50,236
Lease obligations	13,952	12,581	11,833	10,799	7,264	10,403
Total	$ 984,678	$ 22,893	$ 22,647	$ 20,198	$ 15,831	$ 60,639

(c) Matters regarding the breakdown by level of fair values of financial instruments, etc.

Fair values of financial instruments are classified into the following three levels in accordance with the observability and significance of inputs for fair value measurement.

Level 1 fair value: Fair value measured by using quoted prices for assets or liabilities that are subject to the fair value measurement concerned which are formed in active markets, of observable inputs for fair value measurement

Level 2 fair value: Fair value measured by using inputs for fair value measurement other than Level 1 inputs, of observable inputs for fair value measurement

Level 3 fair value: Fair value measured by using unobservable inputs for fair value measurement

If multiple inputs that have a significant impact on fair value measurement are used, the fair value is classified into the lowest priority level in fair value measurement, of the levels in which each input belongs.

(1) Financial instruments recorded at fair value in the consolidated balance sheet

	Japanese Yen (millions)			
2023	Level 1	Level 2	Level 3	Total
Investments securities				
Available-for-sale securities				
Shares	¥ 586	¥ -	¥ -	¥ 586
Derivative transactions				
Currency related	-	783	-	783
Total assets	¥ 586	¥ 783	¥ -	¥ 1,369

	Japanese Yen (millions)			
2022	Level 1	Level 2	Level 3	Total
Investments securities				
Available-for-sale securities				
Shares	¥ 1,774	¥ -	¥ -	¥ 1,774
Derivative transactions				
Currency related	-	1,849	-	1,849
Total assets	¥ 1,774	¥ 1,849	¥ -	¥ 3,623
Derivative transactions				
Interest rate related	¥ -	¥ 7	¥ -	¥ 7
Total liabilities	¥ -	¥ 7	¥ -	¥ 7

	U.S. Dollars (thousands)			
2023	Level 1	Level 2	Level 3	Total
Investments securities				
Available-for-sale securities				
Shares	$ 4,389	$ -	$ -	$ 4,389
Derivative transactions				
Currency related	-	5,864	-	5,864
Total assets	$ 4,389	$ 5,864	$ -	$ 10,253

(2) Financial instruments other than financial instruments recorded at fair value in the consolidated balance sheets

	Japanese Yen (millions)			
2023	Level 1	Level 2	Level 3	Total
Investments securities				
Stocks of subsidiaries and affiliates				
Shares	¥ 38,720	¥ -	¥ -	¥ 38,720
Long-term loans	-	1,850	-	1,850
Total assets	¥ 38,720	¥ 1,850	¥ -	¥ 40,570
Current portion of long-term borrowings	¥ -	¥ 9,143	¥ -	¥ 9,143
Current portion of bonds	-	5,033	-	5,033
Long-term borrowings	-	11,141	-	11,141
Lease obligations	-	9,276	-	9,276
Total liabilities	¥ -	¥ 34,593	¥ -	¥ 34,593

	Japanese Yen (millions)			
2022	Level 1	Level 2	Level 3	Total
Investments securities				
Stocks of subsidiaries and affiliates				
Shares	¥ 35,314	¥ -	¥ -	¥ 35,314
Long-term loans	-	1,930	-	1,930
Total assets	¥ 35,314	¥ 1,930	¥ -	¥ 37,244
Current portion of long-term borrowings	¥ -	¥ 8,044	¥ -	¥ 8,044
Current portion of bonds	-	14,987	-	14,987
Bonds	-	5,042	-	5,042
Long-term borrowings	-	19,342	-	19,342
Lease obligations	-	8,505	-	8,505
Total liabilities	¥ -	¥ 55,920	¥ -	¥ 55,920

	U.S. Dollars (thousands)			
2023	Level 1	Level 2	Level 3	Total
Investments securities				
Stocks of subsidiaries and affiliates				
Shares	$ 289,972	$ -	$ -	$ 289,972
Long-term loans	-	13,854	-	13,854
Total assets	$ 289,972	$ 13,854	$ -	$ 303,826
Current portion of long-term borrowings	$ -	$ 68,472	$ -	$ 68,472
Current portion of bonds	-	37,692	-	37,692
Long-term borrowings	-	83,434	-	83,434
Lease obligations	-	69,468	-	69,468
Total liabilities	$ -	$ 259,066	$ -	$ 259,066

(note) Explanation of valuation techniques used to measure fair value and inputs for fair value measurement

Investment securities

Listed shares are valued using quoted prices. Since listed shares are traded in active markets, their fair values are classified as Level 1 fair value.

Derivative transactions

Fair values of interest rate swaps and forward contracts are measured by the discounted cash flow method using observable inputs such as interest rates and exchange rates, and are classified as Level 2 fair value.

Long-term loans

Fair values of long-term loans are measured by the discounted cash flow method based on their future cash flows and interest rates that take into account credit spreads in addition to appropriate indicators such as government bond yield by credit risk category for credit management for the long-term loans which are categorized according to certain periods, and are classified as Level 2 fair value.

Current portion of long-term borrowings, long-term borrowings, and lease obligations

Their fair values are measured by the discounted cash flow method based on the sum of principal and interest, and interest rates that take into account the remaining period and credit risk of these obligations, and are classified as Level 2 fair value.

Current portion of bonds, and bonds

Fair values of bonds issued by the Company are measured by the discounted cash flow method based on the sum of principal and interest, and interest rates that take into account the remaining period and credit risk of these bonds, and are classified as Level 2 fair value.

9. Investment Securities

(a) The following tables summarize acquisition costs, book values and fair values of securities with available fair values as of March 31, 2023 and 2022:

	Japanese Yen (millions)		
2023	Acquisition cost	Book value	Difference
Available-for-sale securities:			
Securities with book values exceeding acquisition costs:			
Equity securities	¥ 61	¥ 245	¥ 184
Sub Total	61	245	184
Securities with book values not exceeding acquisition costs:			
Equity securities	349	341	(8)
Sub Total	349	341	(8)
Total	¥ 410	¥ 586	¥ 176

	Japanese Yen (millions)		
2022	Acquisition cost	Book value	Difference
Available-for-sale securities:			
Securities with book values exceeding acquisition costs:			
Equity securities	¥ 439	¥ 1,453	¥ 1,014
Sub Total	439	1,453	1,014
Securities with book values not exceeding acquisition costs:			
Equity securities	348	321	(27)
Sub Total	348	321	(27)
Total	¥ 787	¥ 1,774	¥ 987

	U. S. Dollars (thousands)		
2023	Acquisition cost	Book value	Difference
Available-for-sale securities:			
Securities with book values exceeding acquisition costs:			
Equity securities	$ 457	$ 1,835	$ 1,378
Sub Total	457	1,835	1,378
Securities with book values not exceeding acquisition costs:			
Equity securities	2,614	2,554	(60)
Sub Total	2,614	2,554	(60)
Total	$ 3,071	$ 4,389	$ 1,318

(b) Proceeds from sales of available-for-sale securities and realized gains and losses on sales of available-for-sale securities for the years ended March 31, 2023 and 2022 were as follows:

	Japanese Yen (millions)		U.S. Dollars (thousands)
	2023	2022	2023
Proceeds from sales of available-for-sale securities			
Securities	¥ 1,061	¥ 262	$ 7,946
Realized gains on sales of available-for-sale securities			
Securities	¥ 686	¥ 41	$ 5,137
Realized losses on sales of available-for-sale securities			
Securities	¥ -	¥ 137	$ -

(c) Securities for which impairment loss was recognized

For the year ended March 31, 2022, loss on impairment of ¥35 million for available-for-sale securities was recognized.

When the fair value of a security at the fiscal year-end declines by more than 50% compared to the acquisition cost, the full amount is recognized as loss on impairment. When the decline is around 30% to 50%, loss on impairment is recognized for the amount deemed necessary, taking into consideration the recoverability etc.

10. Derivative Transactions

Derivative transactions of the Group for market value information as of March 31, 2023 and 2022 were as follows:

(a) Derivative transactions for which hedge accounting has not been applied

2023	Japanese Yen (millions)			
	Contract amount		Fair value	Unrealized gain (loss)
	Total	Due after one year		
Currency related derivatives				
Off-market trades				
Forward contracts				
To buy U.S. Dollars	¥ 73	¥ -	¥ (6)	¥ (6)
Swiss Franc	401	-	(4)	(4)
Chinese Yuan	3,121	1,246	35	35
To sell U.S. Dollars	1,409	-	(100)	(100)
	¥ 5,004	¥ 1,246	¥ (75)	¥ (75)

2022	Japanese Yen (millions)			
	Contract amount		Fair value	Unrealized gain (loss)
	Total	Due after one year		
Currency related derivatives				
Off-market trades				
Forward contracts				
To buy U.S. Dollars	¥ 308	¥ -	¥ 11	¥ 11
Swiss Franc	75	-	4	4
Chinese Yuan	159	-	7	7
To sell U.S. Dollars	2,068	1,031	(144)	(144)
	¥ 2,610	¥ 1,031	¥ (122)	¥ (122)

2023	U. S. Dollars (thousands)			
	Contract amount		Fair value	Unrealized gain (loss)
	Total	Due after one year		
Currency related derivatives				
Off-market trades				
Forward contracts				
To buy U.S. Dollars	$ 547	$ -	$ (45)	$ (45)
Swiss Franc	3,003	-	(30)	(30)
Chinese Yuan	23,373	9,331	262	262
To sell U.S. Dollars	10,552	-	(749)	(749)
	$ 37,475	$ 9,331	$ (562)	$ (562)

(b) Derivative transactions for which hedge accounting has been applied

2023	Hedged items	Japanese Yen (millions) Contract amount Total	Due after one year	Fair value
Deferral hedge accounting				
Currency related derivatives				
Forward contracts				
To buy U.S. Dollars	Trade payables	¥ 34,322	¥ 1,626	¥ 652
Euro		2,146	-	95
STG Pounds		11,564	-	(343)
Indonesian Rupiah		10,344	-	135
To sell U.S. Dollars	Trade receivables	6,420	-	(117)
STG Pounds		19,036	678	335
Alternative method				
Currency related derivatives				
Forward contracts				
To sell U.S. Dollars	Trade receivables	1,960	-	101
		¥ 85,792	¥ 2,304	¥ 858
Interest swap				
Exceptional treatment [*1]: To receive float, pay fix	Long-term borrowings	¥ 10,304	¥ 3,880	¥ -
		¥ 10,304	¥ 3,880	¥ -

2022	Hedged items	Japanese Yen (millions) Contract amount Total	Due after one year	Fair value
Deferral hedge accounting				
Currency related derivatives				
Forward contracts				
To buy U.S. Dollars	Trade payables	¥ 2,681	¥ 1,679	¥ 640
Euro		1,493	-	137
STG Pounds		1,593	1,043	46
Indonesian Rupiah		15,540	-	2,429
To sell U.S. Dollars	Trade receivables	11,019	617	(675)
STG Pounds		8,090	6,136	(444)
Euro		2,596	-	(144)
Alternative method				
Currency related derivatives				
Forward contracts				
To sell U.S. Dollars	Trade receivables	483	-	(18)
		¥ 43,495	¥ 9,475	¥ 1,971
Interest swap				
Basic treatment: To receive float, pay fix	Long-term borrowings	¥ 119	¥ 119	¥ (7)
Exceptional treatment [*1]: To receive float, pay fix	Long-term borrowings	12,010	10,304	-
		¥ 12,129	¥ 10,423	¥ (7)

2023	Hedged items	U.S. Dollars (thousands)		
		Contract amount		Fair value
		Total	Due after one year	
Deferral hedge accounting				
Currency related derivatives				
Forward contracts				
To buy U.S. Dollars	Trade payables	$ 257,036	$ 12,177	$ 4,883
Euro		16,071	-	711
STG Pounds		86,602	-	(2,569)
Indonesian Rupiah		77,466	-	1,011
To sell U.S. Dollars	Trade receivables	48,079	-	(876)
STG Pounds		142,560	5,078	2,509
Alternative method				
Currency related derivatives				
Forward contracts				
To sell U.S. Dollars	Trade receivables	14,678	-	756
		$ 642,492	$ 17,255	$ 6,426
Interest swap				
Exceptional treatment [*1]: To receive float, pay fix	Long-term borrowings	$ 77,166	$ 29,057	$ -
		$ 77,166	$ 29,057	$ -

[*1] As interest swap subject to exceptional treatment of interest swap and batch treatment of interest swap are accounted for as a single item with underlying long-term borrowings, which are hedged items, their fair value is included in that of long-term borrowings.

11. Liability for Severance and Retirement Benefits

(a) Overview of adopting severance and retirement benefits plans

The Group has system of funded and unfunded severance and retirement benefits, defined benefit pension plans, and defined contribution pension plans.

Severance and retirement benefits (all funded) pay out lump-sum payment or annual pension based on salary and length of service.

Lump-sum payment (part of which becomes funded as a result of benefit trust although the system is unfunded) is paid out based on salary and length of service as retirement benefits.

Some domestic Subsidiaries have adopted a "simplified method" to calculate liability for severance and retirement benefits for employees.

(b) Breakdown of information concerning severance and retirement benefits

i) Movements of severance and retirement benefit obligation:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2023	2022	2023
Balance at beginning of year	¥ 31,822	¥ 38,231	$ 238,314
Current service costs	1,585	1,975	11,870
Interest costs	205	184	1,535
Actuarial differences on pension plan obligation	(1,063)	(613)	(7,961)
Benefits paid	(2,594)	(2,315)	(19,426)
Prior service costs	(401)	-	(3,003)
Changes in the scope of consolidation	(2,513)	(5,564)	(18,820)
Others	45	(76)	337
Balance at end of year	¥ 27,086	¥ 31,822	$ 202,846

ii) Movements of pension assets:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2023	2022	2023
Balance at beginning of year	¥ 36,873	¥ 38,505	$ 276,140
Expected return on pension assets	11	11	82
Actuarial differences on pension assets	803	4,874	6,014
Contribution to pension plans	408	75	3,055
Benefits paid	(1,872)	(1,608)	(14,019)
Changes in the scope of consolidation	(2,778)	(1,280)	(20,804)
Return of retirement benefit trust	(1,400)	(3,800)	(10,485)
Others	(51)	96	(382)
Balance at end of year	¥ 31,994	¥ 36,873	$ 239,601

iii) Reconciliation of projected retirement benefit obligation and net defined benefit assets / liabilities recorded in the consolidated balance sheets:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2023	2022	2023
Retirement benefit obligation (funded non-contributory)	¥ 26,509	¥ 31,283	$ 198,525
Less fair value of pension assets	(31,994)	(36,873)	(239,601)
Retirement benefit obligation (Unfunded termination and retirement allowance plan)	577	539	4,321
Net defined benefit assets / liabilities recorded in the consolidated balance sheets	¥ (4,908)	¥ (5,051)	$ (36,755)
Defined benefit liabilities	5,049	5,866	37,812
Defined benefit assets	(9,957)	(10,917)	(74,567)
Net defined benefit assets / liabilities recorded in the consolidated balance sheets	¥ (4,908)	¥ (5,051)	$ (36,755)

iv) Severance and retirement benefit expenses:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2023	2022	2023
Current service costs	¥ 1,585	¥ 1,975	$ 11,870
Interest costs	205	185	1,535
Expected return on pension assets	(11)	(11)	(82)
Amortization of actuarial differences	(1,747)	(853)	(13,083)
Amortization of prior service costs	(364)	36	(2,726)
Gain on return of assets from retirement benefit trust	-	(1,224)	-
Others	-	(27)	-
Severance and retirement benefit expenses	¥ (332)	¥ 81	$ (2,486)

v) Remeasurements of defined benefit plans (before deducted tax effects):

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2023	2022	2023
Prior service costs	¥ 37	¥ 36	$ 277
Actuarial differences	(1,078)	3,320	(8,073)
Others	(415)	303	(3,108)
Total	¥ (1,456)	¥ 3,659	$ (10,904)

vi) Unrecognized actuarial differences (before deducted tax effects):

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2023	2022	2023
Unrecognized prior service costs	¥ -	¥ 37	$ -
Unrecognized actuarial differences	(11,310)	(12,277)	(84,700)
Others	65	96	487
Total	¥ (11,245)	¥ (12,144)	$ (84,213)

vii) The major categories of pension assets:

	Percentage of composition	
	2023	2022
Bonds	3%	3%
Securities	36%	32%
Cash and deposits	55%	61%
Others	6%	4%
Total	100%	100%

viii) The principal actuarial assumptions at reporting date are summarized below:

	2023	2022
Discount rate	0.1% - 1.9%	0.1% - 1.2%
Expected rate of return on pension plan assets	Not applicable	Not applicable
Expected rate of pay raises	Primarily 0.0% - 2.2%	Primarily 0.4% - 2.5%

To determine the expected rate of return on pension plan assets, allocation of pension assets expected in present and future, and long-term rate of return on portfolio assets expected in present and future are considered.

(c) Defined contribution pension plan

The contribution paid to the defined contribution pension plan is summarized below:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2023	2022	2023
Contribution paid to the defined contribution pension plan	¥ 266	¥ 239	$ 1,992

12. Stock options

(a) The stock options outstanding at March 31, 2023 are as follows:

	FY2015 Stock option	FY2014 Stock option
Persons granted	Directors of the Company: 9 (including executive officers additional post) Executive officers of the Company: 13 (excluding directors additional post) Deputy directors of the Company: 17	Directors of the Company: 14 Deputy directors of the Company: 21
Class and number of shares	Common stock 49,700 shares	Common stock 36,600 shares
Grant date	August 21, 2015	August 22, 2014
Vesting conditions	The grantee shall maintain his or her position as Director, Executive officer or Deputy director from the grant date (August 21, 2015) to the vesting date (June 30, 2016 or March 31, 2016).	The grantee shall maintain his or her position as Director, Executive officer or Deputy director from the grant date (August 22, 2014) to the vesting date (June 30, 2015 or March 31, 2015).
Service period	(Directors of the Company) From July 1, 2015 to June 30, 2016 (Executive officers of the Company) From April 1, 2015 to March 31, 2016 (Deputy directors of the Company) From April 1, 2015 to March 31, 2016	(Directors of the Company) From July 1, 2014 to June 30, 2015 (Deputy directors of the Company) (continuously - appointed) From July 1, 2014 to March 31, 2015 (Deputy directors of the Company) (newly - appointed) From April 1, 2014 to March 31, 2015
Exercise period	From August 22, 2015 to August 21, 2045	From August 23, 2014 to August 22, 2044

	FY2013 Stock option
Persons granted	Directors of the Company: 14 Deputy directors of the Company: 19
Class and number of shares	Common stock 62,400 shares
Grant date	August 23, 2013
Vesting conditions	The grantee shall maintain his or her position as Director, Executive officer or Deputy director from the grant date (August 23, 2013) to the vesting date (June 30, 2014).
Service period	From July 1, 2013 to June 30, 2014
Exercise period	From August 24, 2013 to August 23, 2043

(note) Effective October 1, 2017, the Company consolidated every 10 shares of its common stock into 1 share. The number of shares has been converted into those after the share consolidation.

(b) The numbers of and changes in stock options during the year ended March 31, 2023 are as follows:

	FY2015 Stock option	FY2014 Stock option	FY2013 Stock option
Non-vested:			
Outstanding at March 31, 2022	-	-	-
Granted	-	-	-
Forfeited	-	-	-
Vested	-	-	-
Outstanding of non-vested at March 31, 2023	-	-	-
Vested:			
Outstanding at March 31, 2022	33,500	19,200	21,100
Vested	-	-	-
Exercised	8,100	3,000	4,500
Forfeited	-	-	-
Outstanding of non-vested at March 31, 2023	25,400	16,200	16,600
Exercise price - Yen (U.S. Dollars)	¥ 1 ($0.007)	¥ 1 ($0.007)	¥ 1 ($0.007)
Average share price at exercise - Yen (U.S. Dollars)	¥ 383 ($2.868)	¥ 377 ($2.823)	¥ 378 ($2.831)
Fair value price at grant date - Yen (U.S. Dollars)	¥ 1,690 ($12.656)	¥ 1,910 ($14.304)	¥ 1,440 ($10.784)

(note) Effective October 1, 2017, the Company consolidated every 10 shares of its common stock into 1 share. The number of shares has been converted into those after the share consolidation.

(c) Initial capitalized amount and account title related to stock options for the Company's shares

	Japanese Yen (millions)		U.S. Dollars (thousands)
	2023	2022	2023
Cash and time deposits	¥ 52	¥ -	$ 389

(d) The stock options for the Company's shares outstanding at March 31, 2023 are as follows:

	1st series of share acquisition rights with an exercise price amendment clause
Persons granted	SMBC Nikko Securities Inc.
Class and number of stock options for the Company's shares	Common stock 20,000,000 shares
Grant date	April 18, 2022
Vesting conditions	No vesting conditions are set.
Service period	No service period are set.
Exercise period	From April 19, 2022 to April 30, 2025

(e) The numbers of and changes in stock options for the Company's shares during the year ended March 31, 2023 are as follows:

	1st series of share acquisition rights with an exercise price amendment clause
Non-vested:	
Outstanding at March 31, 2022	-
Granted	20,000,000
Forfeited	-
Vested	20,000,000
Outstanding of non-vested at March 31, 2023	-
Vested:	
Outstanding at March 31, 2022	-
Vested	20,000,000
Exercised	6,638,400
Forfeited	-
Outstanding of non-vested at March 31, 2023	13,361,600
Exercise price - Yen (U.S. Dollars)	¥ 403 ($3.018)
Average share price at exercise - Yen (U.S. Dollars)	¥ 345 ($2.584)
Fair value price at grant date - Yen (U.S. Dollars)	¥ 2.6 ($0.019)

(note) The initial exercise price is stated for the exercise price.

On the effective date of each exercise request of the Stock Acquisition Rights by the Stock Acquisition Rights Holder ("Determination Date"), the Exercise Price is revised to an amount ("Exercise Price After Revision"; calculated in yen to two decimal places and then rounded up to one decimal place) equivalent to 92% of the volume weighted average price ("VWAP") of the Company's common stock in regular trading on the Tokyo Stock Exchange, Inc. on the trading day preceding the Determination Date (however, if there is no closing VWAP of the Company's common stock in regular trading on the trading day preceding the Determination Date, the VWAP on the immediately preceding trading day), and the Exercise Price After Revision shall apply from the Determination Date. However, in the calculation of the Exercise Price After Revision, if the figure obtained from the calculation is less than the minimum exercise price, the Exercise Price After Revision shall be the minimum exercise price.

(f) Calculation method for the number of rights vested

Only actual forfeited number of the vested is used for calculation for the number of rights vested, since it is difficult to reasonably estimate the number of options that will forfeited in the future.

13. Income Taxes

(a) Significant components of deferred tax assets and liabilities as of March 31, 2023 and 2022 were as follows:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2023	2022	2023
Deferred tax assets:			
Net defined benefit liabilities	¥ 3,951	¥ 2,391	$ 29,589
Elimination of intercompany profit of non-current assets	205	838	1,535
Tax loss carryforwards	50,830	41,711	380,664
Loss on revaluation of inventories	255	315	1,910
Accrued expenses	1,618	1,858	12,117
Provision for construction warranties	441	488	3,303
Allowance for doubtful accounts	426	326	3,190
Provision for losses on construction contracts	4,791	20,567	35,879
Loss on impairment of non-current assets	4,599	4,970	34,442
Loss on valuation of marketable and investment securities	241	240	1,805
Difference arising from trust for employees' retirement benefit	4,422	5,925	33,116
Difference on application of percentage-of-completion method	684	2,492	5,122
Investments in subsidiaries and affiliates	8,029	8,609	60,129
Others	1,204	1,207	9,017
Gross deferred tax assets	81,696	91,937	611,818
Valuation allowance for tax loss carryforwards	(48,224)	(39,454)	(361,148)
Valuation allowance for the total of deductible temporary differences, etc.	(24,446)	(44,550)	(183,075)
Less valuation allowance	(72,670)	(84,005)	(544,223)
Total deferred tax assets	¥ 9,026	¥ 7,932	$ 67,595
Deferred tax liabilities:			
Net unrealized holding gains on securities	(56)	(282)	(420)
Reserve for advanced depreciation of non-current assets	(430)	(541)	(3,220)
Gain on contribution of securities to trust for employees' retirement benefit	(471)	(471)	(3,527)
Difference arising on percentage-of-completion	(816)	(769)	(6,111)
Unrealized gain on assets and liabilities of consolidated subsidiaries	(1,945)	(1,997)	(14,566)
Others	(4,170)	(4,379)	(31,229)
Total deferred tax liabilities	¥ (7,888)	¥ (8,439)	$ (59,073)
Net deferred tax assets	¥ 1,138	¥ (507)	$ 8,522

(note 1) Decrease in valuation allowance of ¥11,334 million ($84,880 thousand) is mainly attributable to the decrease in valuation allowance that resulted from deconsolidation of subsidiaries.

(note 2) For the year ended March 31, 2023 and 2022, tax loss carryforwards and corresponding deferred tax assets by expiration date were the following:

	Japanese Yen (millions)						
2023	Within 1 year	Over 1 year ~ within 2 years	Over 2 years ~ within 3 years	Over 3 years ~ within 4 years	Over 4 years~ within 5 years	Over 5 years	Total
Tax loss carryforwards (note)	¥ 0	¥ 5	¥ 3	¥ 3	¥ 3	¥ 50,816	¥ 50,830
Less valuation allowance	¥ -	¥ -	¥ -	¥ -	¥ -	¥ (48,224)	¥ (48,224)
Deferred tax assets	¥ 0	¥ 5	¥ 3	¥ 3	¥ 3	¥ 2,592	¥ 2,606

	Japanese Yen (millions)						
2022	Within 1 year	Over 1 year ~ within 2 years	Over 2 years ~ within 3 years	Over 3 years ~ within 4 years	Over 4 years~ within 5 years	Over 5 years	Total
Tax loss carryforwards (note)	¥ 5	¥ 63	¥ 62	¥ 5	¥ -	¥ 41,576	¥ 41,711
Less valuation allowance	¥ -	¥ -	¥ -	¥ -	¥ -	¥ (39,454)	¥ (39,454)
Deferred tax assets	¥ 5	¥ 63	¥ 62	¥ 5	¥ -	¥ 2,122	¥ 2,257

2023	U.S.Dollars (thousands) Within 1 year	Over 1 year ~ within 2 years	Over 2 years ~ within 3 years	Over 3 years ~ within 4 years	Over 4 years~ within 5 years	Over 5 years	Total
Tax loss carryforwards (note)	$ 0	$ 38	$ 22	$ 22	$ 22	$ 380,560	$ 380,664
Less valuation allowance	$ -	$ -	$ -	$ -	$ -	$ (361,148)	$ (361,148)
Deferred tax assets	$ 0	$ 38	$ 22	$ 22	$ 22	$ 19,412	$ 19,516

(note) Tax loss carryforwards are calculated by multiplying the statutory tax rate.

(b) Significant differences between the statutory tax rate and the Group's effective tax rate for financial statement purposes for the year ended March 31, 2023 were as follows:

	2023
Statutory tax rate	30.6 %
Expenses not deductible permanently, such as entertainment expenses	0.3
Non-taxable income permanently, such as dividend income	(8.2)
Amortization of goodwill	1.7
Equity in earnings of unconsolidated subsidiaries and affiliates	(7.3)
Consolidation adjustment for gain on sales of subsidiaries and affiliates' stocks	8.4
Valuation allowance	(30.7)
Taxation on per capita basis	0.5
Income of foreign subsidiaries taxed at lower than Japanese normal rate	(0.1)
Controlled foreign subsidiary and affiliate rules	1.2
Increase of deferred tax assets, net of liabilities at fiscal year-end by the change of tax rate	1.1
Corporate income taxes, etc. paid in past fiscal years	0.4
Others	4.4
Effective tax rate	2.3 %

(note 1) Information for the year ended March 31, 2022 is not presented, because a loss before income taxes was recorded.

(c) Accounting treatment for corporate income tax and local corporate income tax as well as the related tax effect accounting

The Company and certain consolidated subsidiaries in Japan have applied the group tax sharing system from the year ended March 31, 2023. In addition, the accounting treatment and disclosure for corporate income tax and local corporate income tax as well as the related tax effect accounting are in accordance with the "Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System" (ASBJ Practical Issues Task Force No. 42, August 12, 2021).

14. Business Combination

Business divestiture

(Transfer of shares of consolidated subsidiary)

On April 1, 2022, the Company had MES Facilities Co., Ltd. (“MESF”), a consolidated subsidiary, succeed to rights and obligations related to the driving school operation business that the Company had by means of a company split (absorption-type split), and transferred all the shares in MESF owned by the Company to Nihon Housing Co., Ltd.

1. Overview of business divestiture
   1) Names of the succeeding company and the transferee of shares in the company split
      i) Name of the succeeding company in the company split
         MES Facilities Co., Ltd.
      ii) Name of the transferee of shares
         Nihon Housing Co., Ltd.
   2) Description of divested businesses
      Temporary staffing business, driving schools, construction business, dispensing pharmacies, insurance agency business, etc.
   3) Main reason for business divestiture
      The Company has, in the areas of the facilities business operated by MESF, been exploring possibilities for collaboration and alliance with partners with which synergies can be expected, as part of the Business Revival Plan (announced in 2019). Under this situation, the Company decided to enter into the share transfer agreement, judging that having track records, experience and know-how held by Nihon Housing Co., Ltd. based on its operational infrastructure and customer base utilized for the business operation of MESF leads to growth and strengthened competitiveness of both companies, and consequently contributes to increase in each company’s corporate value.
   4) Date of business divestiture
      April 1, 2022
   5) Other matters regarding the overview of the transaction including legal form
      i) Company split
         A company split in which the Company is the company undergoing the company split, and MESF became the succeeding company of the company split
      ii) Share transfer
         Share transfer in which consideration received is only property including cash
2. Overview of accounting treatment performed
   1) Amount of transfer profit or loss
      Gain on sales of subsidiaries and affiliates’ stocks: ¥ 2,407 million ($18,026 thousand)
   2) Appropriate book values of assets and liabilities related to transferred businesses, and their breakdown

	Japanese Yen (millions)	U.S.Dollars (thousands)
Current assets	¥ 1,647	$ 12,334
Non-current assets	1,317	9,863
Total assets	¥ 2,964	$ 22,197
Current liabilities	¥ 1,090	$ 8,163
Long-term liabilities	336	2,516
Total liabilities	¥ 1,426	$ 10,679

   3) Accounting treatment
      Difference between the consolidated book value of the transferred shares and the amount of sale was recorded as gain on sales of subsidiaries and affiliates’ stocks in other income.
3. Name of the reportable segment in which the divested businesses were included
   Others
4. Approximate amounts of profits and losses related to the divested businesses recorded in the consolidated statements of operations for this fiscal year
   As the transfer was implemented at the beginning of the current fiscal year, the profit or loss from the divestiture is not recorded in the consolidated statements of operations for the current fiscal year.

(Partial transfer of shares of consolidated subsidiary)

The Company transferred, on October 3, 2022, 17% of the issued shares of Mitsui E&S Shipbuilding Co., Ltd. (“MES-S”), a consolidated subsidiary of the Company, to TSUNEISHI SHIPBUILDING Co., Ltd. (“Tsuneishi Shipbuilding”) (hereinafter, the “Transaction”).
Following the Transaction, the Company’s ownership in MES-S was reduced to 34%, whereby MES-S was no longer a specific subsidiary of the Company, as of the aforementioned date. Accordingly, MES-S and its subsidiaries, Niigata Shipbuilding & Repair, Inc. and MES YURA DOCKYARD CO., LTD. (name changed to YURA DOCKYARD CO., LTD. on January 1, 2023) became affiliates accounted for using equity method, and were excluded from the scope of consolidation.

1. Overview of business divestiture
   1) Name of the successor entity
      TSUNEISHI SHIPBUILDING Co., Ltd.
   2) Description of divested businesses
      Design engineering services, marine equipment, ship maneuvering systems, DX monitoring, provision of technical support, etc.

3) Main reason for business divestiture

The Company had continued to be the parent company of MES-S after having arranged for a partial transfer of shares of MES-S that owns the commercial vessel business, excluding the naval ship business, and a part of subsidiaries to Tsuneishi Shipbuilding, on October 1, 2021. However, on October 3, 2022, the Company transferred 17% of the MES-S issued shares that it held to Tsuneishi Shipbuilding, with a view toward creating better synergies through collaboration between the two companies.

4) Date of business divestiture

October 3, 2022

5) Other matters regarding the overview of the transaction including legal form

Share transfer in which consideration received is only property including cash

2. Overview of accounting treatment performed

1) Amount of transfer profit or loss

The sale price is not disclosed from perspective of confidentiality obligation in accordance with the agreement with the transferee.

2) Appropriate book values of assets and liabilities related to transferred businesses, and their breakdown

	Japanese Yen (millions)	U.S.Dollars (thousands)
Current assets	¥ 7,098	$ 53,156
Non-current assets	5,765	43,174
Total assets	¥ 12,863	$ 96,330
Current liabilities	¥ 7,723	$ 57,837
Long-term liabilities	366	2,741
Total liabilities	¥ 8,089	$ 60,578

3) Accounting treatment

Difference between the consolidated book value of the transferred shares and the amount of sale was recorded as gain on sales of subsidiaries and affiliates' stocks in other income.

3. Name of the reportable segment in which the divested businesses were included

Ship

4. Approximate amounts of profits and losses related to the divested businesses recorded in the consolidated statements of operations for this fiscal year

Net sales : ¥ 6,598 million ($ 49,412 thousand)

Operating profit : ¥ 86 million ($ 644 thousand)

15. Investment and Rental Property

(a) Articles concerning situation of investment and rental property

The Company and certain Subsidiaries own rental office building, commercial facilities, and houses (including land) in Oita, Okayama and other areas. Idle land is also owned in Oita, Chiba and other areas.

(b) Articles concerning fair value of investment and rental property

The book value of investment and rental properties stated in the consolidated balance sheets, the increase or decrease in this fiscal year, and fair value are shown below.

2023	Japanese Yen (millions)			
	Book value			Fair value
Usage	Beginning balance as of April 1, 2022	Increase (Decrease)	Ending balance as of March 31, 2023	As of March 31, 2023
Facilities for lease	¥ 21,048	¥ 3,516	¥ 24,564	¥ 16,260
Idle assets (Land)	1,766	(0)	1,766	2,046
Total	¥ 22,814	¥ 3,516	¥ 26,330	¥ 18,306

	U.S. Dollars (thousands)			
	Book value			Fair value
Usage	Beginning balance as of April 1, 2022	Increase (Decrease)	Ending balance as of March 31, 2023	As of March 31, 2023
Facilities for lease	$ 157,627	$ 26,331	$ 183,958	$ 121,770
Idle assets (Land)	13,225	(0)	13,225	15,322
Total	$ 170,852	$ 26,331	$ 197,183	$ 137,092

(note 1) Book value stated in the consolidated balance sheets is net of accumulated depreciation and accumulated impairment losses.

(note 2) The increase in rental properties in this fiscal year is mainly due to the change in scope of consolidation of certain subsidiary (¥3,184 million/ $23,845 thousand) and contract modification (¥488 million/ $3,655 thousand) and new acquisitions (¥251 million / $1,880 thousand).

(note 3) Fair value at the end of this fiscal year is mainly estimated based on the "Real estate appraising standard" with an adjustment using a certain indicator.

The profit and loss from investment and rental properties in this fiscal year are shown below.

2023

	Japanese Yen (millions)							
Usage	Rental income		Rental expenses		Difference		Others (Profit or Loss on sales of assets, etc.)	
Facilities for lease	¥	1,066	¥	273	¥	793	¥	86
Idle assets (Land)		-		-		-		(82)
Total	¥	1066	¥	273	¥	793	¥	4

	U.S. Dollars (thousands)							
Usage	Rental income		Rental expenses		Difference		Others (Profit or Loss on sales of assets, etc.)	
Facilities for lease	$	7,983	$	2,044	$	5,939	$	644
Idle assets (Land)		-		-		-		(614)
Total	$	7,983	$	2044	$	5,939	$	30

(note 1) Rental expenses include depreciation, repair, insurance and taxes-and-dues. Rental income is recognized as revenue from operations, and rental expenses are recognized as operating expenses.

(note 2) Others include gain on disposal of non-current assets and taxes-and-dues, which are recognized as other income (expenses).

2022

	Japanese Yen (millions)							
	Book value						Fair value	
Usage	Beginning balance as of April 1, 2021		Increase (Decrease)		Ending balance as of March 31, 2022		As of March 31, 2022	
Facilities for lease	¥	14,993	¥	6,055	¥	21,048	¥	15,291
Idle assets (Land)		1,024		742		1,766		2,061
Total	¥	16,017	¥	6,797	¥	22,814	¥	17,352

(note 1) Book value stated in the consolidated balance sheets is net of accumulated depreciation and accumulated impairment losses.

(note 2) The increase in rental properties in this fiscal year is mainly due to contract modification (¥4,568 million) and new acquisitions (¥2,229 million), and the decrease in rental properties is mainly due to deconsolidation of certain subsidiaries (¥311 million).

(note 3) Fair value at the end of this fiscal year is mainly estimated based on the “Real estate appraising standard” with an adjustment using a certain indicator.

The profit and loss from investment and rental properties in this fiscal year are shown below.

2022

	Japanese Yen (millions)							
Usage	Rental income		Rental expenses		Difference		Others (Profit or Loss on sales of assets, etc.)	
Facilities for lease	¥	1,070	¥	297	¥	773	¥	-
Idle assets (Land)		-		-		-		(66)
Total	¥	1,070	¥	297	¥	773	¥	(66)

(note 1) Rental expenses include depreciation, repair, insurance and taxes-and-dues. Rental income is recognized as revenue from operations, and rental expenses are recognized as operating expenses.

(note 2) Others include loss on impairment of non-current assets and taxes-and-dues, which are recognized as other income (expenses).

16. Revenue Recognition

(a) Disaggregation of Revenue

The information on disaggregation of revenue from contracts with customers for the years ended March 31, 2023 and 2022 were as follows:

Japanese Yen (millions)

2023	Ship	Ocean Development	Machinery	Engineering	Sub total	Others *1	Total
Breakdown by geographical regions							
Japan	¥ 5,833	¥ -	¥ 134,960	¥ 75	¥ 140,868	¥ 32,305	¥ 173,173
Asia	264	-	25,464	22,300	48,028	5,249	53,277
Europe	502	-	2,357	-	2,859	12,027	14,886
North America	-	-	8,369	-	8,369	2,092	10,461
Central and South America	0	-	439	-	439	2,675	3,114
Other regions	-	-	2,585	-	2,585	3,728	6,313
Revenue from contracts with customers	¥ 6,599	¥ -	¥ 174,174	¥ 22,375	¥ 203,148	¥ 58,076	¥ 261,224
Other revenue *2	-	-	37	32	69	1,008	1,077
Net sales to outside customers	¥ 6,599	¥ -	¥ 174,211	¥ 22,407	¥ 203,217	¥ 59,084	¥ 262,301

Japanese Yen (millions)

2022	Ship	Ocean Development	Machinery	Engineering	Sub total	Others *1	Total
Breakdown by geographical regions							
Japan	¥ 25,636	¥ 137	¥ 119,480	¥ 89	¥ 145,342	¥ 30,576	¥ 175,918
Asia	1,324	1,549	18,029	7,563	28,465	4,753	33,218
Europe	433	58	3,412	-	3,903	13,459	17,362
North America	-	16	1,342	(53)	1,305	1,060	2,365
Central and South America	645	256,696	3,155	-	260,496	5,310	265,806
Other regions	50	64,867	8,287	-	73,204	10,030	83,234
Revenue from contracts with customers	¥ 28,088	¥ 323,323	¥ 153,705	¥ 7,599	¥ 512,715	¥ 65,188	¥ 577,903
Other revenue *2	-	-	31	31	62	1,399	1,461
Net sales to outside customers	¥ 28,088	¥ 323,323	¥ 153,736	¥ 7,630	¥ 512,777	¥ 66,587	¥ 579,364

U.S. Dollars (thousands)

2023	Ship	Ocean Development	Machinery	Engineering	Sub total	Others *1	Total
Breakdown by geographical regions							
Japan	$ 43,683	$ -	$ 1,010,709	$ 562	$ 1,054,954	$ 241,931	$ 1,296,885
Asia	1,977	-	190,699	167,003	359,679	39,310	398,989
Europe	3,759	-	17,651	-	21,410	90,070	111,480
North America	-	-	62,675	-	62,675	15,667	78,342
Central and South America	0	-	3,288	-	3,288	20,033	23,321
Other regions	-	-	19,359	-	19,359	27,919	47,278
Revenue from contracts with customers	$ 49,419	$ -	$ 1,304,381	$ 167,565	$ 1,521,365	$ 434,930	$ 1,956,295
Other revenue *2	-	-	277	240	517	7,548	8,065
Net sales to outside customers	$ 49,419	$ -	$ 1,304,658	$ 167,805	$ 1,521,882	$ 442,478	$ 1,964,360

(note 1) "Others" is the segment which is not included in Reportable Segment and includes Stationary diesel power generation plants, Telecommunication equipment related business, Systems development, Gas carriers engineering, Special facilities for naval ships and aircraft related business and others.
(note 2) "Other revenue" is rental income based on "Accounting Standard for Lease Transactions."

Changes in Presentation

Revenues from contracts with customers in “Europe” and “North America,” which were included in “Others” in the year ended March 31, 2022, has been presented individually from the year ended March 31, 2023, since its materiality has increased.

Revenue from contracts with customers in “Africa,” which was presented individually in the year ended March 31, 2022, has been included in “Others” from the year ended March 31, 2023, since its materiality has decreased. Disaggregated revenue from contracts with customers for the year ended March 31, 2022, has been reclassified in order to reflect this change in presentation.

As a result, for the year ended March 31, 2022, ¥70,666 million previously presented in “Africa” and ¥32,295 million previously presented in “Others” have been reclassified as ¥17,362 million in “Europe,” ¥2,365 million in “North America,” and ¥83,234 million in “Others.”

(b) Basic Information to Understand Revenue from Contracts with Customers

Basic information of our performance obligations is as described in Note 1 “Significant Accounting and Reporting Policies, (p) Revenue Recognition.”

(c) Contract Balances

The opening and closing balances of receivables from contracts with customers, contract assets, and contract liabilities were as follows:

	Japanese Yen (millions)		Japanese Yen (millions)		U.S. Dollars (thousands)	
	2023		2022		2023	
Opening balance of receivables from contracts	¥	50,762	¥	123,985	$	380,154
Closing balance of receivables from contracts	¥	55,512	¥	50,762	$	415,727
Opening balance of contract assets	¥	27,788	¥	109,971	$	208,103
Closing balance of contract assets	¥	26,330	¥	27,788	$	197,184
Opening balance of contract liabilities	¥	30,901	¥	106,317	$	231,416
Closing balance of contract liabilities	¥	25,300	¥	30,901	$	189,470

Contract assets are primarily about performance obligations under contracts satisfied over time and revenue has been recognized, but have not yet been billed. In the Group, it primarily relates to the Group’s rights to unbilled portion of the construction and installation works of the equipment that had been finished as of the end of reporting period. Contract assets become receivables once the rights to the receive consideration become unconditional. This is usually when the invoices are issued to customers. The consideration for the construction and installation works of equipment are mainly received within approximately 90 days after issued date for domestic and within 30 days after issued date for international.

Contract liabilities primarily relate to the consideration received before transferring goods or construction services to customers as a credit risk management. Contract liabilities will be reversed and recognized as revenue once the performance obligations are satisfied.

The amount of revenue recognized in the year ended March 31, 2022, from the beginning contract liability balance was ¥82,443 million. The balances of receivables from contracts, contract assets, and contract liabilities had been decreased by ¥73,223 million, ¥82,183 million, and ¥75,416 million, respectively. These were primarily due to the change of scope of consolidation as sales (including partial sale) of subsidiaries’ stocks, and the impacts on the decrease in receivables from contracts, contract assets, and contract liabilities come to ¥60,851 million, ¥80,994 million, and ¥51,061 million, respectively.

Amount of revenue recognized in the year ended March 31, 2022 from performance obligations satisfied in previous years was not significant.

The amount of revenue recognized in the year ended March 31, 2023, from the beginning contract liability balance was ¥22,044 million ($165,086 thousand). The main reason behind the ¥1,458 million ($10,919 thousand) decrease in contract assets in the year ended March 31, 2023 was that a decrease resulting from offsetting the transfer to receivables from contracts with customers and contract liabilities surpassed an increase due to revenue recognition. The main reason behind the ¥5,601 million ($41,946 thousand) decrease in contract liabilities was that a decrease resulting from offsetting revenue recognition and contract assets surpassed an increase due to receipt of advances from customers.

Amount of revenue recognized in the year ended March 31, 2023, from performance obligations satisfied in previous years was not significant.

(d) Transaction Price Allocated to Remaining Performance Obligations

Aggregate amount of the transaction price allocated to the remaining performance obligations as of March 31, 2023 and 2022, and the expected timing when revenue will be recognized were as follows:

	Japanese Yen (millions)		Japanese Yen (millions)		U.S. Dollars (thousands)	
	2023		2022		2023	
Due within one year	¥	163,463	¥	118,086	$	1,224,167
Due after one year through two years		36,505		49,617		273,384
Due after two years through three years		16,396		15,620		122,789
Due after three years		95,453		65,311		714,843
Total	¥	311,817	¥	248,634	$	2,335,183

17. Segment Information

(a) Overview of Reportable Segment

Reportable Segment is composed of the segment by products and services belonging to the operating companies and subject to be reviewed periodically by the Board of Directors to decide the allocation of management resources and to evaluate the performance.
Under the Company (a pure holding company), the Group develops the operation with each operating company making strategies of its products and services in both Japan and abroad comprehensively.
Reportable Segment is classified into 4 segments: Ship, Ocean Development, Machinery and Engineering. Main products and services of each Reportable Segment are as follows.

Ship: commercial ships, high speed passenger/vehicle ferries, offshore structures, underwater TV vehicles, design engineering services, ship related equipments, steel structures

Ocean Development: FPSOs (floating production storage offloading vessels)

Machinery: marine and stationary diesel engines, marine equipments, gas engines, steam turbines, blowers, process compressors, gas turbines, cogeneration system, process equipment, container cranes, industrial cranes, container terminal management systems, HWM manipulators, equipment of radar sensing for underground and construction, induction heaters, wave generators

Engineering: power generation business, overseas civil/architectural works

(b) Calculation Method used for Sales, Segment Income and Loss, Assets, Liabilities and Other Items for each Reportable Segment

The accounting method used for Reportable Segment is the same in material aspects as the method used for “Significant Accounting and Reporting Policies.”
Segment income and loss is based on Operating income (loss) in Consolidated Statements of Operations.
Inter segment profit and transfer are based on the market price.

Change in Calculation Method used for Segment Income and Loss for Reportable Segment

Segment income (loss) used to represent “Operating income (loss)” in Consolidated Statements of Operations. Regarding “Ocean Development,” however, segment income (loss) has changed to represent “Share of profit (loss) of entities accounted for using equity method” since the year ended March 31, 2023, instead of “Operating income (loss).” This is because the management indicator has been changed after MODEC, Inc., which consists of “Ocean Development,” had been excluded from the scope of consolidation and become affiliates accounted for using equity method since the year ended March 31, 2022.
Segment loss for the prior year reflecting the said change is shown in (note 1) for the year ended March 31, 2022, in “(c) Information about Sales, Segment Income and Loss, Assets, Liabilities and Other Items for each Reportable Segment.”

(c) Information about Sales, Segment Income and Loss, Assets, Liabilities and Other Items for each Reportable Segment

Reportable Segment information for the years ended March 31, 2023 and 2022 were as follows:

	Japanese Yen (millions)								
2023	Ship	Ocean Development	Machinery	Engineering	Sub total	Others	Total	Adjustments	Consolidated
Net Sales:									
Outside customers	¥ 6,599	¥ -	¥ 174,211	¥ 22,407	¥ 203,217	¥ 59,084	¥ 262,301	¥ -	¥ 262,301
Inter segment	32	-	491	-	523	11,570	12,093	(12,093)	-
Total	¥ 6,631	¥ -	¥ 174,702	¥ 22,407	¥ 203,740	¥ 70,654	¥ 274,394	¥ (12,093)	¥ 262,301
Segment income	¥ 84	¥ 2,312	¥ 8,374	¥ 547	¥ 11,317	¥ 371	¥ 11,688	¥ (2,312)	¥ 9,376
Assets	¥ -	¥ 54,858	¥ 209,799	¥ 24,952	¥ 289,609	¥ 83,619	¥ 373,228	¥ 66,732	¥ 439,960
Depreciation and amortization	¥ 158	¥ -	¥ 4,695	¥ 7	¥ 4,860	¥ 1,706	¥ 6,566	¥ 478	¥ 7,044
Amortization of goodwill	¥ -	¥ -	¥ -	¥ -	¥ -	¥ 901	¥ 901	¥ -	¥ 901
Year-end balance of goodwill	¥ -	¥ -	¥ -	¥ -	¥ -	¥ 7,626	¥ 7,626	¥ -	¥ 7,626
Share of profit (loss) of entities accounted for using equity method	¥ 119	¥ 2,312	¥ 295	¥ (160)	¥ 2,566	¥ 1,245	¥ 3,811	¥ -	¥ 3,811
Increase in property, plant and equipment and intangible assets	¥ 224	¥ -	¥ 8,212	¥ 8	¥ 8,444	¥ 973	¥ 9,417	¥ 364	¥ 9,781

(note 1) Segment income (loss) in “Ship,” “Machinery,” “Engineering” and “Others” represents “Operating income (loss),” and in “Ocean Development” represents “Share of profit (loss) of entities accounted for using equity method.”

(note 2) Mitsui E&S Shipbuilding Co., Ltd. and its two subsidiaries, which compose “Ship,” were excluded from the scope of consolidation since 3rd quarter of the year ended March 31, 2023. Due to this deconsolidation, net sales, segment income, and other items (depreciation and amortization, share of profit (loss) of entities accounted for using equity method, increase in property, plant and equipment and intangible assets) for "Ship" are presented through the 2nd quarter of the year ended March 31, 2023.

(note 3) “Others” is the segment which is not included in Reportable Segment and includes Stationary diesel power generation plants, Telecommunication equipment related business, Systems development, Gas carriers engineering, Special facilities for naval ships and aircraft related business and others.

(note 4) Adjustments are as follows:

(1) Adjustments of ¥66,732 million recorded for assets primarily include surplus funds (cash and time deposits), long-term investment (investment securities) and assets related to the administration divisions of the Company of ¥70,704 million that are not allocated to any Reportable Segment.

(2) Adjustments of ¥478 million recorded for depreciation and amortization are depreciation for property, plant and equipment and amortization for intangible assets related to the administration divisions.

(3) Adjustments of ¥364 million recorded for increase in property, plant and equipment and intangible assets are increase in assets related to the administration divisions.

(note 5) Segment income is adjusted with operating income in Consolidated Statements of Operations.

2022	Ship	Ocean Development	Machinery	Engineering	Sub total	Others	Total	Adjustments	Consolidated
	Japanese Yen (millions)								
Net Sales:									
Outside customers	¥ 28,088	¥ 323,323	¥ 153,736	¥ 7,630	¥ 512,777	¥ 66,587	¥ 579,364	¥ -	¥ 579,364
Inter segment	869	-	1,196	43	2,108	12,914	15,022	(15,022)	-
Total	¥ 28,957	¥ 323,323	¥ 154,932	¥ 7,673	¥ 514,885	¥ 79,501	¥ 594,386	¥ (15,022)	¥ 579,364
Segment income (loss)	¥ (439)	¥ (8,086)	¥ 8,156	¥ (10,810)	¥ (11,179)	¥ 1,149	¥ (10,030)	¥ -	¥ (10,030)
Assets	¥ 15,072	¥ 31,825	¥ 181,901	¥ 28,141	¥ 256,939	¥ 78,209	¥ 335,148	¥ 74,002	¥ 409,150
Depreciation and amortization	¥ 916	¥ 2,870	¥ 4,419	¥ 1	¥ 8,206	¥ 1,923	¥ 10,129	¥ 520	¥ 10,649
Amortization of goodwill	¥ -	¥ 194	¥ -	¥ -	¥ 194	¥ 854	¥ 1,048	¥ -	¥ 1,048
Year-end balance of goodwill	¥ -	¥ -	¥ -	¥ -	¥ -	¥ 7,996	¥ 7,996	¥ -	¥ 7,996
Share of profit (loss) of entities accounted for using equity method	¥ 1,166	¥ (16,686)	¥ 308	¥ 12	¥ (15,200)	¥ 554	¥ (14,646)	¥ -	¥ (14,646)
Loss on impairment of non-current assets	¥ 54	¥ -	¥ -	¥ 1	¥ 55	¥ -	¥ 55	¥ 28	¥ 83
Increase in property, plant and equipment and intangible assets	¥ 824	¥ 3,940	¥ 7,912	¥ 12	¥ 12,688	¥ 1,221	¥ 13,909	¥ 164	¥ 14,073

(note 1) “Ocean Development” is composed of MODEC, Inc. Because of the partial sale of MODEC shares, they were deemed to be excluded from the scope of consolidation on the end of 3rd quarter of the year ended March 31, 2022. Due to this deconsolidation, "Ocean Development" hereafter consists of affiliates accounted for using equity method.

Segment loss reflecting the change in calculation method used for segment income and loss for Reportable Segment would become ¥20,586 million.

(note 2) “Others” is the segment which is not included in Reportable Segment and includes Stationary diesel power generation plants, Telecommunication equipment related business, Systems development, Gas carriers engineering, Special facilities for naval ships and aircraft related business and others.

(note 3) Adjustments are as follows:

(1) Adjustments of ¥74,002 million recorded for assets primarily include surplus funds (cash and time deposits), long-term investment (investment securities) and assets related to the administration divisions of the Company of ¥76,337 million that are not allocated to any Reportable Segment.

(2) Adjustments of ¥520 million recorded for depreciation and amortization are depreciation for property, plant and equipment and amortization for intangible assets related to the administration divisions.

(3) Adjustments of ¥28 million recorded for loss on impairment of non-current assets are the impairment loss for Corporate.

(4) Adjustments of ¥164 million recorded for increase in property, plant and equipment and intangible assets are increase in assets related to the administration divisions.

(note 4) Segment income (loss) is adjusted with operating loss in Consolidated Statements of Operations.

2023	Ship	Ocean Development	Machinery	Engineering	Sub total	Others	Total	Adjustments	Consolidated
	U.S. Dollars (thousands)								
Net Sales:									
Outside customers	$ 49,419	$ -	$ 1,304,658	$ 167,805	$ 1,521,882	$ 442,478	$ 1,964,360	$ -	$ 1,964,360
Inter segment	240	-	3,677	-	3,917	86,647	90,564	(90,564)	-
Total	$ 49,659	$ -	$ 1,308,335	$ 167,805	$ 1,525,799	$ 529,125	$ 2,054,924	$ (90,564)	$ 1,964,360
Segment income	$ 629	$ 17,314	$ 62,713	$ 4,096	$ 84,752	$ 2,778	$ 87,530	$ (17,314)	$ 70,216
Assets	$ -	$ 410,829	$ 1,571,175	$ 186,864	$ 2,168,868	$ 626,219	$ 2,795,087	$ 499,753	$ 3,294,840
Depreciation and amortization	$ 1,183	$ -	$ 35,161	$ 52	$ 36,396	$ 12,776	$ 49,172	$ 3,580	$ 52,752
Amortization of goodwill	$ -	$ -	$ -	$ -	$ -	$ 6,748	$ 6,748	$ -	$ 6,748
Year-end balance of goodwill	$ -	$ -	$ -	$ -	$ -	$ 57,111	$ 57,111	$ -	$ 57,111
Share of profit (loss) of entities accounted for using equity method	$ 891	$ 17,314	$ 2,209	$ (1,198)	$ 19,216	$ 9,324	$ 28,540	$ -	$ 28,540
Increase in property, plant and equipment and intangible assets	$ 1,678	$ -	$ 61,499	$ 60	$ 63,237	$ 7,286	$ 70,523	$ 2,726	$ 73,249

(note 1) Segment income (loss) in “Ship,” “Machinery,” “Engineering” and “Others” represents “Operating income (loss),” and in “Ocean Development” represents “Share of profit (loss) of entities accounted for using equity method.”

(note 2) Mitsui E&S Shipbuilding Co., Ltd. and its two subsidiaries, which compose “Ship,” were excluded from the scope of consolidation since 3rd quarter of the year ended March 31, 2023. Due to this deconsolidation, net sales, segment income, and other items (depreciation and amortization, share of profit (loss) of entities accounted for using equity method, increase in property, plant and equipment and intangible assets) for "Ship" are presented through the 2nd quarter of the year ended March 31, 2023.

(note 3) “Others” is the segment which is not included in Reportable Segment and includes Stationary diesel power generation plants, Telecommunication equipment related business, Systems development, Gas carriers engineering, Special facilities for naval ships and aircraft related business and others.

(note 4) Adjustments are as follows:

(1) Adjustments of $499,753 thousand recorded for assets primarily include surplus funds (cash and time deposits), long-term investment (investment securities) and assets related to the administration divisions of the Company of $529,499 thousand that are not allocated to any Reportable Segment.

(2) Adjustments of $3,580 thousand recorded for depreciation and amortization are depreciation for property, plant and equipment and amortization for intangible assets related to the administration divisions.

(3) Adjustments of $2,726 thousand recorded for increase in property, plant and equipment and intangible assets are increase in assets related to the administration divisions.

(note 5) Segment income is adjusted with operating income in Consolidated Statements of Operations.

[Related information]

(d) Information by products and services

Information by products and services is the same as Reportable Segment and the description is omitted.

(e) Information by geographical area

1) Sales

2023	Japanese Yen (millions)					
	Japan	Asia	Africa	Central and South America	Others	Total
Net sales	¥ 174,250	¥ 53,277	¥ 3,904	¥ 3,114	¥ 27,756	¥ 262,301

2022	Japanese Yen (millions)					
	Japan	Asia	Africa	Central and South America	Others	Total
Net sales	¥ 177,379	¥ 33,218	¥ 70,666	265,806	¥ 32,295	¥ 579,364

2023	U.S. Dollars (thousands)					
	Japan	Asia	Africa	Central and South America	Others	Total
Net sales	$ 1,304,950	$ 398,989	$ 29,237	$ 23,321	$ 207,863	$ 1,964,360

*Sales amount is based on the place of customer and classified by country or geographical area.

Changes in Presentation

Net sales in “Asia” which was included in “Others” in the year ended March 31, 2022, has been presented individually from the year ended March 31, 2023, since its materiality has increased. Net sales in “Brazil” which was presented individually in the year ended March 31, 2022, has been included in “Central and South America” from the year ended March 31, 2023, since its materiality has decreased, while net sales in “Central and South America” is presented individually from the year ended March 31, 2023. In order to reflect these changes in presentation, “(e) Information by geographical area, 1) Sales” in the year ended March 31, 2022, has been reclassified.

As a result, for the year ended March 31, 2022, ¥242,947 million previously presented in “Brazil” and ¥88,372 million previously presented in “Others” have been reclassified as ¥33,218 million in “Asia,” ¥265,806 million in “Central and South America,” and ¥32,295 million in “Others.”

2) Property, plant and equipment

2023	Japanese Yen (millions)		
	Japan	Others	Total
Property, plant and equipment	¥ 114,982	¥ 785	¥ 115,767

2022	Japanese Yen (millions)		
	Japan	Others	Total
Property, plant and equipment	¥ 116,850	¥ 1,489	¥ 118,339

2023	U.S. Dollars (thousands)		
	Japan	Others	Total
Property, plant and equipment	$ 861,095	$ 5,879	$ 866,974

(f) Information by major customer

2023

Information by major customer is not described because there is no customer with the sales amount exceeds 10% of the sales amount in Consolidated Statements of Operations.

2022	Japanese Yen (millions)	Reportable Segment
Equinor Brasil Energia Ltda.	¥ 86,234	Ocean Development

[Information about gain on bargain purchase for each Reportable Segment]

2023

Not applicable.

2022

Not applicable.

18. Related Party Transactions

(a) Related Party Transactions

Transactions between the Company and related parties for the fiscal years ended March 31, 2023 and 2022 were as follows:

2023:

Not applicable

2022:

Not applicable

Transactions between the Subsidiaries and related parties for the fiscal years ended March 31, 2023 and 2022 were as follows:

2023:

Not applicable

2022:

Affiliate of the Company	Contents of transactions	Japanese Yen (millions)
SEPIA MV30 B.V.	The equipment capital lending	¥ 15,440
SEPIA MV30 B.V.	The equipment capital collection	8,946
BUZIOS5 MV32 B.V.	Construction of FPSO	63,007

1. The transaction amount does not include foreign currency exchange gains and losses, while outstanding balance at the year-end includes foreign currency exchange gains and losses.
2. Policies for determining terms and conditions are as follows:
   (1) FPSO/FSO construction and operation trade are comprehensively determined in consideration by each project plan.
   (2) The equipment capital lending is deliberately determined in consideration by each project plan.
   The interest is reasonably determined by taking into account market interest rates.

(b) Condensed financial information on important affiliates

In the fiscal year ended March 31, 2023, an important affiliate was MODEC, Inc., and its condensed financial information is as follows.

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2023	2022	2023
Total current assets	¥ 186,728	237,026	$ 1,398,397
Total non-current assets	229,447	156,980	1,718,318
Total current liabilities	234,142	306,500	1,753,479
Total non-current liabilities	70,417	23,697	527,350
Total net assets	111,617	63,808	835,895
Operating revenue	¥ 363,567	448,549	$ 2,722,736
Profit (loss) before income taxes	7,277	(39,601)	54,497
Profit (loss)	4,960	(41,864)	37,145

The above condensed financial information represents financial statements prepared by MODEC, Inc. in accordance with International Financial Reporting Standards (IFRS) with adjustments required under accounting principles generally accepted in Japan being added to the financial statements.

19. Per Share Data

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2023	2022	2023
Net assets per share	¥ 1,107.02	¥ 706.06	$ 8.290
Earnings per share	177.47	(269.94)	1.329
Diluted earnings per share	174.92	-	1.310

(note 1) Diluted earnings per share for the previous fiscal year is omitted, since a per share loss arose in the period despite the presence of diluted shares.
(note 2) Basis for calculating earnings per share or loss per share and diluted earnings per share is as follows:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2023	2022	2023
Earnings per share			
Profit (loss) attributable to owners of parent	¥ 15,554	¥ (21,825)	$ 116,483
Value not attributable to shareholders of common stock	529	-	3,962
[Of the above, amount of preferred dividends]	[529]	[-]	[3,962]
Profit (loss) attributable to owners of parent in accordance with the common stock	15,025	(21,825)	112,522
Average number of common stock during the period (Thousands of shares)	84,661	80,853	

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2023	2022	2023
Diluted earnings per share			
Adjustments to profit attributable to owners of parent	¥ -	¥ -	$ -
Increase in the number of common stock (Thousands of shares)	1,235	-	
[Of the above, subscription rights to shares (Thousands of shares)]	[1,235]	[-]	
Overview of potential shares not included in the calculation of the diluted earnings per share because of the lack of dilution effects	-	-	

(note 3) Basis for calculating net assets per share is as follows:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2023	2022	2023
Total net assets	¥ 110,686	¥ 62,949	$ 828,922
Amount deducted from total net assets	13,810	5,857	103,422
[Of the above, amount paid for preferred shares]	[9,000]	[-]	[67,401]
[Of the above, amount of cumulative unpaid preferred dividends]	[529]	[-]	[3,962]
[Of the above, subscription rights to shares]	[133]	[124]	[996]
[Of the above, non-controlling interests]	[4,149]	[5,734]	[31,072]
Net assets related to common stock at the end of the period	96,876	57,092	725,500
Number of shares of common stock at the end of the period used to calculate net assets per share (Thousands of shares)	87,510	80,860	

20. Bonds

Bonds as of March 31, 2023 and 2022 were summarized below:

	Japanese Yen (millions)				U.S. Dollars (thousands)	
	2023		2022		2023	
Unsecured or non-guaranteed-						
1.01% bonds, due September 14, 2022	¥	-	¥	5,000	$	-
0.62% bonds, due December 15, 2022		-		10,000		-
0.70% bonds, due September 15, 2023		5,000		5,000		37,445
Total	¥	5,000	¥	20,000	$	37,445

The amounts that were scheduled to be redeemed for the five-year period after the consolidated closing date were as follows:

	Japanese Yen (millions)		U.S. Dollars (thousands)	
Within one year	¥	5,000	$	37,445
Over one year but within two years	¥	-	$	-
Over two years but within three years	¥	-	$	-
Over three years but within four years	¥	-	$	-
Over four years but within five years	¥	-	$	-

21. Borrowings and Indebtedness

Borrowings and Indebtedness as of March 31, 2023 and 2022 were summarized below:

			Japanese Yen (millions)				U.S. Dollars (thousands)	
	Average interest rate	Due dates	2023		2022		2023	
Short-term borrowings	2.56%	-	¥	115,246	¥	94,615	$	863,072
Current portion of long-term borrowings	0.89%	-		9,375		8,101		70,209
Current portion of lease obligations	-	-		1,863		1,808		13,952
Long-term borrowings	0.94%	2024 to 2042		11,928		19,658		89,328
Lease obligations	-	2024 to 2032		7,061		6,497		52,880
Other interest-bearing liabilities	-	-		-		-		-
			¥	145,473	¥	130,679	$	1,089,441

(note 1) The average interest rates applicable to borrowings, etc. are computed as the weighted average interest rate, based on interest rates and ending balances.

The average interest rate applicable to lease obligations is omitted, as lease obligations are recorded on the consolidated balance sheet primarily at an amount before deducting the portion of lease payments equivalent to interest which is included in the total amount of the lease payments.

(note 2) The scheduled amounts of repayment of long-term borrowings and lease obligations (excluding current portion) for the five-year period after the consolidated closing date were as follows:

	Japanese Yen (millions)							
	Over one year but within two years		Over two years but within three years		Over three years but within four years		Over four years but within five years	
Long-term borrowings	¥	1,377	¥	1,444	¥	1,255	¥	1,144
Lease obligations	¥	1,680	¥	1,580	¥	1,442	¥	970

	U.S. Dollars (thousands)							
	Over one year but within two years		Over two years but within three years		Over three years but within four years		Over four years but within five years	
Long-term borrowings	$	10,312	$	10,814	$	9,399	$	8,567
Lease obligations	$	12,581	$	11,833	$	10,799	$	7,264

22. Subsequent events

Transition to an operating holding company structure through an absorption-type merger of consolidated subsidiaries

Effective April 1, 2023, the Company merged with the two wholly-owned subsidiaries by absorption-type merger, with the Company as the surviving company and the two wholly-owned subsidiaries as the dissolving companies, and shifted to an operating holding company structure.

As of the same date, the Company changed the corporate name to "MITSUI E&S Co., Ltd."

1. Transaction summary

1) Names and businesses of the parties to the merger

	Surviving company in absorption-type merger	Dissolving companies in absorption-type merger	
Name	Mitsui E&S Holdings Co., Ltd.	Mitsui E&S Machinery Co., Ltd.	Mitsui E&S Business Service Co., Ltd.
Business description	Ownership of stocks of companies engaged in design, manufacture, engineering, construction, installation, repair, and maintenance of ships, various machinery, plants, etc., management and administration of such companies, and related operations	Marine and stationary diesel engines, marine equipments, gas engines, steam turbines, blowers, process compressors, gas turbines, cogeneration system, process equipment, container cranes, industrial cranes, container terminal management systems, HWM manipulators, equipment of radar sensing for underground and construction, induction heaters, and wave generators	Shared service business for corporate operations among the Mitsui E&S Group, including finance and accounting, human resources and general affairs, etc.

2) Legal form of the business merger

An absorption-type merger, with the Company as the surviving company and its wholly-owned subsidiaries, Mitsui E&S Machinery Co., Ltd. (hereinafter, "MES-M") and Mitsui E&S Business Service Co., Ltd. (hereinafter, "MES-B") as the dissolving companies.

3) Date of business merger

April 1, 2023

4) Name of company after merger

MITSUI E&S Co., Ltd.

5) Other matters concerning the outline of the transaction

i) Purpose of the merger

Since April 2018, the Group has been working to strengthen its competitiveness and promote growth under a pure holding company. Based on the "Mitsui E&S Group Business Revival Plan" started in FY 2019, we have implemented various measures such as "execution of the sale of assets and businesses" and "business restructuring and promotion of collaboration with other companies regarding cooperative businesses." As a result, we have reached a situation where we are on track to achieve the Business Revival Plan to a certain extent, including the bold implementation of various measures and promotion of selection and concentration under the current structure.

In order to achieve future growth and improve profitability, we have decided on the optimal measures to shift to a new organizational structure. We aim to shorten the distance between MES-M, the Group's mainstay business, and management as well as speed up strategic planning and execution by unifying them. Also, going forward, we aim to change the Group's organizational structure to emphasize growth areas.

Specifically, we will shift from the current pure holding company structure to an operating holding company structure, and merge MES-M, which will be the center of future growth strategies, and MES-B, which will be responsible for corporate operations, into our company to create a unified management structure. This will accelerate the implementation of our growth strategies and improve management efficiency.

ii) Financial position and operating results of the main merged company (MES-M) for the most recent fiscal year (fiscal year ended March 31, 2023)

Assets	¥136,621 million	($1,023,148 thousand)
Liabilities	¥92,412 million	($692,069 thousand)
Net assets	¥44,209 million	($331,079 thousand)
Net sales	¥141,341 million	($1,080,963 thousand)
Profit	¥4,941 million	($37,003 thousand)

2. Summary of accounting procedures implemented

This business merger was treated as a transaction under common control, in accordance with the "Accounting Standards for Business Combinations" (ASBJ Statement No. 21, January 16, 2019) and the "Guidance on Accounting Standards for Business Combinations and Accounting Standards for Business Divestitures" (ASBJ Guidance No. 10, January 16, 2019).

Business merger through acquisition

On September 27, 2022, the Company concluded a share transfer agreement with IHI Corporation and IHI Power Systems Co., Ltd. (hereinafter, "IPS") for the transfer of IPS's business related to marine large bore engines and its associated products (hereinafter, the "Business"), and as of April 1, 2023, the Company acquired all shares of the new company "IPS Aioi Co., Ltd." which took over the Business. As of the same date, the company changed its corporate name to "Mitsui E&S DU Co., Ltd."

1. Outline of the business merger

1) Name of the acquired company and its business

Name of acquired company: IPS Aioi Co., Ltd.

Business description: Business related to marine large bore engines and its associated products

2) Reason for business merger
Mitsui E&S DU Co., Ltd. is a company with strength in the manufacture and after-sales service of 2-stroke engines licensed through Winterthur Gas & Diesel (hereinafter, "WinGD") and 4-stroke engines licensed through S.E.M.T Pielstick, which has earned the trust of its customers. As Mitsui E&S DU Co., Ltd. newly became a member of our Group, we expect to further strengthen our resources in development, production, and after-sales service under the double license system of MAN Energy Solutions and WinGD in our core marine engine business, and through the commercialization of new fuel-compatible engines, we are committed to meeting our customers' needs and creating a carbon-free society.
3) Date of business merger
April 1, 2023
4) Legal form of the business merger
Acquisition of shares in exchange for cash
5) Name of company after merger
Mitsui E&S DU Co., Ltd.
6) Percentage of voting rights acquired
100%
7) Main basis for determining the acquiring company
The Company acquired the shares in exchange for cash.

2. Amount of gain on bargain purchase and reason for accrual
1) Amount of gain on bargain purchase: ¥1,944 million ($14,559 thousand)
The amount of gain on bargain purchase is calculated provisionally because allocation of purchase price is not completed.
2) Reason for accrual
Since the net amount of assets received and liabilities assumed from the acquired company exceeded the acquisition cost of the acquired company, the excess amount is recognized as gain on bargain purchase.

3. Value of assets acquired and liabilities assumed on the date of business merger and their main breakdown
Not yet determined at this time.

Changes in Reportable Segment

In accordance with the policy in "Mid-Term Business Plan 2023" announced on May 13, 2022, we have decided to change our Reportable Segment from "Ship," "Ocean Development," "Machinery" and "Engineering" to "New Business Development," "Marine Propulsion Systems," "Logistics Systems," "Peripheral Businesses" and "Ocean Development" from FY2023. Objectives of this decision are to clarify the positioning of each business and to expand sales and profits.

Main products and services of each Reportable Segment are as follows.

Reportable Segment	Main Products and Services
New Business Development	Industrial machinery (process compressors, gas turbines, blowers, process equipment), advanced machinery (manipulators, ground-penetrating radar systems), and their after-sales services
Marine Propulsion Systems	Marine engines, fuel supply system and auxiliary machineries for dual fuel engines, and their after-sales services
Logistics Systems	Container cranes, industrial cranes, container terminal management systems, and their aftersales services
Peripheral Businesses	Gas carriers engineering, stationary power generation plants, systems development/system related equipment, steel structures, hull blocks, mechanical and electrical equipment maintenance
Ocean Development	FPSOs (floating production storage offloading vessels)

Information on sales and segment income for the year ended March 31, 2023 based on reportable segments after the changes was as follows:

Japanese Yen (millions)

2023	New Business Development	Marine Propulsion Systems	Logistics Systems	Peripheral Businesses	Ocean Development	Sub total	Others	Total	Adjustments	Consolidated
Net Sales:										
Outside customers	¥ 34,865	¥ 97,694	¥ 41,653	¥ 57,356	¥ -	¥ 231,568	¥ 30,733	¥ 262,301	¥ -	¥ 262,301
Inter segment	1,117	427	175	11,570	-	13,289	42	13,331	(13,331)	-
Total	¥ 35,982	¥ 98,121	¥ 41,828	¥ 68,926	¥ -	¥ 244,857	¥ 30,775	¥ 275,632	¥ (13,331)	¥ 262,301
Segment income	¥ 4,258	¥ 2,639	¥ 1,355	¥ 722	¥ 2,312	¥ 11,286	¥ 402	¥ 11,688	¥ (2,312)	¥ 9,376

2023	U.S. Dollars (thousands) New Business Development	Marine Propulsion Systems	Logistics Systems	Peripheral Businesses	Ocean Development	Sub total	Others	Total	Adjustments	Consolidated
Net Sales:										
Outside customers	$ 261,103	$ 731,626	$ 311,937	$ 429,537	$ -	$ 1,734,203	$ 230,157	$ 1,964,360	$ -	$ 1,964,360
Inter segment	8,365	3,198	1,311	86,647	-	99,521	315	99,836	(99,836)	-
Total	$ 269,468	$ 734,824	$ 313,248	$ 516,184	$ -	$ 1,833,724	$ 230,472	$ 2,064,196	$ (99,836)	$ 1,964,360
Segment income	$ 31,887	$ 19,763	$ 10,148	$ 5,407	$ 17,314	$ 84,519	$ 3,011	$ 87,530	$ (17,314)	$ 70,216

(note 1) Segment income (loss) in “New Business Development,” “Marine Propulsion Systems,” “Logistics Systems,” “Peripheral Businesses,” and “Others” represents “Operating income (loss),” and in “Ocean Development” represents “Share of profit (loss) of entities accounted for using equity method.”

(note 2) “Others” is the segment which is not included in Reportable Segment and includes engineering, the ship related service business and others.

(note 3) Segment income is adjusted with operating income in Consolidated Statements of Operations.

(note 4) The amounts for segment assets and other items (depreciation and amortization, amortization of goodwill, year-end balance of goodwill, share of profit (loss) of entities accounted for using equity method, and increase in property, plant and equipment and intangible assets) are currently being calculated and will be disclosed in the year ending March 31, 2024.

In addition, information on disaggregation of revenue from contracts with customers in the year ended March 31, 2023 based on the reportable segments after the changes is currently being calculated and will be disclosed in the year ending March 31, 2024.

Independent auditor’s report

To the Board of Directors of Mitsui E&S Co., Ltd.:

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

Assessment of the reasonableness of the estimated future cash flows used in the impairment testing on goodwill at MES Germany Beteiligungs GmbH

The key audit matter	How the matter was addressed in our audit
As described in the note 1. "Significant Accounting and Reporting Policies, (s)Significant Accounting Estimates, 2)Valuation of goodwill" to the consolidated financial statements, Mitsui E&S Co., Ltd. and its consolidated subsidiaries (hereinafter, referred to as the "Group") recognized goodwill of ¥7,626 million in the consolidated statement of financial position, including goodwill of ¥7,608 million allocated to the engineering business within the ship segment which arose when MES Germany Beteiligungs GmbH (hereinafter, referred to as “MES Germany”), a consolidated subsidiary in the ship segment of the Group located in Germany, acquired control of TGE Marine AG.	In order to assess the reasonableness of the estimated future cash flows related to the measurement of the recoverable amount used in the impairment testing on the CGU that included goodwill allocated to the engineering business within the ship segment operated by MES Germany, we requested the auditors of MES Germany, a consolidated subsidiary, to perform an audit. Then we evaluated the report of the auditors to conclude on whether sufficient and appropriate audit evidence was obtained from the following procedures, among others:

MES Germany prepares its financial statements in accordance with International Financial Reporting Standards (IFRS) and performs an impairment test on a cash-generating unit (CGU) or a group of CGUs to which goodwill is allocated at least annually, in addition to when there is an impairment indicator. When the recoverable amount of a CGU is less than the carrying amount, the carrying amount is reduced to the recoverable amount and the resulting decrease in the carrying amount is recognized as an impairment loss. The recoverable amount is the higher of either the value in use or fair value less cost of disposal. In the current fiscal year, MES Germany used the value in use as the recoverable amount in the impairment testing. The future cash flows used to measure the value in use were estimated based on the mid-term business plan of the engineering business within the ship segment prepared by management of MES Germany (hereinafter, referred to as "the mid-term business plan"). Key assumptions underlying the mid-term business plan, such as the prospects for future growth rate of the gas-carrier market in which its engineering business operates as well as mid-term sales forecasts, involved management judgment. Accordingly, management's judgment thereon had a significant effect on the estimated future cash flows. We, therefore, determined that our assessment of the reasonableness of the estimated future cash flows related to the measurement of the recoverable amount used in the impairment testing on the CGU that included goodwill allocated to the engineering business within the ship segment operated by MES Germany was the most significant matters in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.	**(1) Internal control testing** Evaluation of the effectiveness of the design and operation of internal controls at MES Germany in relation to the measurement of value in use in impairment tests of CGU, including goodwill, with a focus on the internal approval process for future cash flows created reflecting uncertainties as risks based on the mid-term business plan. **(2) Assessment of the reasonableness of the estimated future cash flows** Inquiring of management and the general manager of MES Germany regarding key assumptions underlying its mid-term business plan which formed the basis for estimating the future cash flows, as well as assessment of the reasonableness of key assumptions by performing the following procedures: ● comparison of the growth rate of the gas-carrier market with relevant market data published by external organizations; ● assessment of the mid-term business plan by comparing it with the latest planned orders and actual orders; ● comparison of the future cash flows estimated by management of MES Germany with those independently estimated by incorporating the effect of specific uncertainties into the mid-term business plan, after considering the results of the evaluation of the reasonableness of key assumptions as well as the assessment of the past business plan including the causes of variances with actual results;

Other Information

The other information comprises the information included in the Consolidated Financial Statements 2023, but does not include the consolidated financial statements and our auditor's reports thereon. Management is responsible for the preparation and presentation of the other information. Corporate auditors and the board of corporate auditors are responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of the reporting process for 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 and Corporate Auditors and the Board of Corporate Auditors for the Consolidated Financial Statements

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

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

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

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Convenience Translation

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

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

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

Makoto Yamada

Designated Engagement Partner

Certified Public Accountant

Fumitaka Otani

Designated Engagement Partner

Certified Public Accountant

KPMG AZSA LLC

Tokyo Office, Japan

August 10, 2023

Notes to the Reader of Independent Auditor's Report:

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

MITSUI E&S