JGC Holdings Corporation

2-3-1, Minato Mirai, Nishi-ku, Yokohama-shi,
Kanagawa 220-6001, Japan

Tel: +81-45-682-1111
Fax: +81-45-682-1112
https://www.jgc.com/en/

JGC Annual Financial Results FY2021

For the fiscal year ended March 31, 2022

JGC Holdings Corporation

CONTENTS

Analysis of Performance and Financial Position

Overview of the business environment

Despite a trend toward global economic recovery during fiscal 2021 amid progress in COVID-19 vaccinations, recurrent variant outbreaks have meant that recovery has varied nationally and regionally. Meanwhile, other global trends such as responses to the UN Sustainable Development Goals (SDGs) and the Paris Agreement have made a major shift toward global decarbonization inevitable. As the fiscal year came to a close, conditions in Ukraine accelerated a rise in resource prices, leading to higher materials, equipment, and transport costs, among other repercussions.

The business environment remains uncertain, but energy demand has continued to recover since the second half of the current fiscal year in the markets served by the JGC Group's engineering, procurement, and construction (EPC) operations, consisting of the Energy Solutions Business (including oil refining, petrochemicals and chemicals, gas processing, liquefied natural gas (LNG), clean energy, and non-ferrous metal refining) and the Facility Infrastructure Solutions Business (including power generation, receiving terminals, pharmaceuticals, medical care, water treatment, and railways). Moreover, from an energy security standpoint, the importance of low-impact natural gas (including LNG) is growing. Oil- and gas-producing countries have also started making moves to resume capital investment plans. In the context of decarbonization in Asia and elsewhere, there was a gradual emergence of other positive signs, such as progress in renewable power generation and investment related to industrial infrastructure. The domestic market for this business saw activity in refinery renovation and maintenance, and there has been ongoing capital investment in infrastructure focused on life sciences, healthcare, and chemicals.

In the Functional Materials Manufacturing Business, catalysts and fine chemicals saw a recovery in product demand as the global economy tended toward recovery and domestic and overseas refineries operated at higher capacity as fuel demand increased. In fine ceramics, product demand rose overall as the global market for semiconductor applications remained brisk.

The JGC Group continued to monitor the ever-changing business environment, gathering information and taking steps against risk as needed, as we sought to prevent the spread of COVID-19 infection and remain cognizant of the safety of employees and other stakeholders as we conducted business.

Results of operations

In the current consolidated fiscal year, the JGC Group reported net sales of ¥428,401 million (down 1.3% year on year), operating income of ¥20,689 million (down 9.6% year on year), and net loss attributable to owners of the parent of ¥35,551 million. ROE was -8.8%.

Assets

Total current assets at the end of the current consolidated fiscal year were ¥533,344 million, a decrease of ¥15,015 million compared to the end of the previous fiscal year. This was mainly due to an increase of ¥19,878 million in cash and deposits, a decrease of ¥33,729 million in other current assets, and an increase of ¥3,386 million in allowance for doubtful accounts. Fixed assets totaled ¥160,931 million, an increase of ¥6,761 million from the end of the previous fiscal year. This was mainly due to an increase of ¥2,879 million in property, plant and equipment, an increase of ¥2,809 million in intangible assets, and an increase of ¥1,073 million in investments and other assets.

As a result, total assets amounted to ¥694,275 million, a decrease of ¥8,254 million compared to the end of the previous fiscal year.

Liabilities

Total current liabilities at the end of the current consolidated fiscal year were ¥253,837 million, an increase of ¥56,781 million compared to the end of the previous fiscal year. This was mainly due to a decrease of ¥3,205 million in reserve for losses on contracts, an increase of ¥21,481 million in notes and accounts payable, an increase of ¥40,239 million in short-term loans and current maturities of long-term debt, and an increase of ¥9,049 million in contract liabilities compared to the end of the previous fiscal year in advances received on uncompleted contracts. Total long-term liabilities amounted to ¥52,776 million, a decrease of ¥35,081 million compared to the end of the previous fiscal year. This was mainly due to a decrease of ¥35,288 million in long-term debt, less current maturities.

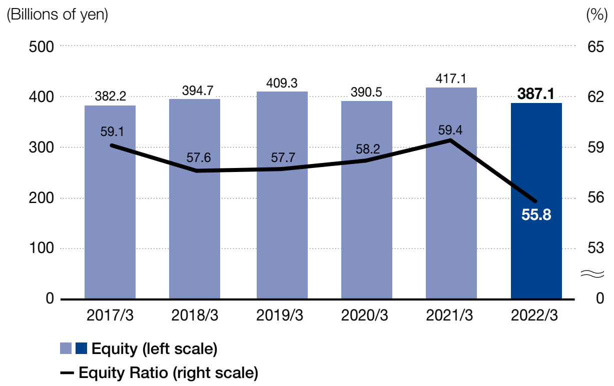
As a result, total liabilities amounted to ¥306,613 million, an increase of ¥21,700 million from the end of the previous fiscal year.

Net assets

Total net assets at the end of the current consolidated fiscal year were ¥387,662 million, a decrease of ¥29,954 million compared to the end of the previous fiscal year. This was mainly due to an increase of ¥3,821 million in foreign currency translation adjustments and the recording of ¥35,551 million in net loss attributable to owners of the parent.

As a result, the equity ratio was 55.8% compared with 59.4% at the end of the previous fiscal year.

Equity and Equity Ratio



Segment information

Total Engineering Business

In fiscal 2021, the JGC Group sought orders of ¥260 billion in the Energy Solutions Business, ¥80 billion in the Facility Infrastructure Solutions Business, and ¥160 billion in the domestic business, amounting to ¥500 billion. Intensive sales activities were conducted, focusing on viable projects, but in this second year of uncertainty, the higher materials, equipment, and transport costs in some expected projects required more time for final client negotiations. This and other factors limited the amount of consolidated orders received to ¥315.9 billion.

In the Energy Solutions Business, orders included pre-Front-End Engineering Design (FEED) services for a floating LNG (FLNG) plant in Nigeria, FEED services for an FLNG plant in Malaysia, and EPC services for upgrading and modification of a natural gas liquid (NGL) plant in Saudi Arabia. A feasibility study*1 was conducted on development of facilities and infrastructure for green hydrogen and ammonia production using solar and wind power in Azerbaijan applying Japanese technology and expertise. This project also included formulation of a roadmap for large-scale production of green ammonia for power generation and export as well as development of domestic infrastructure.

In the Facility Infrastructure Solutions Business, we began to see results from sales activities to develop clients and coordinate and secure projects through a solutions-driven approach starting with conceptual design. Awarded contracts included EPC services for construction of a contact lens plant in Malaysia, industrial park infrastructure in Bangladesh, an LNG receiving terminal in Taiwan, and with JGC Philippines, a mega solar power plant in that country. A key strategy of our current medium-term business plan, "Building a Sustainable Planetary Infrastructure 2025 (BSP 2025)," is expanding growth markets and segments for EPC business, and to this end, JGC Asia Pacific Pte. Ltd. was established in Singapore on January 1 this year as part of efforts to reinforce our sales and project execution network in the Asia-Pacific region. To take on increasingly complex water infrastructure issues, the JGC Group also concluded a strategic partnership agreement in overseas water infrastructure with Nihon Suido Consultants Co., Ltd., which provides comprehensive water consultancy services.

In the domestic business, orders included refinery maintenance, EPC services for construction of a chemical products manufacturing plant, expansion of refrigeration oils' raw material production capacity, and expansion of polyethylene insulation production facilities. Healthcare and life sciences orders included EPC services for construction of an active pharmaceutical ingredient (API) plant for small and midsize molecule drugs, construction of a nucleic acid pharmaceutical plant, and construction of several hospitals. The pharmaceutical plant EPC business was also acquired from IHI Plant Services Corporation through a business transfer agreement. At domestic plant construction sites, we began to verify the effectiveness of 3D printing in construction in anticipation of widespread introduction and, ultimately, digitalization of plant construction. The JGC Group also established a new ¥10 billion investment framework for start-ups in Japan and overseas. Within this framework, we established a ¥5 billion corporate venture capital (CVC) fund called the JGC Mirai Innovation Fund, managed with the independent venture capital firm Global Brain Corporation, which has invested in companies engaged in mesenchymal stem cell (MSC)-based regenerative medicine, digital therapeutics applying an original music therapy for stroke patients with gait disorders, advanced nuclear fusion technology, and measurement technology to understand wind direction and speed in three dimensions. In other pioneering

Fiscal 2021

	Total Engineering Business (Millions of yen)	Year-on-year Change (%)	Functional Materials Manufacturing Business (Millions of yen)	Year-on-year Change (%)	Other Businesses (Millions of yen)	Year-on-year Change (%)
Net Sales	377,995	(2.7)	44,251	8.7	6,155	32.1
Operating Income	13,222	(21.4)	7,296	25.4	1,006	433.9

Analysis of Performance and Financial Position

work, a pilot chemical plant jointly operated with Asahi Kasei Corporation began synthesizing "green" chemicals from a large-scale hydrogen production system,*2 and with Cosmo Oil Co., Ltd. and Revo International Inc., development is now underway to demonstrate and establish a domestic supply chain model for bio-jet fuel production from used cooking oil, with production and supply of next-generation sustainable aviation fuel (SAF) on a commercial scale.*3 A study on developing a regional low-carbon hydrogen model based on waste plastic gasification recycling in urban areas of Japan was undertaken with Iwatani Corporation and Toyota Tsusho Corporation,*4 while with Teijin Limited and the University of Tokyo, an industry–academia working group on building a sustainable textile industry ecosystem was launched. With Bridgestone Corporation, the National Institute of Advanced Industrial Science and Technology (AIST), Tohoku University, and ENEOS Corporation, joint research also began on chemical recycling technologies to produce isoprene, a raw material for synthetic rubber, from used tires.*5

*1 Selected by the METI in the 2021 feasibility study project for overseas development of high-quality energy infrastructure
*2 Selected as a NEDO Green Innovation Fund project: Hydrogen production through water electrolysis using power from renewables
*3 Selected as a NEDO Development of Production Technologies for Biojet Fuels project: Development of supply chain model through demonstration
*4 Selected as a NEDO Development of Technologies for Realizing a Hydrogen Society project: Development of regional hydrogen-energy utilization technology/ Surveys and research on hydrogen production and utilization potential
*5 Selected as a NEDO Green Innovation Fund project: Development of technology for producing raw materials for plastics using CO_2 and other sources

Functional Materials Manufacturing Business

In catalysts, global economic improvement amid wider vaccination led to a rebound in demand for Fluid Catalytic Cracking (FCC) catalysts and others domestically and overseas as fuel demand gradually returned.

Demand also turned toward recovery in fine chemicals, as seen for silica sols used in hard disk polishing and as a support material in catalytic converters, functional coating materials, cosmetics materials, and optical materials.

Fine ceramics also saw increased demand, driven by greater demand for products used in semiconductor applications as demand in that market expanded. Production and shipments of high thermal conductivity silicon nitride substrates for electric and hybrid vehicles are fully underway, with customers having approved samples from a new mass production facility built in 2020. Expansion of the ceramics business was sought through a December 28, 2021, agreement with Showa Denko Materials Co., Ltd. to acquire the ceramics business. The transfer was intended to facilitate product development in growth segments (such as semiconductors and next-generation vehicles) by combining Showa Denko Materials' expertise in volume production and materials with the JGC Group's expertise in non-oxide ceramic materials and processing.

Cash flows

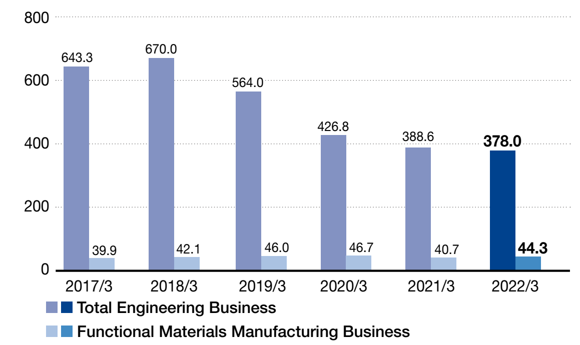
Current cash and cash equivalents (hereafter, "net cash") on a consolidated basis as of the end of the consolidated fiscal year stood at ¥288,009 million, a year-on-year increase of ¥19,728 million.

With regard to cash flows from operating activities, loss before taxes on income of ¥27,260 million and a decrease in accounts receivable—other are the major contributors to give a total of ¥19,312 million for the current fiscal year, compared to ¥12,467 million for the previous fiscal year.

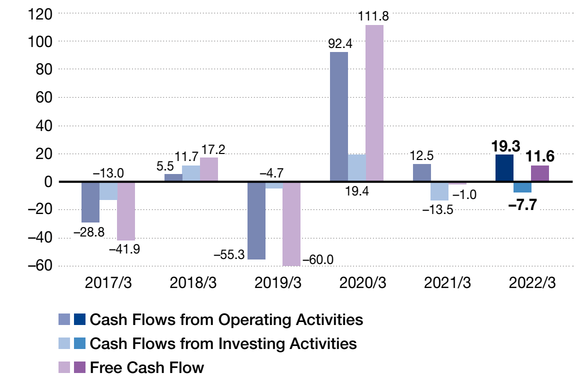
Cash flows from investing activities amounted to ¥7,695 million used in these activities, mainly due to payments for purchases of property, plant and equipment, compared to ¥13,521 million used in these activities in the previous fiscal year.

Cash flows used in financing activities amounted ¥149 million, mainly due to payment for dividends, compared to cash flows provided by financing activities of ¥197 million in the previous fiscal year.

Net Sales by Reportable Segment



Cash Flows



Analysis of new contracts

In the current consolidated fiscal year, orders received totaled ¥309,505 million.

The tables below provide a breakdown of new contracts in the Total Engineering Business by sector and region.

New Contracts by Business Sector

(Billions of yen)

Year ended March 31	2021	2021 (Percentage of new contracts)
Oil and gas development projects	41.3	6.0%
Petroleum refining projects	433.2	63.4%
LNG projects	36.8	5.4%
Chemical projects	23.3	3.4%
Power generation, nuclear power, and new energy	128.5	18.8%
Living and general production facility	9.9	1.5%
Environmental protection, social development, and IT	4.5	0.7%
Others	5.6	0.8%

(Billions of yen)

Year ended March 31	2022	2022 (Percentage of new contracts)
Energy Transition		
Oil and gas	92.9	30.0%
LNG	48.0	15.5%
Chemical	48.3	15.6%
Clean energy	28.6	9.2%
Others	2.6	0.8%
Healthcare & Life sciences	83.2	26.9%
Industrial & Urban infrastructure	5.7	1.8%
Others	0.2	0.2%

* The classification has been changed from the current fiscal year.

New Contracts by Region

(Billions of yen)

Years ended March 31	2021	2022	2022 (Percentage of new contracts)
Japan	182.1	170.9	54.1%
East and Southeast Asia	9.9	67.9	21.5%
Middle East	452.1	63.7	20.2%
Africa	17.3	2.0	0.6%
North America & Other	21.5	11.4	3.6%

Future outlook

Total Engineering Business

In the Energy Solutions Business, the business environment is likely to remain uncertain in view of the pandemic, higher prices for many resources due to tight supply and demand, and current conditions in Ukraine, which are accelerating the rise in resource prices. At the same time, Europe's natural gas supply and demand has been strained since the latter half of 2021, energy shortages have occurred, and as much of the world decouples from Russia, countries are diversifying suppliers. This has underscored the importance of natural gas and LNG as stable, transitional energy sources in the shift to a low-carbon or decarbonized society. We therefore expect resumed capital investment by clients who recognize the value of stable energy supplies over the medium to long term.

In the Facility Infrastructure Solutions Business as well, energy and infrastructure demand is likely to keep expanding, driven by population and economic growth in emerging economies and elsewhere, with the need for decarbonization as a background factor. We anticipate steady implementation of capital investment plans.

Client capital investment is also expected in the domestic sector, for maintenance at existing refineries, healthcare and life sciences projects, and decarbonization areas such as hydrogen.

We will continue to closely monitor emerging trends, such as the impact of the pandemic on performance, as manifested in issues such as construction delays in current projects, and the impact of higher materials, equipment, and transport costs as affected by conditions in Ukraine.

Functional Materials Manufacturing Business

Turning to the Functional Materials Manufacturing Business, in catalysts, we will again seek a larger domestic market share for FCC catalysts and continue developing overseas operations, maintain our partnerships and improve profitability for hydrotreating catalysts, work to secure new chemical catalyst projects, and in environmental catalysts, develop materials for clean energy applications and expand into new fields. In fine chemicals, we will focus on launching new silica sol polishing materials, expanding functional coating material sales and applications, developing cosmetic microbead alternatives, and expanding optical material sales and applications.

In fine ceramics, we will work to acquire new clients for optical communication circuit boards and enter new fields, and through quality improvement, facility investment, and increased hiring, we will seek increased orders for products used in semiconductor applications and for silicon nitride substrates with high thermal conductivity.

We will continue to closely monitor emerging trends, such as the impact of the pandemic on this business, and the impact of higher raw material and fuel costs as affected by conditions in Ukraine.

Consolidated Balance Sheets

March 31, 2022 and 2021

	Millions of yen 2022	Millions of yen 2021	Thousands of U.S. dollars (Note 1) 2022
ASSETS			
CURRENT ASSETS:			
Cash and deposits (Notes 2, 11 and 14)	¥ 288,159	¥268,281	$2,354,433
Notes and accounts receivable (Notes 8 and 13)	—	143,064	—
Notes receivable, trade receivables, contract assets and other (Notes 2, 8, 14 and 16)	141,223	—	1,153,877
Inventories (Note 3)	37,031	32,968	302,566
Other current assets (Notes 8, 13 and 14)	70,493	104,222	575,970
Allowance for doubtful accounts	(3,562)	(176)	(29,104)
TOTAL CURRENT ASSETS	533,344	548,359	4,357,742
PROPERTY, PLANT AND EQUIPMENT (Note 9):			
Land (Note 12)	18,617	18,553	152,112
Buildings and structures (Note 2)	74,182	61,504	606,112
Machinery and equipment (Note 2)	72,213	61,247	590,024
Construction in progress (Note 2)	803	17,836	6,561
Other (Note 2)	4,795	4,260	39,178
	170,610	163,400	1,393,987
Less accumulated depreciation	(101,076)	(96,745)	(825,852)
NET PROPERTY, PLANT AND EQUIPMENT	69,534	66,655	568,135
INTANGIBLE ASSETS	9,676	6,867	79,059
INVESTMENTS AND OTHER ASSETS:			
Investments in unconsolidated subsidiaries and affiliates (Notes 7 and 14)	30,786	29,579	251,540
Investment securities (Notes 2, 7 and 14)	25,052	24,621	204,690
Long-term loans receivable (Note 14)	12	182	98
Deferred tax assets (Note 10)	13,558	15,532	110,777
Net defined benefit asset (Note 4)	1,507	860	12,313
Other	10,806	9,874	88,291
TOTAL INVESTMENTS AND OTHER ASSETS	81,721	80,648	667,709
TOTAL ASSETS	¥ 694,275	¥702,529	$5,672,645

The accompanying notes are an integral part of these statements.

	Millions of yen 2022	Millions of yen 2021	Thousands of U.S. dollars (Note 1) 2022
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES:			
Short-term loans and current maturities of long-term debt (Notes 2, 8, 13 and 14)	¥ 40,828	¥ 589	$ 333,589
Notes and accounts payable (Notes 8, 13 and 14)	63,259	41,778	516,864
Contract liabilities (Notes 13 and 16)	109,756	—	896,773
Advances received on uncompleted contracts (Note 13)	—	100,707	—
Reserve for job warranty costs	1,074	1,318	8,775
Reserve for losses on contracts	385	3,590	3,146
Income taxes payable	5,245	1,264	42,855
Other current liabilities (Notes 8, 13 and 14)	33,290	47,810	271,999
TOTAL CURRENT LIABILITIES	253,837	197,056	2,074,001
LONG-TERM LIABILITIES:			
Long-term debt, less current maturities (Notes 2, 8 and 14)	31,496	66,784	257,341
Net defined benefit liability (Note 4)	16,095	15,545	131,506
Deferred tax liabilities for land revaluation (Note 12)	1,015	1,015	8,293
Other long-term liabilities (Note 10)	4,170	4,513	34,071
TOTAL LONG-TERM LIABILITIES	52,776	87,857	431,211
TOTAL LIABILITIES	306,613	284,913	2,505,212
CONTINGENCIES (Note 5)			
NET ASSETS (Note 6):			
SHAREHOLDERS' EQUITY			
Common stock			
Authorized 600,000,000 shares			
Issued 259,336,682 shares in 2022 259,214,827 shares in 2021	23,673	23,612	193,423
Capital surplus	25,771	25,710	210,565
Retained earnings	342,198	380,402	2,795,963
Treasury stock, at cost 6,750,140 shares in 2022 6,749,173 shares in 2021	(6,741)	(6,740)	(55,078)
TOTAL SHAREHOLDERS' EQUITY	384,901	422,984	3,144,873
ACCUMULATED OTHER COMPREHENSIVE INCOME			
Net unrealized holding gains on securities (Notes 7 and 14)	6,312	5,571	51,573
Deferred gains on hedges (Note 8)	3,786	248	30,934
Revaluation reserve for land (Note 12)	(10,892)	(10,892)	(88,994)
Foreign currency translation adjustments	3,462	(359)	28,287
Remeasurements of defined benefit plans (Note 4)	(424)	(432)	(3,464)
TOTAL ACCUMULATED OTHER COMPREHENSIVE INCOME	2,244	(5,864)	18,336
NON-CONTROLLING INTERESTS	517	496	4,224
TOTAL NET ASSETS	387,662	417,616	3,167,433
TOTAL LIABILITIES AND NET ASSETS	¥694,275	¥702,529	$5,672,645

Consolidated Statements of Operations

Years ended March 31, 2022 and 2021

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
NET SALES (Notes 9 and 16)	¥428,401	¥433,970	$3,500,294
COST OF SALES	383,029	390,188	3,129,577
Gross profit	45,372	43,782	370,717
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	24,683	20,902	201,675
Operating income	20,689	22,880	169,042
OTHER INCOME (EXPENSES):			
Interest and dividend income	3,164	2,218	25,852
Interest expense	(419)	(180)	(3,423)
Gain on sales of investment securities (Note 7)	799	1,845	6,528
Gain on liquidation of subsidiaries and associates	180	—	1,471
Loss on impairment of fixed assets (Notes 9 and 17)	—	(2,911)	—
Exchange gain (loss), net	2,528	(2,059)	20,655
Equity in earnings of affiliates	3,014	2,187	24,626
Loss on Ichthys LNG Project (Note 19)	(57,577)	—	(470,439)
Loss on devaluation of investment securities (Note 7)	(397)	(1,357)	(3,244)
Other, net (Note 7)	759	(179)	6,201
	(47,949)	(436)	(391,773)
Income (loss) before taxes on income	(27,260)	22,444	(222,731)
TAXES ON INCOME (Note 10):			
Current	7,773	13,974	63,510
Deferred	464	3,262	3,791
NET INCOME (LOSS)	(35,497)	5,208	(290,032)
NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	54	67	441
NET INCOME (LOSS) ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ (35,551)	¥ 5,141	$ (290,473)

	Yen		U.S. dollars (Note 1)
	2022	2021	2022
AMOUNTS PER SHARE OF COMMON STOCK:			
Net income (loss)	¥(140.77)	¥20.37	$(1.15)
Cash dividends applicable to the year	¥ 15.00	¥12.00	$ 0.12

As described in Note 1(y), the Group has applied the "Accounting Standard for Revenue Recognition." As a result, for the fiscal year ended March 31, 2022, net loss per share decreased by ¥0.38 ($0.00).
The accompanying notes are an integral part of these statements.

Consolidated Statements of Comprehensive Income

Years ended March 31, 2022 and 2021

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
NET INCOME (LOSS)	¥(35,497)	¥ 5,208	$(290,032)
OTHER COMPREHENSIVE INCOME (Note 18)			
Net unrealized holding gains on securities (Notes 7 and 14)	653	3,330	5,336
Deferred gains on hedges (Note 8)	2,856	4,597	23,335
Translation adjustments	3,220	16,407	26,309
Remeasurements of defined benefit plans (Note 4)	(4)	1,058	(33)
Share of other comprehensive income of affiliates accounted for using equity method	1,411	(674)	11,529
TOTAL OTHER COMPREHENSIVE INCOME	¥ 8,136	¥24,718	$ 66,476
TOTAL COMPREHENSIVE INCOME	¥(27,361)	¥29,926	$(223,556)
COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥(27,415)	¥29,859	$(223,997)
Non-controlling interests	¥54	¥ 67	$ 441

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Net Assets

Years ended March 31, 2022 and 2021

	Common stock		Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gains (losses) on securities (Notes 7 and 14)	Deferred gains (losses) on hedges (Note 8)	Revaluation reserve for land (Note 12)	Foreign currency translation adjustments	Remeasurements of defined benefit plans (Note 4)	Non-controlling interests	Total net assets
	Shares	Amount										
	Thousands of shares	Millions of yen										
Balance at April 1, 2020	259,111	¥23,555	¥25,653	¥375,641	¥(6,739)	¥2,206	¥(1,005)	¥(10,892)	¥(16,491)	¥(1,411)	¥463	¥390,980
Issuance of common stock	104	57	57									114
Net income attributable to owners of the parent				5,141								5,141
Cash dividends				(3,028)								(3,028)
Effect of change in scope of consolidation				1,642			(2,250)		(55)			(663)
Gain on disposal of treasury stock					(1)							(1)
Effect of change in scope of equity method accounting				1,006			(648)		(35)	(0)		323
Net changes in items other than shareholders' equity						3,365	4,151		16,222	979	33	24,750
Net changes during the year	104	57	57	4,761	(1)	3,365	1,253		16,132	979	33	26,636
Balance at March 31, 2021	259,215	¥23,612	¥25,710	¥380,402	¥(6,740)	¥5,571	¥ 248	¥(10,892)	¥ (359)	¥ (432)	¥496	¥417,616
Cumulative impact of changes in accounting policies				312								312
Restated balance	259,215	¥23,612	¥25,710	¥380,714	¥(6,740)	¥5,571	¥ 248	¥(10,892)	¥ (359)	¥ (432)	¥496	¥417,928
Issuance of common stock	122	61	61									122
Net loss attributable to owners of the parent				(35,551)								(35,551)
Cash dividends				(3,030)								(3,030)
Effect of change in scope of consolidation				65					(29)			36
Gain on disposal of treasury stock					(1)							(1)
Net changes in items other than shareholders' equity						741	3,538		3,850	8	21	8,158
Net changes during the year	122	61	61	(38,516)	(1)	741	3,538		3,821	8	21	(30,266)
Balance at March 31, 2022	259,337	¥23,673	¥25,771	¥342,198	¥(6,741)	¥6,312	¥ 3,786	¥(10,892)	¥ 3,462	¥ (424)	¥517	¥387,662

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gains on securities (Notes 7 and 14)	Deferred gains on hedges (Note 8)	Revaluation reserve for land (Note 12)	Foreign currency translation adjustments	Remeasurements of defined benefit plans (Note 4)	Non-controlling interests	Total net assets
	Amount										
	Thousands of U.S. dollars (Note 1)										
Balance at April 1, 2021	$192,924	$210,066	$3,108,113	$(55,070)	$45,518	$2,026	$(88,994)	$(2,933)	$(3,530)	$4,053	$3,412,173
Cumulative impact of changes in accounting policies			2,549								2,549
Restated balance	$192,924	$210,066	$3,110,662	$(55,070)	$45,518	$2,026	$(88,994)	$(2,933)	$(3,530)	$4,053	$3,414,722
Issuance of common stock	499	499									998
Net loss attributable to owners of the parent			(290,473)								(290,473)
Cash dividends			(24,757)								(24,757)
Effect of change in scope of consolidation			531					(237)			294
Gain on disposal of treasury stock				(8)							(8)
Net changes in items other than shareholders' equity					6,055	28,908		31,457	66	171	66,657
Net changes during the year	499	499	(314,699)	(8)	6,055	28,908		31,220	66	171	(247,289)
Balance at March 31, 2022	$193,423	$210,565	$2,795,963	$(55,078)	$51,573	$30,934	$(88,994)	$28,287	$(3,464)	$4,224	$3,167,433

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Years ended March 31, 2022 and 2021

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income (loss) before taxes on income	¥(27,260)	¥22,444	$(222,731)
Adjustments to reconcile income (loss) before taxes on income to net cash provided by operating activities:			
Depreciation and amortization	7,203	6,432	58,853
Loss on impairment of fixed assets	—	2,911	—
Increase in allowance for doubtful accounts	3,712	99	30,329
Decrease in reserve for losses on contracts	(3,252)	(7,454)	(26,571)
Increase (decrease) in net defined benefit plans	353	(1,281)	2,884
Interest and dividend income	(3,164)	(2,218)	(25,852)
Interest expense	419	180	3,423
Exchange gain	(4,420)	(2,320)	(36,114)
Equity in earnings of affiliates	(3,014)	(2,187)	(24,626)
Gain on sales of investment securities	(799)	(1,845)	(6,528)
Loss on devaluation of investment securities	397	1,357	3,244
Decrease in notes receivable, trade receivables, contract assets and other	3,327	—	27,184
Decrease in notes and accounts receivable	—	3,451	—
(Increase) decrease in inventories	(3,743)	1,686	(30,583)
Decrease in accounts receivable – other	33,328	3,479	272,310
Increase (decrease) in notes and accounts payable	19,072	(27,457)	155,830
Increase in contract liabilities	8,740	—	71,411
Increase in advances received on uncompleted contracts	—	17,720	—
Decrease in accounts payable – other	(13,437)	(513)	(109,788)
Other	(895)	10,277	(7,313)
Subtotal	16,567	24,761	135,362
Interest and dividends received	5,342	3,344	43,647
Interest paid	(419)	(183)	(3,423)
Income taxes paid	(2,178)	(15,455)	(17,796)
NET CASH PROVIDED BY OPERATING ACTIVITIES	¥ 19,312	¥ 12,467	$ 157,790

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for purchases of property, plant and equipment	¥ (5,468)	¥ (8,720)	$ (44,677)
Proceeds from sales of property, plant and equipment	10	46	82
Payments for purchases of investment securities	(2,435)	(5,627)	(19,895)
Payments for purchases of intangible assets	(4,340)	(1,487)	(35,460)
Proceeds from sales of investment securities	2,835	2,095	23,163
Proceeds from capital reduction of investments	1,065	—	8,701
Other	638	172	5,213
NET CASH USED IN INVESTING ACTIVITIES	(7,695)	(13,521)	(62,873)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from bonds	—	20,000	—
Repayments of bonds	—	(20,000)	—
Net increase in short-term loans	1,819	17	14,862
Proceeds from long-term loans	1,617	3,408	13,212
Repayments of long-term loans	(370)	(63)	(3,023)
Net increase in treasury stock	(1)	(1)	(8)
Cash dividends paid	(3,032)	(3,030)	(24,773)
Cash dividends paid to non-controlling interests	(33)	(34)	(270)
Other	(149)	(100)	(1,217)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(149)	197	(1,217)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	7,969	5,342	65,112
NET INCREASE IN CASH AND CASH EQUIVALENTS	19,437	4,485	158,812
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	268,281	261,899	2,192,017
INCREASE IN CASH AND CASH EQUIVALENTS FROM NEWLY CONSOLIDATED SUBSIDIARIES	291	1,897	2,378
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 11)	¥288,009	¥268,281	$2,353,207

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of JGC HOLDINGS CORPORATION ("Company") and its consolidated subsidiaries (together, "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 ("IFRS").

The accounts of consolidated foreign subsidiaries are prepared in accordance with either IFRS or U.S. generally accepted accounting principles ("U.S. GAAP"), with adjustments for the specified five items as applicable. The accompanying consolidated financial statements have been translated into English (with some expanded descriptions) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Japanese 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.

In addition, certain reclassifications have been made to present the accompanying consolidated financial statements in a format which is more familiar to readers outside Japan. Furthermore, certain reclassifications of previously reported amounts have been made to reconcile the consolidated financial statements for the year ended March 31, 2021 to the 2022 presentation.

The translation of the 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, 2022, which was ¥122.39 to U.S.$1. The convenience translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at this or any other rate of exchange.

(b) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its significant subsidiaries that include less than 50% owned affiliates controlled through substantial ownership of majority voting rights or existence of substantial control. All significant inter-company transactions and account balances are eliminated in consolidation.

Investments in non-consolidated subsidiaries and affiliates over which the Company has the ability to exercise significant influence over operating and financial policies of the investees are accounted for by the equity method.

The number of consolidated subsidiaries and affiliates accounted for using the equity method at March 31, 2022 and 2021 were as follows:

	2022	2021
Consolidated subsidiaries	21	20
Affiliates accounted for using equity method	8	7

Consolidated subsidiaries and affiliates accounted for using the equity method at March 31, 2022 and 2021 were as follows:

Consolidated subsidiaries	Location	Capital share	
		2022	2021
JGC CORPORATION	Japan	100%	100%
JGC JAPAN CORPORATION	Japan	100%	100%
JGC PLANTECH AOMORI CO., LTD.	Japan	100%	100%
JGC Catalysts and Chemicals Ltd.	Japan	100%	100%
JAPAN FINE CERAMICS CO., LTD.	Japan	100%	100%
NIKKI BUSINESS SERVICES CO., LTD.	Japan	100%	100%
JAPAN NUS CO., LTD.	Japan	89%	89%
JGC ASIA PACIFIC PTE. LTD.*2	Singapore	100%	100%
JGC PHILIPPINES, INC.	Philippines	100%	100%
JGC Gulf International Co. Ltd.	Saudi Arabia	100%	100%
JGC Gulf Engineering Co. Ltd.	Saudi Arabia	75%	75%
JGC OCEANIA PTY LTD	Australia	100%	100%
JGC America, Inc.	U.S.A.	100%	100%
JGC (GULF COAST), LLC	U.S.A.	100%	100%
JGC Exploration Eagle Ford LLC	U.S.A.	100%	100%
JGC EXPLORATION CANADA LTD.	Canada	100%	100%
PT. JGC INDONESIA	Indonesia	49%	49%
JGC Construction International Pte. Ltd.*1	Singapore	100%	100%
JGC ASIA PACIFIC (M) Sdn. Bhd.*1, *2	Malaysia	100%	100%
Al Ashilah Desalination Company S.A.O.C.*1	Oman	75%	75%
JGC Vietnam Co., Ltd.*3	Vietnam	100%	100%

Affiliates accounted for using equity method	Location	Capital share	
		2022	2021
Nikki-Universal Co., Ltd.	Japan	50%	50%
Swing Corporation	Japan	33%	33%
Swing AM Corporation	Japan	33%	33%
Swing Engineering Corporation	Japan	33%	33%
A.R.C.H WLL*4	Bahrain	30%	30%
Japan Sankofa Offshore Production Pte. Ltd.*4	Singapore	26%	26%
ASH SHARQIYAH OPERATION AND MAINTENANCE COMPANY LLC*4	Saudi Arabia	29%	29%
Japan NuScale Innovation, LLC*5	U.S.A.	69%	100%

Investments in non-consolidated subsidiaries and affiliates not accounted for by the equity method are carried at cost, adjusted for any substantial and non-recoverable decline in value. The effect on net income and retained earnings from those investments not accounted for under the equity method is immaterial.

*1 In the year ended March 31, 2021, JGC Construction International Pte. Ltd., JGC SP (Malaysia) Sdn. Bhd., and Al Ashilah Desalination Company S.A.O.C. were included in the consolidation because their effect on the consolidated financial statements became significant.
*2 In the year ended March 31, 2022, JGC SINGAPORE PTE LTD changed its name to JGC ASIA PACIFIC PTE. LTD. and JGC SP (Malaysia) Sdn. Bhd. changed the name to JGC ASIA PACIFIC (M) Sdn. Bhd.
*3 In the year ended March 31, 2022, JGC Vietnam Co., Ltd. was included in the consolidation because its effect on the consolidated financial statements became significant.
*4 In the year ended March 31, 2021, A.R.C.H WLL, Japan Sankofa Offshore Production Pte. Ltd., and ASH SHARQIYAH OPERATION AND MAINTENANCE COMPANY LLC were included in the scope of the equity method because their effect on the consolidated financial statements became significant.
*5 In the year ended March 31, 2022, Japan NuScale Innovation, LLC was included in the scope of the equity method because its effect on the consolidated financial statements became significant.

(c) CONSOLIDATED STATEMENTS OF CASH FLOWS

In preparing the consolidated statements of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with negligible risk of changes in value, and maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

(d) CONVERSION OF FOREIGN CURRENCIES AND TRANSLATION OF STATEMENTS

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates.

Balance sheets of consolidated foreign subsidiaries are translated into Japanese yen at the year-end rates except for net assets accounts, which are translated at the historical rates. Income statements of consolidated foreign subsidiaries are translated at average rates except for transactions with the Company, which are translated at the rates used by the Company.

(e) UNIFICATION OF ACCOUNTING POLICIES APPLIED TO FOREIGN SUBSIDIARIES FOR CONSOLIDATED FINANCIAL STATEMENTS

The Accounting Standards Board of Japan ("ASBJ") has issued ASBJ Practical Issues Task Force No. 18 "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" ("PITF No. 18"). PITF No. 18 requires that accounting policies and procedures applied by a parent company and its subsidiaries to similar transactions and events under similar circumstances should, in principle, be unified for the preparation of the consolidated financial statements. PITF No. 18, however, as a tentative measure, allows a parent company to prepare consolidated financial statements using foreign subsidiaries' financial statements prepared in accordance with either IFRS or U.S. GAAP. In this case, adjustments for the following five items are required in the consolidation process so that their impacts on net income are accounted for in accordance with Japanese GAAP unless the impact is not material.

(1) Goodwill not subjected to amortization
(2) Actuarial gains and losses of defined benefit plans recognized outside profit or loss
(3) Capitalized expenditures for research and development activities
(4) Fair value measurement of investment properties, and revaluation of property, plant and equipment, and intangible assets
(5) Reclassification adjustments recognized in other comprehensive income on subsequent changes of fair value of equity instruments

(f) ALLOWANCE FOR DOUBTFUL ACCOUNTS

Notes and accounts receivable, including loans and other receivables, are valued by providing for individually estimated uncollectible amounts plus the amounts for probable losses calculated by applying a percentage based on collection experience to the remaining accounts. In Investments and other assets, the amount of Allowance for doubtful accounts is deducted from Long-term loans receivable and Other.

(g) MARKETABLE SECURITIES, INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES, AND INVESTMENT SECURITIES

The Group is required to examine the intent of holding each security and classify those securities as (1) securities held for trading purposes, (2) debt securities intended to be held to maturities, (3) equity securities issued by subsidiaries and affiliates, and (4) all other securities that are not classified in any of the above categories ("available-for-sale securities"). The Group did not have the securities defined as (1) above for the years ended March 31, 2022 and 2021.

Available-for-sale securities with available fair market values are stated at fair market value. 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 the sale of such securities are computed using the moving-average method. Other securities with no available fair market value are stated at moving-average cost. Equity securities issued by subsidiaries and affiliates, which are not consolidated or accounted for using the equity method, are stated at moving-average cost.

If the market value of available-for-sale securities declines significantly, such securities are restated at fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of decline (See Note 7). For equity securities with no available fair market value, if the net asset value of the investee declines significantly, such securities are required to be written down to the net asset value with the corresponding losses in the period of decline. 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.

(h) RECOGNITION OF SALES AND COSTS

Regarding revenue from contracts with customers, in main business, the details of performance obligations and timing of the satisfaction of performance obligations are as follows:

For construction contracts, the Group normally receives consideration of a transaction from customers based on the progress for each performance obligation satisfied over time in accordance with the terms of the respective construction contracts. For sales of goods, the Group normally receives consideration of a transaction from customers within one year after the performance obligations are satisfied. Both contracts do not include a significant financing component.

(1) Construction contracts

In the Total Engineering Business, the Group engages in EPC business mainly by making construction contracts to provide planning, engineering, procurement, construction, commissioning and related services for various types of equipment and facilities. For construction contracts, the Group determines that performance obligations are mainly satisfied over time, and it recognizes revenue over time in line with the satisfaction of performance obligations. The measurement of the progress toward satisfaction of performance obligations is based on the ratio of the construction costs incurred by the end of the reporting period to the estimated total construction costs. The Group recognizes revenue by the cost recovery method when it is not possible to reasonably estimate the progress toward satisfaction of performance obligations, but it is probable that the costs incurred will be recovered. The Group applies the alternative treatment determined in Paragraph 95 of "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 26, 2021, hereinafter "Guidance on Revenue Recognition Accounting Standard") for construction contracts under which the period from the transaction commencement date to the point in time at which performance obligations are expected to be fully satisfied is short. For such contracts, the Group recognizes revenue at the point in time when performance obligations are fully satisfied. In addition, regarding variable consideration with customers, in the case that construction contracts include terms such as provisional payments that vary with the quantity or market price of a particular item or penalties based on delays in delivery, the Group includes the variable consideration in the expected construction revenue to the extent it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty related to the variable consideration is subsequently resolved.

(2) Sales of goods

In the Functional Materials Manufacturing Business, the Group mainly manufactures and sells catalysts, fine chemicals and fine ceramics products. For the sale of these products, the Group applies the alternative treatment determined in Paragraph 98 of "Guidance on Revenue Recognition Accounting Standard" and recognizes revenue when they are shipped.

(i) INVENTORIES

Inventories of the Group are stated at cost determined using the moving-average method (which writes off the book value of inventories based on decreases in profitability) except for contract works in progress as stated in Note 1(h).

(j) OPERATING CYCLE

Assets and liabilities related to long-term contract jobs are included in Current assets and Current liabilities in the accompanying consolidated balance sheets, as they will be liquidated in the normal course of contract completion, although it may require more than one year.

Notes to Consolidated Financial Statements

(k) PROPERTY, PLANT AND EQUIPMENT, DEPRECIATION AND FINANCE LEASES

Property, plant and equipment are stated at cost, except for certain revalued land as explained in Note 12. Depreciation of property, plant and equipment is calculated primarily using the straight-line method for buildings used for business operation and structures which were acquired since April 1, 2016, and the declining-balance method for other property, plant and equipment over the estimated useful lives of the assets. Estimates of useful lives of the assets are based on the Corporate Tax Code of Japan, except for certain of consolidated subsidiaries whose estimates of useful lives of the assets, including water desalination plant, are based on economic useful life.

(l) IMPAIRMENT OF FIXED ASSETS

The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

(m) RETIREMENT AND SEVERANCE BENEFITS AND PENSION COSTS

(1) Employees' severance and retirement benefits

The Company and certain of its consolidated subsidiaries provide two types of post-employment benefit plans, unfunded lump-sum payment plans and funded non-contributory pension plans, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors.

The Company and certain of its consolidated subsidiaries also have a defined contribution pension plan, which was transferred from a portion of defined benefit pension plan.

The Company and certain of its consolidated subsidiaries provided allowance for employees' severance and retirement benefits at March 31, 2022 and 2021, based on the estimated amounts of projected benefit obligation, actuarially calculated using certain assumptions and the fair value of the plan assets at that date.

The method of attributing the amount of expected retirement benefit in each period is a benefit formula basis.

The Group recognizes past service costs as expenses using the straight-line method over 12 years within the average of the estimated remaining service lives of the employees, and actuarial gains and losses as expenses using the declining-balance method over 12 years within the average of the estimated remaining service lives.

However, certain consolidated subsidiaries recognized actuarial differences as expenses in the period incurred.

(2) Officers' severance and retirement benefits

Consolidated domestic subsidiaries provide for liabilities in respect of lump-sum severance and retirement benefits to directors and corporate statutory auditors computed on the assumption that all officers retired at a year-end.

(n) RESEARCH AND DEVELOPMENT COSTS

Research and development costs for the improvement of existing skills and technologies or the development of new skills and technologies, including basic research and fundamental development costs, are charged to income in the period incurred. The total amount of research and development expenses, included in Cost of sales and Selling, general and administrative expenses, was ¥6,987 million ($57,088 thousand) and ¥7,742 million, respectively, in 2022 and 2021.

(o) TAXES ON INCOME

The Group provides tax effects of temporary differences between the carrying amounts and the tax basis of assets and liabilities. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

(p) RESERVE FOR JOB WARRANTY COSTS

A reserve for the estimated costs of warranty obligations is provided for the Company's EPC work at the time the related sales on contracts are recorded.

(q) RESERVE FOR LOSSES ON CONTRACTS

A reserve for losses on contracts is provided for an estimated amount of probable losses to be incurred in future years in respect of construction projects in progress. The reserve for losses on contracts and the related contract work in progress are offset, and the net amount of the reserve is presented in the consolidated balance sheets. There was no offset amount as of the year ended March 31, 2022, and the offset amount was ¥2,203 million as of the year ended March 31, 2021.

(r) PER SHARE INFORMATION

Net income (loss) per share is computed by dividing net income (loss) available to common shareholders by the weighted-average number of common shares outstanding for the period.

Cash dividends per share have been presented on an accrual basis and include dividends to be approved after the balance sheet date but applicable to the year then ended.

(s) DERIVATIVE TRANSACTIONS AND HEDGE ACCOUNTING

The accounting standard for financial instruments requires companies to state derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless the derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Company and its consolidated domestic subsidiaries defer recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

However, in cases where foreign exchange forward contracts are used as hedges and meet certain hedging criteria, foreign exchange forward contracts and hedged items are accounted for in the following manner (Allocation method):

(1) If a foreign exchange forward contract is executed to hedge an existing foreign currency receivable or payable,

(i) The difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the book value of the receivable or payable is recognized in the statement of operations in the period which includes the inception date, and

(ii) The discount or premium on the contract (that is, the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognized over the term of the contract.

(2) If a foreign exchange forward contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the foreign exchange forward contract are recognized.

Also, where 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 liabilities for which the swap contract was executed (Special method for interest rate swap).

(t) ACCRUED BONUSES TO DIRECTORS AND CORPORATE AUDITORS

Accrued bonuses to directors and corporate auditors are provided by the estimated amounts, which are obligated to pay to directors and corporate auditors after the fiscal year-end, based on services provided during the current period.

(u) ACCRUED BONUSES TO EMPLOYEES

Accrued bonuses to employees are provided by the estimated amounts, which are obligated to pay to employees after the fiscal year-end, based on services provided during the current period.

(v) CONSOLIDATED TAX PAYMENT SYSTEM

The Company and certain of its consolidated domestic subsidiaries adopted the consolidated taxation system from the first quarter of the year ended March 31, 2020.

(The application of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System)
The Company and certain of its consolidated domestic subsidiaries calculated the amount of deferred tax assets and liabilities according to the tax acts before amended based on treatment of Paragraph 3 of the "Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (ASBJ PITF No. 39, March 31, 2020) instead of applying the provision on Paragraph 44 of the "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28, February 16, 2018), regarding the transition to the group tax sharing system established in the "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 8 of 2020), and items for which the non-consolidated taxation system were reviewed in line with the transition to the group tax sharing system.

In addition, the Company and certain of its consolidated domestic subsidiaries will adopt the "Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System" (ASBJ Practical Solution No. 42, August 12, 2021), which determined accounting treatment and disclosure of general and local current tax and deferred tax in the case of applying the group tax sharing system from the beginning of the year ending March 31, 2023.

(w) ACCOUNTING PRINCIPLES AND PROCEDURES ADOPTED WHEN THE RELATED ACCOUNTING STANDARDS ARE NOT DEFINED

(Accounting treatment on contracts for which orders are received through formed joint ventures)

For the Company and its consolidated domestic subsidiaries, the share of profit and losses of joint ventures is recorded in each account on the consolidated statements of operations and the share of net assets of joint ventures is recorded in the consolidated balance sheets.

In cases of consolidated foreign subsidiaries, the related accounting treatment is in accordance with either IFRS or U.S. GAAP.

(x) SIGNIFICANT ACCOUNTING ESTIMATES

1. Recognition of revenue on construction contracts

(1) The following is the amount of construction contracts revenue, which is recognized over time in line with the satisfaction of performance obligations for years ended March 31, 2022 and 2021. The amount includes constructions completed during each fiscal year. The amount for the year ended March 31, 2021 is before applying the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020).

	Millions of yen		Thousands of U.S. dollars (Note 1)
Years ended March 31,	2022	2021	2022
	¥345,263	¥349,834	$2,821,007

(2) Significant accounting estimate information for the identified items

For construction contracts, the Group determines that performance obligations are mainly satisfied over time, and recognizes revenue over time in line with the satisfaction of performance obligations. The measurement of the progress toward satisfaction of performance obligations is based on the ratio of the construction costs incurred by the end of the reporting period to the estimated total construction costs. The Group recognizes revenue by the cost recovery method when it is not possible to reasonably estimate the progress toward satisfaction of performance obligations, but it is probable that the costs incurred will be recovered without construction contracts under which the period from the transaction commencement date to the point in time at which performance obligations are expected to be fully satisfied is short. In addition, regarding variable consideration with customers, the Group includes the variable consideration in the expected construction revenue to the extent it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty related to the variable consideration is subsequently resolved.

The estimated total construction revenue and the estimated total construction costs are reasonably estimated in accordance with the information that management has determined to be the best at that time based on the know-how, experience and achievements that the Group has gained in past projects.

Risks in receiving orders and project execution, country risks, natural disasters, infectious diseases, insufficient construction workers and risks in rising wages and materials prices for equipment, fuel and raw materials may affect the estimated costs. If any of these risks occur, they could have a negative impact on the Group's consolidated financial position.

2. Reserve for losses on contracts

(1) The following is the amount of the reserve for losses on contracts as of the year ended March 31, 2022 and 2021. The amount as of March 31, 2021 is before applying the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020).

	Millions of yen		Thousands of U.S. dollars (Note 1)
March 31,	2022	2021	2022
	¥384	¥3,590	$3,138

(2) Significant accounting estimate information for the identified items

The reserve for losses on contracts is provided for estimated amounts of probable losses to be incurred in future years in respect of construction projects in progress.

Reserve for losses on contracts are reasonably estimated in accordance with the information that management has determined to be the best at that time based on the know-how, experience and achievements that the Group has gained in the project.

Risks in receiving orders and project execution, country risks, natural disasters, infectious diseases, insufficient construction workers and risks in rising wages and materials prices for equipment, fuel and raw materials may affect the estimated costs. If any of these risks occur, they could have a negative impact on the amount of the reserve for losses.

3. Deferred tax assets

(1) The amount of the deferred tax assets is the same as in Note 10 (2) as of the years ended March 31, 2022 and 2021.

(2) Significant accounting estimates information for the identified items

The deferred tax assets are recognized in accordance with the reasonably estimated future taxable income based on the future business plans and the usage schedule of the deductible temporary difference. As the result, the valuation allowance is provided for deferred tax assets that are not to be realized.

Notes to Consolidated Financial Statements

The addition or reduction of the costs not expected at the time of estimation may affect the estimated amount of the future taxable income. This may result in a negative impact on the amount of the valuation allowance and deferred tax assets.

4. Allowance for doubtful accounts
(1) The following is the amount of the allowance for doubtful accounts as of the years ended March 31, 2022 and 2021.

	Millions of yen		Thousands of U.S. dollars (Note 1)
March 31,	2022	2021	2022
	¥17,386	¥13,106	$142,054

(2) Significant accounting estimate information for the identified items
Notes receivable, trade receivables, contract assets and other, including loans and other receivables, are valued by providing for individually estimated uncollectible amounts plus the amounts for probable losses calculated by applying a percentage based on collection experience to the remaining accounts.

In the future, in cases in which the debtors' fiscal condition worsens, resulting in diminished capacity for repayment, additional allowance may be necessary or additional bad debt expenses may be incurred.

5. Retirement benefit plan assets, liabilities and expenses
(1) The amount of net retirement benefit asset and liability and the amount of retirement benefit expenses for the years ended March 31, 2022 and 2021 are the same as in Note 4 (a) (3) and (4).

(2) Significant accounting estimate information for the identified items
The Company and certain of its consolidated subsidiaries have a defined contribution pension plan, which is a contract-type corporate pension plan. The Group calculates the net retirement benefit asset and liability and retirement benefit expenses, based on certain assumptions used for actuarial calculations, including discount rate, long-term expected rate of return and expected rate of salary increase.

The discount rate is determined based on the rates of return of Japanese government bonds at the fiscal year-end, which correspond to the estimated term of the retirement benefit liabilities. The expected long-term rate of return on pension plan assets is determined based on the current and projected assets allocations, as well as expected long-term investment returns and risks for each category of the plan assets. The expected rate of salary increase is determined based on the average salary for each age group of employees enrolled as of the base date of the fiscal recalculation.

The changes in these estimates and assumptions used for the actuarial calculations may affect the net retirement benefit asset and liability and retirement benefit expenses in the future.

(y) ACCOUNTING STANDARDS FOR REVENUE RECOGNITION
The Group has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020, hereinafter "Revenue Recognition Accounting Standard"), etc., from the beginning of the year ended March 31, 2022, and recognized revenue in the amount expected to be received in exchange for promised goods or services at the time when the control of these goods or services is transferred to the customer.

The Group had previously applied the percentage-of-completion method as the revenue recognition standard for construction contracts whose outcome was deemed certain, and the completed-contract method for other construction contracts. However, in the case of goods or services whose control is transferred to a customer over time, the Group has changed the method to recognize revenue over time in line with the satisfaction of performance obligations to transfer goods or services to a customer. The measurement of the progress toward satisfaction of performance obligations is based on the ratio of the construction costs incurred by the end of the reporting period to the estimated total construction costs. The Group recognizes revenue by the cost recovery method when it is not possible to reasonably estimate the progress toward satisfaction of performance obligations, but it is probable that the costs incurred will be recovered. The Group applies the alternative treatment for construction contracts under which the period from the transaction commencement date to the point in time at which performance obligations are expected to be fully satisfied is short. For such contracts, the Group recognizes revenue at the point in time when performance obligations are fully satisfied. In addition, regarding variable consideration with customers, the Group included the variable consideration to be paid back to the customers in the estimated total construction costs previously. However, the Group changed the method to include the variable consideration in the estimated construction revenue to the extent it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty related to the variable consideration is subsequently resolved.

The application of the Revenue Recognition Accounting Standard is subject to the transitional treatment provided in the proviso of Paragraph 84 of the Standard. The cumulative amount of the impact on retroactive application of the new accounting policy prior to the beginning of the year ended March 31, 2022 is added to or subtracted from retained earnings at the beginning of the year ended March 31, 2022 and the new accounting policy is applied to the balances at the beginning of the year ended March 31, 2022.

However, applying the method specified in explanatory Paragraph 86 in the standard, the Group did not apply the Revenue Recognition Accounting Standard to the contracts whose almost all revenue was recognized before the beginning of the year ended March 31, 2022.

Furthermore, applying the method specified in explanatory Note (1) of Paragraph86 in the standard, with regard to modifications to contracts carried out prior to the beginning of the year ended March 31, 2022, an accounting treatment was applied based on contract terms and conditions to which all contractual changes are reflected. The cumulative impact was added to or subtracted from retained earnings at the beginning of the year ended March 31, 2022.

As a result, for the year ended March 31, 2022, net sales decreased by ¥1,452 million ($11,864 thousand), the cost of sales decreased by ¥1,549 million ($12,656 thousand), operating income increased by ¥96 million ($784 thousand) and loss before taxes on income decreased by ¥96 million ($784 thousand), compared to using the previous method. In addition, the beginning balance of retained earnings increased by ¥312 million ($2,549 thousand). The impact on the per share information is disclosed in the relevant place. As a result of the application of the Revenue Recognition Accounting Standard, "Notes and accounts receivable" which were presented under "Current assets" in the consolidated balance sheets of the year ended March 31, 2021, are included in "Notes receivable, trade receivables, contract assets and other" and "Advances received on uncompleted contracts" which were presented under "Current liabilities" in the consolidated balance sheets of the year ended March 31, 2021, are included in "Contract liabilities" from the year ended March 31, 2022. Also, "Decrease in notes and accounts receivable" which were presented under "Cash flows from operating activities" in the consolidated statements of cash flows for the year ended March 31, 2021, are included in "Decrease in notes receivable, trade receivables, contract assets and other" and "Increase in advances received on uncompleted contracts" which were presented under "Cash flows from operating activities" in the consolidated statements of cash flows for the year ended March 31, 2021, are included in "Increase in contract liabilities" from the year ended March 31, 2022.

In accordance with the transitional treatment provided in Paragraph 89-2 of the Revenue Recognition Accounting Standard, the Group did not reclassify financial statements for the previous fiscal year by applying the new presentation method.

(z) ACCOUNTING STANDARDS FOR FAIR VALUE MEASUREMENT, ETC.
The Group has applied the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019, hereinafter "Fair Value Measurement Accounting Standard"), etc., from the beginning of the year ended March 31, 2022, and in accordance with the transitional treatment provided for in Paragraph 19 of the fair Value Measurement Accounting Standard and Paragraph 44-2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019), the Group continues to apply the new accounting policy prescribed by the Fair Value Measurement Accounting Standard, etc., into the future.

The effect of this change on the consolidated financial statements for the year ended March 31, 2022 is immaterial.

In addition, in Note 14, the Group provides the information on the breakdown of financial instruments by fair value level. However, in accordance with the transitional treatment provided in Paragraph 7-4 of the "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, July 4, 2019), notes related to the previous consolidated fiscal year are not included.

(aa) ACCOUNTING STANDARDS NOT YET APPLIED, ETC.
(Accounting Standards for Fair Value Measurement)
"Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31 June 17, 2021)

(1) Overview
This guidance determined the calculation of fair value of investment trusts, treatment of accompanying notes and notes about fair value for the investment in partnerships which is booked at net asset values in proportion to the Group's share based on the financial statements.

(2) Planned date of application
To be applied from the beginning of the year ending March 31, 2023.

(3) Impact of the application of the accounting standard, etc.
This change has no impact on the consolidated financial statements.

(ab) CHANGES IN PRESENTATION
(Consolidated balance sheets)
1. "Short-term loans receivable" which was presented separately in the previous fiscal year is included in "Other" under "Current assets" for the year ended March 31, 2022 due to its decreased materiality. As a result, ¥447 million presented as "Short-term loans receivable" for the previous fiscal year has been reclassified as "Other" under "Current assets."

(Consolidated statements of cash flows)
1. "Gain on sales of property, plant and equipment" which was presented separately in the previous fiscal year is included in "Other" under "Cash flows from operating activities" for the year ended March 31, 2022, due to its decreased materiality. As a result, ¥8 million presented as "Gain on sales of property, plant and equipment" for the previous fiscal year has been reclassified as "Other" under "Cash flows from operating activities."

2. "Decrease in accounts payable – other" which was included in "Other" under "Cash flows from operating activities" in the previous fiscal year is presented separately for the year ended March 31, 2022, due to its increased materiality. As a result, ¥9,772 million presented as "Other" under "Cash flows from operating activities" for the previous fiscal year has been reclassified as "Decrease in accounts payable – other" ¥513 million and "Other" ¥10,285 million.

Note 2: BORROWINGS AND ASSETS PLEDGED AS COLLATERAL
Short-term loans consisted mainly of unsecured notes and bank overdrafts and bore interest at the annual rates of 3.58% and 0.28% at March 31, 2022 and 2021, respectively. Such loans are generally renewable at maturity.

Long-term debt consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
March 31,	2022	2021	2022
Unsecured debt			
0.24%–7.00% loans from banks	¥ 20,157	¥17,148	$ 164,695
0.03%–0.23% bonds due serially through 2025	50,000	50,000	408,530
	70,157	67,148	573,225
Less current maturities	(38,661)	(364)	(315,884)
Long-term debt due after one year	¥ 31,496	¥66,784	$ 257,341

Assets pledged as collateral for Short-term loans and Long-term debt at March 31, 2022 and 2021, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
March 31,	2022	2021	2022
Cash and deposits	¥ 806	¥ 94	$ 6,586
Notes receivable, trade receivables, contract assets and other	348	–	2,843
Buildings and structures, at net book value	11,615	–	94,902
Machinery and equipment, at net book value	8,583	–	70,128
Construction in progress	–	16,842	–
Leased assets, at net book value	98	93	801
Investment securities	1,900	1,900	15,524
Total	¥23,350	¥18,929	$190,784

The annual maturities of Long-term debt outstanding at March 31, 2022 were as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
2023	¥38,661	$315,884
2024	10,452	85,399
2025	496	4,053
2026	10,512	85,889
2027 and thereafter	10,036	82,000
Total	¥70,157	$573,225

Note 3: INVENTORIES
Inventories at March 31, 2022 and 2021, were summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
March 31,	2022	2021	2022
Inventories:			
Contract works in progress	¥23,804	¥20,849	$194,493
Finished goods and merchandise	6,660	5,593	54,416
Works in process	2,970	2,652	24,267
Raw materials and others	3,597	3,874	29,390
Total	¥37,031	¥32,968	$302,566

Note 4: RETIREMENT BENEFIT PLAN
The significant components of the pension plans as of and for the years ended March 31, 2022 and 2021, were summarized as follows:

Notes to Consolidated Financial Statements

(a) DEFINED BENEFIT PLAN

(1) Movement in retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars (Note 1)
Years ended March 31,	2022	2021	2022
Balance at beginning of year	¥51,870	¥51,098	$423,809
Service costs	2,169	2,037	17,722
Interest costs	246	252	2,010
Actuarial (gain) loss	(47)	1,023	(384)
Benefits paid	(2,701)	(2,528)	(22,069)
Past service costs	72	(35)	589
Increase in a newly consolidated subsidiary	—	2	—
Other	281	21	2,296
Balance at end of year	¥51,890	¥51,870	$423,973

(2) Movement in plan assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
Years ended March 31,	2022	2021	2022
Balance at beginning of year	¥37,404	¥34,949	$305,614
Expected return on plan assets	553	537	4,518
Actuarial loss	225	2,387	1,838
Contributions paid by the employer	978	976	7,991
Benefits paid	(1,711)	(1,453)	(13,980)
Other	63	8	515
Balance at end of year	¥37,512	¥37,404	$306,496

(3) Reconciliation from retirement benefit obligations and plan assets to net defined benefit liability and asset

	Millions of yen		Thousands of U.S. dollars (Note 1)
March 31,	2022	2021	2022
Funded retirement benefit obligations	¥ 37,675	¥ 37,976	$ 307,828
Plan assets	(37,512)	(37,404)	(306,496)
	163	572	1,332
Unfunded retirement benefit obligations	14,215	13,894	116,145
Allowance for officers' lump-sum severance benefits	210	219	1,716
Total net defined benefit liability	¥ 14,588	¥ 14,685	$ 119,193
Net defined benefit liability	16,095	15,545	131,506
Net defined benefit asset	(1,507)	(860)	(12,313)
Total net defined benefit liability	¥ 14,588	¥ 14,685	$ 119,193

(4) Retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars (Note 1)
Years ended March 31,	2022	2021	2022
Service costs	¥2,169	¥2,037	$17,722
Interest costs	246	252	2,010
Expected return on plan assets	(553)	(537)	(4,518)
Net actuarial loss amortization	196	238	1,602
Past service costs amortization	(220)	(220)	(1,798)
Total retirement benefit expenses	¥1,838	¥1,770	$15,018

(5) Remeasurements of defined benefit plans (before income tax effect)

	Millions of yen		Thousands of U.S. dollars (Note 1)
Years ended March 31,	2022	2021	2022
Actuarial losses	¥ 396	¥1,603	$ 3,236
Past service costs	(292)	(185)	(2,386)
Others	(54)	29	(441)
Total balance	¥ 50	¥1,447	$ 409

(6) Accumulated remeasurements of defined benefit plans (before income tax effect)

	Millions of yen		Thousands of U.S. dollars (Note 1)
March 31,	2022	2021	2022
Actuarial losses that are yet to be recognized	¥(1,651)	¥(1,938)	$(13,490)
Past service costs that are yet to be recognized	1,257	1,477	10,271
Total balance	¥ (394)	¥ (461)	$ (3,219)

(7) Plan assets

Components of plan assets

March 31,	2022	2021
Bonds	65%	64%
Equity securities	19	20
Cash and deposits	1	1
Other	15	15
Total	100%	100%

Long-term expected rate of return

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

(8) Actuarial assumptions

The principal actuarial assumptions at March 31, 2022 and 2021, were as follows:

March 31,	2022	2021
Discount rate	Principally 0.25%	Principally 0.25%
Long-term expected rate of return	Principally 1.5%	Principally 1.5%
Expected rate of salary increase	Principally 4.4%	Principally 4.4%

(b) DEFINED CONTRIBUTION PENSION PLAN

The Group's contributions were ¥490 million ($4,004 thousand) and ¥405 million for the years ended March 31, 2022 and 2021, respectively.

Note 5: CONTINGENCIES

(1) It is a business practice in Japan for a company to guarantee the indebtedness of its trading agents, suppliers, subcontractors, and certain subsidiaries and affiliates. The aggregate amount of such guarantees was ¥845 million ($6,904 thousand) and ¥1,033 million at March 31, 2022 and 2021, respectively.

(2) The Group has guaranteed employees' housing loans and others from banks in the amount of ¥3 million ($25 thousand) and ¥6 million at March 31, 2022 and 2021, respectively.

Note 6: NET ASSETS

Under the Japanese Corporation Law ("Law") and regulations, the entire amount paid for new shares is required to be designated as common stock. However, companies may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, companies are required to set aside an amount equal to at least 10% of cash dividends in a legal earnings reserve until the total of the legal earnings reserve and additional paid-in capital equals 25% of common stock.

Under the Law, the legal earnings reserve and additional paid-in capital can be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or can be capitalized by a resolution of the shareholders' meeting. Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Law, however, additional paid-in capital and legal earnings reserve may be transferred to retained earnings by a resolution of the shareholders' meeting as long as the total amount of the legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Law.

At the annual shareholders' meeting of the Company held on June 29, 2022, the shareholders approved cash dividends amounting to ¥3,788 million ($30,950 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2022. Such appropriations are recognized in the period in which they are approved by the shareholders.

Note 7: INFORMATION ON SECURITIES

A. The following tables summarize acquisition costs and book values stated at the fair value of securities with available fair values as of March 31, 2022 and 2021.

AVAILABLE-FOR-SALE SECURITIES WITH AVAILABLE FAIR VALUES

(1) Securities with book values exceeding acquisition costs

	Millions of yen		
March 31, 2022	Acquisition costs	Book value	Difference
Equity securities	¥7,875	¥16,013	¥8,138

	Millions of yen		
March 31, 2021	Acquisition costs	Book value	Difference
Equity securities	¥6,902	¥14,356	¥7,454
Bonds	2,620	2,620	—

	Thousands of U.S. dollars (Note 1)		
March 31, 2022	Acquisition costs	Book value	Difference
Equity securities	$64,344	$130,836	$66,492

(2) Securities with book values not exceeding acquisition costs

	Millions of yen		
March 31, 2022	Acquisition costs	Book value	Difference
Bonds	¥2,620	¥2,616	¥(4)

	Millions of yen		
March 31, 2021	Acquisition costs	Book value	Difference
Equity securities	¥997	¥969	¥(28)

	Thousands of U.S. dollars (Note 1)		
March 31, 2022	Acquisition costs	Book value	Difference
Bonds	$21,407	$21,374	$(33)

B. The following tables summarize book values of securities with no available fair values or securities not valued by fair market prices as of March 31, 2022 and 2021.

(a) AVAILABLE-FOR-SALE SECURITIES WITH NO AVAILABLE FAIR VALUES

	Millions of yen		Thousands of U.S. dollars (Note 1)
March 31,	2022	2021	2022
Non-listed equity securities	¥5,572	¥6,638	$45,527
Other	37	38	302
Total	¥5,609	¥6,676	$45,829

(b) UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES

	Millions of yen		Thousands of U.S. dollars (Note 1)
March 31,	2022	2021	2022
Securities of unconsolidated subsidiaries	¥ 5,619	¥10,295	$ 45,910
Securities of affiliates	25,167	19,284	205,630
Total	¥30,786	¥29,579	$251,540

(c) LOSS ON DEVALUATION OF INVESTMENT SECURITIES

The Company recognized loss on devaluation for investment securities in the amount of ¥397 million ($3,244 thousand) and ¥1,357 million for the years ended March 31, 2022 and 2021, respectively.

The Company and its consolidated domestic subsidiaries follow a policy of devaluation of available-for-sale securities. The policy of devaluation for the Company and its consolidated domestic subsidiaries is that if the available fair value of the securities declines by 50% or more, compared with acquisition costs, all the corresponding securities are devalued as such decline is considered to be substantial and non-recoverable in value. In addition, in the case whereby the available fair value of the securities declines by more than 30% but by less than 50%, the Company and its consolidated domestic subsidiaries examine the recoverability of the fair value of the securities and devaluate if those securities are considered to be unrecoverable.

(d) SALES OF SECURITIES CLASSIFIED AS OTHER SECURITIES

	Millions of yen		Thousands of U.S. dollars (Note 1)
Years ended March 31,	2022	2021	2022
Equity securities			
Sales proceeds	¥906	¥1,894	$7,403
Aggregate gain	799	1,845	6,528
Others			
Sales proceeds	0	24	0
Aggregate loss	—	17	—

Note 8: DERIVATIVE TRANSACTIONS AND HEDGE ACCOUNTING

As explained in Note 1(s), the accounting standard for financial instruments requires companies to state 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.

The Group utilizes foreign currency forward contracts, interest rate swap contracts and commodity swaps as derivative financial instruments only for the purpose of mitigating future risks of fluctuation of foreign currency exchange rates with respect to foreign currency receivable and payable, and mitigating future risks of interest rate increases and fixing the financing costs with respect to borrowings and mitigating future risks of price increases and fixing the costs with respect to commodities used in the EPC business.

Foreign currency forward contracts and interest rate swap contracts are subject to risks of foreign exchange rate changes and interest rate changes, respectively.

The derivative transactions are executed and managed in accordance with the established policies and within the specified limit on the amounts of derivative transactions allowed.

The following summarizes hedging derivative financial instruments used by the Group and hedged items:

Hedging instruments	Hedged items
Foreign currency forward contracts	Foreign currency accounts receivable, accounts payable and future transactions denominated in a foreign currency
Interest rate swap contracts	Interest on loans payable

Notes to Consolidated Financial Statements

The Group evaluates hedge effectiveness semi-annually by comparing the cumulative changes in cash flows from or the changes in fair value of hedged items and the corresponding changes in the hedging derivative instruments. However, where the principal conditions underlying the hedging instruments and the hedged assets or liabilities are similar, the evaluation of hedge effectiveness is not performed.

The Group's financial instrument counter-parties are all prime banks with high ratings, and the Group does not expect non-performance by the counterparties.

(a) FAIR VALUE OF UNDESIGNATED DERIVATIVE FINANCIAL INSTRUMENTS

Fair value of undesignated derivative financial instruments as of March 31, 2022 and 2021, is summarized as follows:

	Millions of yen				
	Contract amount				
March 31, 2022	Due within one year	Due after one year	Total	Fair value	Profit or loss evaluation
Forward exchange contracts					
Sell U.S. dollars	¥3,138	¥ —	¥ 3,138	¥ 33	¥ 33
Sell Euro	5,673	5,925	11,598	1,518	1,518
Sell CAD	2,804	—	2,804	65	65
Buy U.S. dollars	2,801	—	2,801	(49)	(49)
Buy Euro	5,673	5,925	11,598	(1,518)	(1,518)
Buy CAD	2,804	—	2,804	(65)	(65)
Product swap					
Sell Petroleum-related products	320	74	394	(200)	(200)
Buy Petroleum-related products	320	74	394	200	200

	Millions of yen				
	Contract amount				
March 31, 2021	Due within one year	Due after one year	Total	Fair value	Profit or loss evaluation
Forward exchange contracts					
Sell U.S. dollars	¥86,616	¥ —	¥86,616	¥ 824	¥ 824
Sell Euro	752	11,598	12,350	735	735
Sell CNY	16,562	—	16,562	(15)	(15)
Buy U.S. dollars	16,189	—	16,189	(843)	(843)
Buy Euro	504	11,598	12,102	(747)	(747)
Buy CNY	16,562	—	16,562	15	15
Product swap					
Sell Petroleum-related products	67	183	250	58	58
Buy Petroleum-related products	67	183	250	(58)	(58)

	Thousands of U.S. dollars (Note 1)				
	Contract amount				
March 31, 2022	Due within one year	Due after one year	Total	Fair value	Profit or loss evaluation
Forward exchange contracts					
Sell U.S. dollars	$25,639	$ —	$25,639	$ 270	$ 270
Sell Euro	46,352	48,411	94,763	12,403	12,403
Sell CAD	22,910	—	22,910	531	531
Buy U.S. dollars	22,886	—	22,886	(400)	(400)
Buy Euro	46,352	48,411	94,763	(12,403)	(12,403)
Buy CAD	22,910	—	22,910	(531)	(531)
Product swap					
Sell Petroleum-related products	2,614	605	3,219	(1,634)	(1,634)
Buy Petroleum-related products	2,614	605	3,219	1,634	1,634

Fair value of forward exchange contracts is stated based on the quoted price from banks.

(b) FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS DESIGNATED AS HEDGING INSTRUMENTS

Fair value of derivative financial instruments designated as hedging instruments as of March 31, 2022 and 2021, is summarized as follows:

March 31, 2022			Millions of yen		
			Contract amount		
Accounting method	Hedging instruments	Hedged item	Contract amount	Portion over one year	Fair value
Allocation method (Note 1(s))	Forward exchange contracts Sell U.S. dollars	Trade receivables, contract assets and other	¥12,553	¥6,570	¥ 400
Allocation method (Note 1(s))	Forward exchange contracts Sell Euro	Trade receivables, contract assets and other	382	—	(14)
Allocation method (Note 1(s))	Forward exchange contracts Sell SEK	Trade receivables, contract assets and other	629	—	24
Allocation method (Note 1(s))	Forward exchange contracts Buy U.S. dollars	Accounts payable	131	78	1
Allocation method (Note 1(s))	Forward exchange contracts Buy Euro	Accounts payable	60	26	3
Principal method (Note 1(s))	Interest rate swap contracts Receive floating and Pay fixed swap	Long-term debt	28,475	27,494	(582)

March 31, 2021			Millions of yen		
			Contract amount		
Accounting method	Hedging instruments	Hedged item	Contract amount	Portion over one year	Fair value
Allocation method (Note 1(s))	Forward exchange contracts Sell U.S. dollars	Accounts receivable	¥ 642	¥ 154	¥ (30)
Allocation method (Note 1(s))	Forward exchange contracts Sell Euro	Accounts receivable	363	—	(6)
Allocation method (Note 1(s))	Forward exchange contracts Buy U.S. dollars	Accounts payable	560	8	36
Allocation method (Note 1(s))	Forward exchange contracts Buy Euro	Accounts payable	744	—	14
Principal method (Note 1(s))	Interest rate swap contracts Receive floating and Pay fixed swap	Long-term debt	10,298	10,298	(1,206)

March 31, 2022			Thousands of U.S. dollars (Note 1)		
			Contract amount		
Accounting method	Hedging instruments	Hedged item	Contract amount	Portion over one year	Fair value
Allocation method (Note 1(s))	Forward exchange contracts Sell U.S. dollars	Trade receivables, contract assets and other	$102,566	$53,681	$3,268
Allocation method (Note 1(s))	Forward exchange contracts Sell Euro	Trade receivables, contract assets and other	3,121	—	(114)
Allocation method (Note 1(s))	Forward exchange contracts Sell SEK	Trade receivables, contract assets and other	5,139	—	196
Allocation method (Note 1(s))	Forward exchange contracts Buy U.S. dollars	Accounts payable	1,070	637	8
Allocation method (Note 1(s))	Forward exchange contracts Buy Euro	Accounts payable	490	212	25
Principal method (Note 1(s))	Interest rate swap contracts Receive floating and Pay fixed swap	Long-term debt	232,658	224,643	(4,755)

Note 9: SEGMENT INFORMATION

(a) OVERVIEW OF REPORTABLE SEGMENTS

The reportable segments of the Group are those units for which separate financial statements can be obtained among the constituent units of the Group and regularly examined by the Chief Executive Officer for decisions on the allocation of management resources and for assessing business performance. The operations of the Group are classified into two reportable segments: "Total Engineering" and "Functional Materials Manufacturing".

Major activities included in "Total Engineering" are design, procurement, construction and performance test services of machinery and plants for petroleum, petroleum refining, petrochemicals, gas, chemicals, nuclear energy, metal refining, biochemical, food, pharmaceuticals, medical, logistics, information technology, environmental conservation and pollution control. Major activities in "Functional Materials Manufacturing" include manufacturing and distribution of chemical and catalyst products (FCC catalysts, hydrotreating catalysts, deNOx catalysts, petrochemical catalysts, etc.) and new functional material products (colloidal silica, coating materials for surface treatment, material for semiconductors and cosmetic products, etc.).

The accounting policies of the segments are substantially the same as those described in the significant accounting policies in Note 1.

As described Note 1(y), the Revenue Recognition Accounting Standard has been applied from the beginning of the current fiscal year. The method of calculating profit or loss of business segments has been altered due to a change in the accounting method for revenue recognition.

As a result of this change, compared to the previous method, "Total Engineering" net sales for the current fiscal year increased by ¥286 million ($2,337 thousand) and segment profit increased by ¥96 million ($784 thousand). "Functional Materials Manufacturing" net sales decreased by ¥1,630 million ($13,318 thousand) and "Other" net sales decreased by ¥108 million ($882 thousand).

The following is information about sales and profit or loss by reportable segments for the years ended March 31, 2022 and 2021:

	Millions of yen						
	Reportable segment						
Year ended March 31, 2022	Total Engineering	Functional Materials Manufacturing	Subtotal	Other	Total	Adjustment	Consolidated
Net sales:							
External customers	¥377,995	¥44,251	¥422,246	¥ 6,155	¥428,401	¥ —	¥428,401
Inter-segment	53	1	54	1,867	1,921	(1,921)	—
Total	¥378,048	¥44,252	¥422,300	¥ 8,022	¥430,322	¥ (1,921)	¥428,401
Segment profit	¥ 13,222	¥ 7,296	¥ 20,518	¥ 1,006	¥ 21,524	¥ (835)	¥ 20,689
Segment assets	¥414,381	¥66,425	¥480,806	¥33,957	¥514,763	¥179,512	¥694,275
Depreciation and amortization	¥ 3,909	¥ 2,869	¥ 6,778	¥ 422	¥ 7,200	¥ 3	¥ 7,203
Capital expenditures	¥ 3,192	¥ 3,508	¥ 6,700	¥ 1,659	¥ 8,359	¥ 2,095	¥ 10,454

*1. The "Other" includes business activities of consulting, management of real estate and water supply and oil and gas production.
*2. "Adjustment" is as follows:
(1) Adjustment for Segment profit and Depreciation and amortization represent corporate expenses not allocated to each segment and the elimination of inter-segment transactions.
(2) Adjustment for Segment assets includes corporate assets unallocated to any reportable segment of ¥182,773 million ($1,493,365 thousand). Corporate assets are mainly Cash and deposits, Investment securities, and fixed assets (Buildings and structures, Land, etc.) of the Company.
(3) Adjustment for Capital expenditures represents corporate assets unallocated to any reportable segment.
(4) The corporate assets are not allocated to any reportable segment, but Depreciation and amortization for the corporate assets are allocated to the reportable segments considering the burden rate.
*3. Segment profit is reconciled to Operating income on the consolidated statements of operations.

	Millions of yen						
	Reportable segment						
Year ended March 31, 2021	Total Engineering	Functional Materials Manufacturing	Subtotal	Other	Total	Adjustment	Consolidated
Net sales:							
External customers	¥388,586	¥40,726	¥429,312	¥ 4,658	¥433,970	¥ —	¥433,970
Inter-segment	61	11	72	2,157	2,229	(2,229)	—
Total	¥388,647	¥40,737	¥429,384	¥ 6,815	¥436,199	¥ (2,229)	¥433,970
Segment profit	¥ 16,825	¥ 5,817	¥ 22,642	¥ 188	¥ 22,830	¥ 50	¥ 22,880
Segment assets	¥419,864	¥59,822	¥479,686	¥29,230	¥508,916	¥193,613	¥702,529
Impairment loss	¥ —	¥ —	¥ —	¥ 2,911	¥ 2,911	¥ —	¥ 2,911
Depreciation and amortization	¥ 3,300	¥ 2,669	¥ 5,969	¥ 463	¥ 6,432	¥ (0)	¥ 6,432
Capital expenditures	¥ 1,068	¥ 3,645	¥ 4,713	¥ 3,332	¥ 8,045	¥ 1,296	¥ 9,341

*1. The "Other" includes business activities of consulting, management of real estate and water supply and oil and gas production.
*2. "Adjustment" is as follows:
(1) Adjustment for Segment profit and Depreciation and amortization represent the elimination of inter-segment transactions.
(2) Adjustment for Segment assets includes corporate assets unallocated to any reportable segment of ¥203,014 million. Corporate assets are mainly Cash and deposits, Investment securities, and fixed assets (Buildings and structures, Land, etc.) of the Company.
(3) Adjustment for Capital expenditures represents corporate assets unallocated to any reportable segment.
(4) The corporate assets are not allocated to any reportable segment, but Depreciation and amortization for the corporate assets are allocated to the reportable segments considering the burden rate.
*3. Segment profit is reconciled to Operating income on the consolidated statements of operations.

	Thousands of U.S. dollars (Note 1)						
	Reportable segment						
Year ended March 31, 2022	Total Engineering	Functional Materials Manufacturing	Subtotal	Other	Total	Adjustment	Consolidated
Net sales:							
External customers	$3,088,447	$361,557	$3,450,004	$ 50,290	$3,500,294	$ —	$3,500,294
Inter-segment	433	8	441	15,255	15,696	(15,696)	—
Total	$3,088,880	$361,565	$3,450,445	$ 65,545	$3,515,990	$ (15,696)	$3,500,294
Segment profit	$ 108,032	$ 59,612	$ 167,644	$ 8,220	$ 175,864	$ (6,822)	$ 169,042
Segment assets	$3,385,742	$542,733	$3,928,475	$277,449	$4,205,924	$1,466,721	$5,672,645
Depreciation and amortization	$ 31,939	$ 23,441	$ 55,380	$ 3,448	$ 58,828	$ 25	$ 58,853
Capital expenditures	$ 26,081	$ 28,662	$ 54,743	$ 13,555	$ 68,298	$ 17,117	$ 85,415

Notes to Consolidated Financial Statements

(b) RELATED INFORMATION

I. INFORMATION BY GEOGRAPHY

(1) Net sales

Year ended March 31, 2022						Millions of yen
Japan	East and Southeast Asia	Middle East	Africa	North America	Other	Total
¥137,427	¥33,155	¥50,231	¥60,111	¥138,394	¥9,083	¥428,401

* Net sales are classified by the place of customers' address.

Year ended March 31, 2021						Millions of yen
Japan	East and Southeast Asia	Middle East	Africa	North America	Other	Total
¥173,948	¥48,057	¥31,558	¥48,004	¥124,734	¥7,669	¥433,970

* Net sales are classified by the place of customers' address.

Year ended March 31, 2022						Thousands of U.S. dollars (Note 1)
Japan	East and Southeast Asia	Middle East	Africa	North America	Other	Total
$1,122,861	$270,896	$410,418	$491,143	$1,130,762	$74,214	$3,500,294

(2) Property, plant and equipment

	Millions of yen		Thousands of U.S. dollars (Note 1)
Year ended March 31,	2022	2021	2022
Japan	¥47,070	¥46,762	$384,590
Middle East	20,429	17,040	166,917
Other	2,034	2,852	16,619
Total	¥69,533	¥66,655	$568,126

II. INFORMATION BY MAJOR CUSTOMERS

The following is information on major customers which account for 10% or more of the Net sales on the consolidated statements of operations for the years ended March 31, 2022 and 2021:

Year ended March 31, 2022	Millions of yen	Thousands of U.S. dollars (Note 1)	Related segments
LNG Canada	¥134,498	$1,098,930	Total Engineering

Year ended March 31, 2021	Millions of yen	Related segments
LNG Canada	¥118,727	Total Engineering

III. INFORMATION ON IMPAIRMENT LOSS

This information is not disclosed, as this information is disclosed in Note 9 (a) for the years ended March 31, 2022 and 2021.

Note 10: TAXES ON INCOME

Income taxes applicable to the Company and its consolidated domestic subsidiaries comprise corporate taxes, inhabitants' taxes and enterprise taxes which, in the aggregate, resulted in statutory tax rates of 30.6% for the years ended March 31, 2022 and 2021, respectively.

(1) The following table summarizes the differences between the statutory tax rate and the Group's effective tax rate for financial statement purposes for the years ended March 31, 2022 and 2021:

	2022	2021
Statutory tax rate	—%	30.6%
Non-deductible expenses	—	0.6
Non-taxable dividend income	—	(0.6)
Tax credit for research and development expenses	—	(0.7)
Tax loss carryforwards with unrecognized tax effects	—	1.1
Valuation allowances	—	4.2
Differences in tax bases of the enterprise tax	—	2.1
Deductible foreign corporate tax	—	40.9
Equity in earnings of affiliates	—	(3.0)
Past years' corporate tax	—	1.6
Other	—	0.0
Effective tax rate	—%	76.8%

This information is not disclosed for the year ended March 31, 2022 as loss before taxes on income was recorded.

(2) Significant components of the Group's deferred tax assets and liabilities as of March 31, 2022 and 2021, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
March 31,	2022	2021	2022
Deferred tax assets			
Accounts payable	¥ 7,439	¥ 3,179	$ 60,781
Loss on devaluation of investment securities	6,440	6,641	52,619
Reserve for losses on contracts	207	1,699	1,691
Net defined benefit liability	4,609	4,535	37,658
Tax loss carryforwards*1	16,732	17,560	136,711
Allowance for doubtful accounts	4,249	3,294	34,717
Accrued bonuses to employees	2,098	1,942	17,142
Adjustment for percentage-of-completion method	1,746	2,322	14,266
Depreciation	1,488	1,164	12,158
Reserve for job warranty costs	402	412	3,284
Loss on devaluation of fixed assets	116	132	948
Deferred losses on hedges	239	177	1,953
Accrued enterprise tax	229	190	1,871
Other	1,489	1,318	12,166
Subtotal	47,483	44,565	387,965
Valuation allowance for tax loss carryforwards*1	(16,537)	(14,761)	(135,117)
Valuation allowance for deductible temporary difference	(11,991)	(10,428)	(97,974)
Total valuation allowances	(28,528)	(25,189)	(233,091)
Total deferred tax assets	18,955	19,376	154,874
Deferred tax liabilities			
Net unrealized holding gains on securities	(2,661)	(2,372)	(21,742)
Net defined benefit asset	(276)	(241)	(2,255)
Deferred gains on hedges	(2,206)	(1,025)	(18,025)
Reserve for advanced depreciation of non-current assets	(254)	(206)	(2,075)
Total deferred tax liabilities	(5,397)	(3,844)	(44,097)
Net deferred tax assets	¥ 13,558	¥ 15,532	$ 110,777

*1 The breakdown of Tax loss carryforwards and the corresponding deferred tax assets by expiry date are as follows:

As of March 31, 2022	Millions of yen			Thousands of U.S. dollars (Note 1)		
	Tax loss carryforwards*I, II	Valuation allowance	Deferred tax assets*II	Tax loss carryforwards*I, II	Valuation allowance	Deferred tax assets*II
2023	¥ —	¥ —	¥ —	$ —	$ —	$ —
2024	—	—	—	—	—	—
2025	—	—	—	—	—	—
2026	184	(184)	—	1,503	(1,503)	—
2027	58	(58)	—	474	(474)	—
2028 and thereafter	16,490	(16,295)	195	134,734	(133,140)	1,594
Total	¥16,732	¥ (16,537)	¥ 195	$136,711	$(135,117)	$ 1,594

*I The amount of Tax loss carryforwards is an amount multiplied by the statutory tax rate.

*II The amount of Tax loss carryforwards (amount measured using the statutory tax rate) ¥16,732 million ($136,711 thousand) was mainly due to the loss before income tax at some consolidated foreign subsidiaries. Regarding the deferred tax assets ¥195 million ($1,594 thousand) for the Tax loss carryforwards, a valuation allowance was not recognized for the portion deemed to be recoverable based on estimates of future taxable income.

	Millions of yen		
As of March 31, 2021	Tax loss carryforwards*I, II	Valuation allowance	Deferred tax assets*II
2022	¥ —	¥ —	¥ —
2023	—	—	—
2024	—	—	—
2025	—	—	—
2026	67	(67)	—
2027 and thereafter	17,493	(14,694)	2,799
Total	¥17,560	¥(14,761)	¥2,799

*I The amount of Tax loss carryforwards is an amount multiplied by the statutory tax rate.

*II The amount of Tax loss carryforwards (amount measured using the statutory tax rate) ¥17,560 million was mainly due to the loss before income tax at some consolidated foreign subsidiaries, non-taxable dividend income, deductible foreign corporate tax and deduction of deductible temporary difference of accounts payable at the Company and some consolidated subsidiaries. Regarding the deferred tax assets ¥2,799 million for the Tax loss carryforwards, a valuation allowance was not recognized for the portion deemed to be recoverable based on estimates of future taxable income.

	Millions of yen		Thousands of U.S. dollars (Note 1)
March 31,	2022	2021	2022
Deferred tax liabilities			
Undistributed earnings of consolidated foreign subsidiaries and foreign affiliates accounted for using equity method	¥ 905	¥ 987	$7,394
Net defined benefit asset	161	37	1,316
Others	23	25	188
Total deferred tax liabilities	¥1,089	¥1,049	$8,898

Note 11: NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

Reconciliation of cash and deposits in the consolidated balance sheets and Cash and cash equivalents in the consolidated statements of cash flows was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
March 31,	2022	2021	2022
Cash and deposits	¥288,159	¥268,281	$2,354,433
Time deposits with maturities of more than three months	(150)	—	(1,226)
Cash and cash equivalents	¥288,009	¥268,281	$2,353,207

Note 12: LAND REVALUATION

Pursuant to Article 2 of the Enforcement Ordinance for the Law Concerning Land Revaluation effective March 31, 1998, the Group recorded its owned land used for business at the fair value as of March 31, 2002, and the related revaluation difference, net of income taxes, was debited to Land revaluation, net of deferred tax portion in the Net assets section. The applicable income tax portion was reported as Deferred tax liabilities for land revaluation in the consolidated balance sheets at March 31, 2022 and 2021. When such land is sold, land revaluation is reversed and debited to retained earnings.

Note 13: RELATED-PARTY TRANSACTIONS

There are no material transactions of the Group with the major shareholders for the years ended March 31, 2022 and 2021.

Major receivables from and payables to unconsolidated subsidiaries and affiliates at March 31, 2022 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
March 31,	2022	2021	2022
Notes and accounts receivable	¥ —	¥ 93	$ —
Notes receivable, trade receivables, contract assets and other	96	—	784
Short-term loans receivable	—	443	—
Other current assets	891	2,978	7,280
Short-term loans	123	124	1,005
Notes and accounts payable	2,055	640	16,791
Advances received on uncompleted contracts	—	0	—
Other current liabilities	664	564	5,425

Note 14: FINANCIAL INSTRUMENTS

A. QUALITATIVE INFORMATION ON FINANCIAL INSTRUMENTS

(a) POLICIES FOR USING FINANCIAL INSTRUMENTS

The Group manages surplus capital using financial instruments that are short term and carry low risk. The Group uses derivatives to mitigate the risks that are described below, and does not use derivatives for speculative transactions.

(b) FINANCIAL INSTRUMENTS, ASSOCIATED RISKS AND THE RISK MANAGEMENT SYSTEM

Notes receivable, trade receivable and other expose the Group to customer credit risk and risk of exchange rate fluctuations. Investment securities are mainly related to the business and capital alliance companies and expose the Group to the changes in market prices. Loans receivable are mainly related to subsidiaries and affiliates.

Most Notes and accounts payable are due within one year. Some accounts payable associated with purchasing machines and construction contracts are denominated in foreign currencies, which expose the Group to the risks of exchange rate fluctuations. The Group generally procures capital required under its business plan through bank loans. Some bank loans and bonds expose the Group to the risks of interest rate fluctuations.

The Group uses derivatives transactions including foreign exchange forward contracts to hedge the risk of exchange rate fluctuations associated with accounts receivable and payable denominated in foreign currencies, commodity swaps to hedge the risk of price fluctuations associated with commodities used in the EPC business and interest rate swaps to hedge the risk of interest rate fluctuation associated with loans. The details of hedge accounting of the Group, such as methods, hedging policies, hedged items and recognition of gain or loss on hedged positions are explained in Note 1(s) and Note 8.

Notes to Consolidated Financial Statements

(c) RISK MANAGEMENT SYSTEM FOR FINANCIAL INSTRUMENTS

(1) Credit risk management (counterparty risk)

The Group has established internal procedures for receivables under which the related divisions are primarily responsible for periodically monitoring counterparty status. The department manages amounts and settlement dates by counterparty and works to quickly identify and mitigate payment risk that may result from situations including deterioration of the financial condition of counterparties.

In using derivatives transactions, the Group mitigates counterparty risk by conducting transactions with highly creditworthy financial institutions.

(2) Market risk management (risk of exchange rate, interest rate and commodity price fluctuations)

The Group monitors the balance of the foreign currency receivable and payable by each currency and every month and utilizes foreign currency forward contracts and foreign currency deposit to hedge the risk of fluctuations. The Group uses interest rate swap to mitigate the risk of fluctuation of interest expenses associated with floating-rate debt and commodity swaps to mitigate the risk of price fluctuations associated with commodities used in the EPC business.

Regarding marketable securities and investment securities, the Group periodically examines fair value and the financial condition of the issuing entities and revises its portfolio based on its relationships with issuing entities.

The derivative transactions are executed and managed by the Finance & Accounting Department in accordance with the established policies and within the specified limit on the amounts of derivative transactions allowed. The Department periodically provides administrative reports on the results to the financial director and treasurer.

(3) Management of liquidity risk associated with capital procurement (payment default risk)

The Group manages liquidity risk by creating and updating a financing plan based on reports from each division.

(d) SUPPLEMENTAL INFORMATION ON THE FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimates of fair value of financial instruments are subject to fluctuation because they employ variable factors and assumptions.

In addition, the contractual amounts of the derivatives transactions discussed in B(a) below are not an indicator of the market risk associated with derivatives transactions.

B. FAIR VALUES OF FINANCIAL INFORMATION

(a) FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair values of financial instruments as of March 31, 2022 and 2021, were summarized as follows:

The financial instruments with no available fair market values were not included in the table below and were summarized in B(b).

	Millions of yen			Millions of yen		
	2022			2021		
March 31,	Carrying amount	Estimated fair value	Difference	Carrying amount	Estimated fair value	Difference
Investment securities	¥18,629	¥18,629	¥ —	¥17,945	¥17,945	¥ —
Long-term loans receivable, net*2, *3	202	202	(0)	182	186	4
Total assets	¥18,831	¥18,831	¥ (0)	¥18,127	¥18,131	¥ 4
Long-term debt*3	70,157	70,098	(59)	66,784	66,960	176
Total liabilities	¥70,157	¥70,098	¥(59)	¥66,784	¥66,960	¥176
Derivative financial instruments, net*4	¥ (184)	¥ (184)	¥ —	¥ (1,223)	¥ (1,223)	¥ —

	Thousands of U.S. dollars (Note 1)		
	2022		
March 31,	Carrying amount	Estimated fair value	Difference
Investment securities	$152,210	$152,210	$ —
Long-term loans receivable, net*2, *3	1,651	1,651	(0)
Total assets	$153,861	$153,861	$ (0)
Long-term debt*3	573,225	572,743	(482)
Total liabilities	$573,225	$572,743	$(482)
Derivative financial instruments, net*4	$ (1,503)	$ (1,503)	$ —

*1 The information described below is not disclosed.

- Cash and deposits, Notes receivable, trade receivables and other, Short-term loans receivable, Other receivables, Notes and accounts payable and Short-term debt. These fair values are almost the same as book value.
- Investment in partnerships which is booked at net asset values in proportion to the Group's share based on the financial statements. The book value for the investment was ¥1,072 million ($8,759 thousand) as of March 31, 2022.

*2 The amount of individual allowance for doubtful accounts is deducted from Long-term loans receivable.

*3 The current portion of Long-term loans receivable and Long-term debt are included in Long-term debt.

*4 Receivables and payables incurred as a result of derivative transactions are presented on a net basis.

(b) FINANCIAL INSTRUMENTS WITH NO AVAILABLE FAIR MARKET VALUES

The financial instruments with no available fair market values, as of March 31, 2022 and 2021, were summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
March 31,	2022	2021	2022
Unconsolidated subsidiaries and affiliates	¥30,786	¥29,579	$251,540
Non-listed equity securities	5,572	6,638	45,527
Investment in capital	2,587	2,511	21,137
Other	37	38	302

It is difficult to measure the fair value of these financial instruments because there is no market price available and it is not practical to calculate future cash flow. Therefore, these financial instruments were not included in the Investment securities described in B(a).

(c) MATURITIES OF FINANCIAL INSTRUMENTS

The maturities of the financial instruments at March 31, 2022, were as follows:

	Millions of yen			
Years ending March 31,	2023	2024-2027	2028-2032	2033 and thereafter
Cash and deposits	¥288,159	¥ —	¥ —	¥—
Securities and Investment securities	259	1,038	1,317	—
Notes receivable, trade receivables and other	50,609	—	—	—
Short-term loans receivable	4	—	—	—
Other receivable	64,424	—	—	—
Long-term loans receivable, net*1, 2	190	12	—	—
Total assets	¥403,645	¥1,050	¥1,317	¥—

	Thousands of U.S. dollars (Note 1)			
Years ending March 31,	2023	2024-2027	2028-2032	2033 and thereafter
Cash and deposits	$2,354,433	$ —	$ —	$—
Securities and Investment securities	2,116	8,481	10,761	—
Notes receivable, trade receivables and other	413,506	—	—	—
Short-term loans receivable	33	—	—	—
Other receivable	526,382	—	—	—
Long-term loans receivable, net*1, 2	1,553	98	—	—
Total assets	$3,298,023	$8,579	$10,761	$—

*1 The amount of individual allowance for doubtful accounts is deducted from Long-term loans receivable.

*2 The current portion of Long-term loans receivable is included in Long-term loans receivable.

Please see Note 2 for the maturities of long-term debt.

(d) BREAKDOWN OF LEVEL OF FAIR VALUE

Fair value of financial instruments are categorized into three levels as below on the basis of the observability and the materiality of the valuation inputs used in fair value measurements.

Fair value of Level 1: Fair value measured by observable valuation inputs which are quoted prices in active market for identical assets or liabilities

Fair value of Level 2: Fair value measured by observable valuation inputs other than those included within Level 1

Fair value of Level 3: Fair value measured by unobservable valuation inputs

When more than one input that have significant impact on fair value measurement are used and those inputs are categorized into different levels, the fair value is categorized into the lowest priority level for fair value measurement among the levels in which each of the inputs belongs to.

(1) Financial instruments booked at fair value on the consolidated balance sheets.

	Millions of yen			
March 31, 2022	Level 1	Level 2	Level 3	Total
Securities and Investment securities				
Securities Other				
Securities	¥16,013	¥ —	¥—	¥16,013
Bonds		2,616	—	2,616
Total assets	¥16,013	¥2,616	¥—	¥18,629
Derivatives*1				
Forward contracts	¥ —	¥ 398	¥—	¥ 398
Interest rate swaps	—	(582)	—	(582)
Total Derivatives	¥ —	¥ (184)	¥—	¥ (184)

	Thousands of U.S. dollars (Note 1)			
March 31, 2022	Level 1	Level 2	Level 3	Total
Securities and Investment securities				
Securities Other				
Securities	$130,836	$ —	$—	130,836
Bonds		21,374	—	21,374
Total assets	$130,836	$21,374	$—	$152,210
Derivatives*1				
Forward contracts	$ —	$ 3,252	$—	$ 3,252
Interest rate swaps	—	(4,755)	—	(4,755)
Total Derivatives	$ —	$ (1,503)	$—	$ (1,503)

*1. Receivables and payables incurred as a result of derivative transactions are presented on a net basis.

(2) Financial instruments other than financial instruments booked at fair value on consolidated balance sheets

	Millions of yen			
March 31, 2022	Level 1	Level 2	Level 3	Total
Long-term loans receivable, net*1, 2	¥—	¥ 202	¥—	¥ 202
Total assets	¥—	202	¥—	202
Bonds*2	¥—	¥49,941	¥—	¥49,941
Long-term loan payable*2	—	20,157	—	20,157
Total liabilities	¥—	70,098	¥—	70,098

	Thousands of U.S. dollars (Note 1)			
March 31, 2022	Level 1	Level 2	Level 3	Total
Long-term loans receivable, net*1, 2	$—	$ 1,651	$—	$ 1,651
Total assets	$—	1,651	$—	1,651
Bonds*2	$—	$408,048	$—	$408,048
Long-term loan payable*2	—	164,695	—	164,695
Total liabilities	$ —	572,743	$—	572,743

*1 The amount of individual allowance for doubtful accounts is deducted from Long-term loans receivable.

*2 The current portion of Long-term loans receivable and Long-term debt are included in Long-term debt.

Notes to Consolidated Financial Statements

(Note) Explanation of fair value measurement and input used to measure fair value

Securities and Investment securities

Fair value of Securities and investment securities for which unadjusted quoted prices in active markets are available is classified as Level 1. Fair value of Bonds receivable whose market values are unavailable is estimated as discounted present value of future cash flows using market interest rates and is classified as Level 2.

Derivatives

Fair value of Derivatives is measured by the discounted cash flow method based on observable inputs, such as interest rates and exchange rates, and is classified as Level 2.

Long-term loans receivable

Fair value of Long-term loans receivable is estimated as discounted present value of total principal and interest using assumed interest rates for equivalent new loans and is classified as Level 2.

Bonds

Fair value of Bonds is estimated as discounted present value of future cash flows using market interest rates and is classified as Level 2.

Long-term debt

Floating-rate long-term debt reflects market interest rates. In addition, fair value approximates carrying amount because the Group's creditworthiness does not vary significantly after assuming long-term debts. Therefore, carrying amount is used for fair value of floating-rate long-term debt. Fair value of fixed-rate long-term debt is the discounted value of total principal and interest using assumed interest rates on equivalent new loans and is classified as Level 2.

Note 15: LEASE TRANSACTIONS

Operating lease

Lessor's accounting

Future minimum receivables under non-cancelable lease contracts at March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
March 31,	2022	2021	2022
Within 1 year	¥ 1,877	¥—	$ 15,336
Over 1 year	35,226	—	287,818
Total	¥37,103	¥—	$303,154

Note 16: REVENUE

(a) DISAGGREGATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS

	Millions of yen		
	Sales		
Year ended March 31, 2022	Japan	Overseas	Total
Total Engineering	¥105,742	¥272,253	¥377,995
Energy Transition			
Oil and gas	24,123	86,150	110,273
LNG	123	166,149	166,272
Chemical	15,701	15,211	30,912
Clean energy	35,331	990	36,321
Others	12,095	474	12,569
Subtotal	87,373	268,974	356,347
Healthcare & Life sciences	15,668	901	16,569
Industrial & Urban infrastructure	2,500	2,348	4,848
Others	201	30	231
Functional Materials Manufacturing	27,403	16,848	44,251
Other*1	4,251	978	5,229
Revenue from contracts with customers	137,396	290,079	427,475
Revenue from other sources*2	30	896	926
Net sales to external customers	¥137,426	¥290,975	¥428,401

	Thousands of U.S. dollars (Note 1)		
	Sales		
Year ended March 31, 2022	Japan	Overseas	Total
Total Engineering	$ 863,976	$2,224,471	$3,088,447
Energy Transition			
Oil and gas	197,099	703,898	900,997
LNG	1,005	1,357,537	1,358,542
Chemical	128,287	124,283	252,570
Clean energy	288,676	8,089	296,764
Others	98,823	3,873	102,697
Subtotal	713,890	2,197,680	2,911,570
Healthcare & Life sciences	128,017	7,362	135,379
Industrial & Urban infrastructure	20,427	19,184	39,611
Others	1,642	245	1,887
Functional Materials Manufacturing	223,899	137,658	361,557
Other*1	34,733	7,991	42,724
Revenue from contracts with customers	1,122,608	2,370,120	3,492,728
Revenue from other sources*2	245	7,321	7,566
Net sales to external customers	$1,122,853	$2,377,441	$3,500,294

*1 "Other" includes business activities of consulting, management of real estate and oil and gas production.
*2 The "Revenue from other sources" includes lease revenue.

(b) BASIC INFORMATION TO UNDERSTAND REVENUE FROM CONTRACTS WITH CUSTOMERS

Please see Note1(h) for the basic information to understand revenue from contracts with customers.

(c) CONTRACT BALANCES

The balance of receivables arising from contracts with customers and contract assets and liabilities are as follows:

March 31, 2022	Millions of yen	Thousands of U.S. dollars (Note 1)
Receivables from Contract with customers (Beginning of the fiscal year)	¥ 45,615	$372,702
Receivables from Contract with customers (End of the fiscal year)	50,222	410,344
Contract assets (Beginning of the fiscal year)	100,415	820,451
Contract assets (End of the fiscal year)	90,613	740,363
Contract liabilities (Beginning of the fiscal year)	98,939	808,391
Contract liabilities (End of the fiscal year)	109,756	896,773

Contract assets mainly relate to its right to consideration for construction contracts but not billed at the account closing date. Contract assets are transferred to receivables when the rights to consideration become unconditional. Contract liabilities are mainly advance payments received under contracts with customers, which are transferred to revenue as the Group satisfies performance obligations based on such contracts.

Revenue recognized for the year ended March 31, 2022 that was included in the contract liability balance as of March 31, 2021 was ¥77,117 million ($630,092 thousand). In addition, the change in contract assets is mainly due to recognize revenue (increase contract assets) and transfer to receivables (decrease contract assets) and the change in contract liabilities is mainly due to receive advance payment (increase contract liabilities) and recognize revenue (decrease contract liabilities) during the year ended March 31, 2022.

Revenue recognized in the reporting period for performance obligations satisfied (or partially satisfied) in the previous periods are immaterial.

(d) TRANSACTION PRICE ALLOCATED TO THE REMAINING PERFORMANCE TRANSACTION

Transaction price allocated to the remaining performance obligations are as follows:

	Millions of yen				
	Reportable segment				
March 31, 2022	Total Engineering	Functional Materials Manufacturing	Subtotal	Other	Total
Remaining performance obligations	¥1,207,832	¥7,080	¥1,214,912	¥999	¥1,215,911

	Thousands of U.S. dollars (Note 1)				
	Reportable segment				
March 31, 2022	Total Engineering	Functional Materials Manufacturing	Subtotal	Other	Total
Remaining performance obligations	$9,868,715	$57,848	$9,926,563	$8,162	$9,934,725

The transaction price allocated to the remaining performance obligations is expected to be recognized as revenue as follows:

Total Engineering: within 5 years

Functional Materials Manufacturing: within 1 year

Other: within 1 year

Note 17: IMPAIRMENT OF FIXED ASSETS

As discussed in Note 1(l), the Group has applied the accounting standard for impairment of fixed assets.

The following is information on impairment loss for the year ended March 31, 2021.

Location	Use	Type of assets
U.S.A.	Oil & gas production and sales business	Intangible assets

The Company grouped the assets for oil & gas production and sales business based on individual countries. The carrying amount of certain assets was devalued to their recoverable amounts, since the oil & gas business environment had significantly changed. As a result, the Company recognized loss on impairment in the amount of ¥2,897 million. The Company measured the recoverable amounts of the related assets based on the value in use by applying a discount rate of 10% to the estimated future cash flows.

Other impairment losses were not disclosed since they are immaterial.

This information is not disclosed, as there is no impairment loss for the year ended March 31, 2022.

Note 18: OTHER COMPREHENSIVE INCOME

Reclassification adjustments of the Company's and consolidated subsidiaries' other comprehensive income for the years ended March 31, 2022 and 2021, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
Years ended March 31,	2022	2021	2022
Net unrealized holding gains on securities			
Unrealized holding gains arising during the year	¥ 1,330	¥ 5,374	$ 10,867
Reclassification adjustment	(388)	(576)	(3,170)
Subtotal	942	4,798	7,697
Deferred gains on hedges			
Deferred gains on hedges arising during the year	5,466	6,181	44,660
Reclassification adjustment	(1,495)	—	(12,215)
Subtotal	3,971	6,181	32,445
Translation adjustments			
Translation adjustments arising during the year	3,220	16,407	26,309
Reclassification adjustment	—	—	—
Subtotal	3,220	16,407	26,309
Remeasurements of defined benefit plans			
Defined benefit plans during the year	(19)	1,055	(155)
Reclassification adjustment	69	392	564
Subtotal	50	1,447	409
Equity for affiliates accounted for using equity method			
Share of other comprehensive income of affiliates accounted for using equity method arising during the year	1,305	(589)	10,663
Reclassification adjustment	106	(85)	866
Subtotal	1,411	(674)	11,529
Before-tax amount	9,594	28,159	78,389
Income tax effect	(1,458)	(3,441)	(11,913)
Total other comprehensive income	¥ 8,136	¥24,718	$ 66,476

Tax effects allocated to each component of other comprehensive income for the years ended March 31, 2022 and 2021, were as follows:

	Millions of yen		
Year ended March 31, 2022	Before-tax amount	Income tax effect	Net-of-tax amount
Net unrealized holding gains on securities	¥ 942	¥ (289)	¥ 653
Deferred gains on hedges	3,971	(1,115)	2,856
Translation adjustments	3,220	—	3,220
Remeasurements of defined benefit plans	50	(54)	(4)
Equity for affiliates accounted for using equity method	1,411	—	1,411
Other comprehensive income	¥9,594	¥(1,458)	¥8,136

	Millions of yen		
Year ended March 31, 2021	Before-tax amount	Income tax effect	Net-of-tax amount
Net unrealized holding gains on securities	¥ 4,798	¥(1,468)	¥ 3,330
Deferred gains on hedges	6,181	(1,584)	4,597
Translation adjustments	16,407	—	16,407
Remeasurements of defined benefit plans	1,447	(389)	1,058
Equity for affiliates accounted for using equity method	(674)	—	(674)
Other comprehensive income	¥28,159	¥(3,441)	¥24,718

Notes to Consolidated Financial Statements

	Thousands of U.S. dollars (Note 1)		
Year ended March 31, 2022	Before-tax amount	Income tax effect	Net-of-tax amount
Net unrealized holding gains on securities	$ 7,697	$ (2,361)	$ 5,336
Deferred gains on hedges	32,445	(9,110)	23,335
Translation adjustments	26,309	—	26,309
Remeasurements of defined benefit plans	409	(442)	(33)
Equity for affiliates accounted for using equity method	11,529	—	11,529
Other comprehensive income	$78,389	$(11,913)	$66,476

Note 19: OTHER

(Loss on Ichthys LNG Project)

The Group formed a joint venture company, JKC AUSTRALIA LNG PTY Ltd. ("JV"), with KBR Inc. and Chiyoda Corporation, and was awarded in 2012 a project for the design, procurement and construction services of an onshore gas liquefaction plant to produce liquefied natural gas and other products ("Ichthys LNG Project") from ICHTHYS LNG PTY Ltd. ("Client"), an equity-method affiliated company of INPEX Corporation. The plant facilities were competed and delivered in 2018.

In the course of the execution of the project, the JV and the Client had differences in views and could not reach agreement on various issues, and consequently arbitrations have been commenced between the parties. Negotiations between the parties continued in parallel with the arbitration proceedings. A final settlement was reached on October 15, 2021 to confirm among other things that each of the Client and JV withdraws all the claims submitted against the other party.

In addition, to fulfill its obligations under the contract with the Client, the JV awarded a fixed-price EPC contract to a subcontractor for the design, procurement, construction and commissioning of the combined cycle power plant ("Power Plant"). The subcontractor was a consortium consisting of General Electric Company, General Electric International, Inc., UGL Engineering Pty Limited and CH2M Hill Australia Pty. Limited ("Consortium"). During the execution of the Ichthys LNG Project, the Consortium unilaterally repudiated the contract and entered into an arbitration demanding damages. While the JV having hired another subcontractor and paid the costs to complete the Power Plant, the JV asserted a counter-claim under the arbitration, pursuing recourse against the Consortium to recover all of the costs.

Subsequently, as a result of the ongoing negotiations, the JV and the Consortium reached a definitive agreement to terminate the arbitration by settlement effective April 11, 2022. Upon completion of the agreed proceedings by the Consortium, a settlement was reached whereby the Consortium and the JV withdraw their previously filed claims.

As the results of the settlements, the Group recognized a loss on the Ichthys LNG Project of ¥57,577 million ($470,439 thousand) for the year ended March 31, 2022.

Independent Auditor's Report

To the Board of Directors of JGC Holdings Corporation:

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

<table>
<tr><th colspan="2">Reasonableness of the Group's estimate of total construction revenue and total construction cost related to construction contracts</th></tr>
<tr><th>The key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>As described in Note 1 (x), "Significant Accounting Estimates, 1.Recognition of revenue on construction contracts," to the consolidated financial statements, the Group recognizes revenue from construction contracts for performance obligations that are determined to be satisfied over time based on the progress towards complete satisfaction of performance obligations, except revenue from very short-term construction contracts or constructions for which the Group is not able to reasonably estimate the progress of completion of construction contracts. The revenue from construction contracts recognized based on the progress towards complete satisfaction of performance obligations, which included constructions completed in the fiscal year, amounted to ¥345,263 million for the current fiscal year, representing 81% of the total net sales in the consolidated financial statements.
The progress towards complete satisfaction of performance obligations is estimated based on a percentage of costs incurred by the end of the reporting period against the expected total construction costs. The amount of the variable portion of consideration promised to a customer is included in the expected total construction revenue unless it is likely that the amount of consideration is significantly reduced.
The construction contracts of the Group were mainly related to the EPC businesses of each plant in the total engineering business. Total construction revenue and total construction costs were estimated based on the knowledge and experience acquired from the implementation of EPC projects in the past. However, adjustments to transaction prices for projects which took a long time from the signing of a contract to delivery of a plant may have been required due to revisions of work plans to respond to changes in construction environments which had not been expected in the initial plans or price fluctuations in equipment and materials, whereby the estimated total construction revenue and total construction costs may have significantly changed. Therefore, management's judgment had a significant effect on the estimated total construction revenue and total construction costs at the end of the reporting periods.
We, therefore, determined that our assessment of the reasonableness of the Group's estimate of total construction revenue and total construction costs related to construction contracts for revenue recognized based on the progress towards complete satisfaction of performance obligations was of most significance in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.</td><td>The primary procedures we performed to assess that the Group's estimate of total construction revenue and total construction costs related to construction contracts was reasonable included the following:
(1) Internal control testing
We tested the design and operating effectiveness of certain of the Group's internal controls relevant to the estimation of total construction revenue and total construction costs. In this assessment, we focused our testing on the controls over the following:
• determination of total construction costs;
• updates to the estimated total construction revenue and total construction costs.
(2) Assessment of the reasonableness of the estimate of total construction revenue and total construction costs
We selected construction contracts which could be significantly impacted by updates to the estimated total construction revenue and total construction costs. In addition, in order to assess the appropriateness of key assumptions, we:
• assessed whether total construction revenue is estimated only for the portion for which consideration may not be significantly reduced and whether all the activities required to complete construction contracts were identified and their estimated costs were included in the breakdown schedule of total construction costs by inspecting the construction contracts and other relevant documents;
• assessed the accuracy of the estimated total construction revenue and total construction costs by comparing the preliminary estimate of the total construction revenue and total construction costs with its fixed amount or revised estimates per item;
• inquired of personnel responsible for a project regarding the overview and progress of the construction and assessed whether the information in the schedule of the construction management was consistent with estimate of the progress towards complete satisfaction of performance obligations;
• inspected the relevant documents and inquired of personnel responsible for a project about any changes in circumstances that occurred after the start of construction and their judgment on the updates of estimated total construction revenue and total construction costs, as well as assessed that any impacts from the changes on the related work plans and construction schedule were reflected in the estimated total construction revenue and total construction costs in a timely and appropriate manner, if any; and
• inquired of personnel responsible for a project about the total construction costs in light of price fluctuations in equipment and materials, and compared information on main raw materials with their price forecasts published by external institutions.</td></tr>
</table>

Independent Auditor's Report

Other Information

The other information comprises the information included in the JGC Annual Financial Results, but does not include the consolidated financial statements, the financial statements, and our auditor's reports thereon. Management is responsible for the preparation and presentation of the other information. Audit & Supervisory Board members and the Audit & Supervisory Board 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 Audit & Supervisory Board Members and the Audit & Supervisory Board 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

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

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2022 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 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.

根本剛光

Takemitsu Nemoto
Designated Engagement Partner
Certified Public Accountant

永田 篤

Atsushi Nagata
Designated Engagement Partner
Certified Public Accountant

井上 喬

Takashi Inoue
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Yokohama Office, Japan
June 29, 2022