TKK Report **2024**
Financial Section

(Fiscal year ended March 31, 2024)



TOYO KANETSU K.K.

This material is the Financial Section of the TKK Report 2024, the integrated report published by Toyo Kanetsu K.K. that summarizes the financial information for the Company's fiscal year 2023 (Apr. 2023 to Mar. 2024).

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Analysis of Operating Environment and Results

During the fiscal year under review, the Japanese economy followed a trend of mild recovery from the extensive slump of the COVID-19 pandemic. There are concerns, however, over the impact on economic activity going forward from factors such as the rising price of goods in Japan and the recent sharp depreciation of the yen, and the serious labor shortages.

In this economic climate, the core Logistics Solutions Business continued to benefit from strong demand for automation and labor-reducing equipment as companies worked to handle increased shipments of goods for online shopping and co-ops and overcome labor shortages. In baggage handling systems for airports, demand for capital investment was on a solid path of recovery amid recovery in tourist numbers.

At the same time, the Plant Business continued to see more orders for maintenance services at oil refineries in Japan. In response to growing calls for carbon neutrality, the Next-Generation Energy Development Business continued to focus on researching and developing new energy solutions. While working to meet an increasing number of inquiries regarding next-generation energy, we are also proceeding with new tank construction projects in the conventional energy domain.

In the Business Innovation segment, which includes three different businesses, the Industrial Machinery Business subsegment saw a steady stream of demand mainly due to firm construction investment and an increasing number of capital investment plans related to semiconductors and secondary batteries. The Building Construction Business subsegment, however, continued to face difficult market conditions caused by steeply rising building material prices and subcontracting costs. In the Environmental Business subsegment, public sector demand was consistent with normal yearly trends, while private sector demand continued to show a growth trend, which was mainly due to the revisions to asbestos-related laws and regulations.

● Logistics Solutions Business

In the Logistics Solutions Business, there was an increase in automated warehouse equipment sales—incorporating the Company's Multishuttle pallet automated storage and retrieval system (ASRS)—to e-commerce businesses, retailers, co-ops, and manufacturers. Both net sales and operating profit increased due to the expansion of maintenance services.

Consequently, net sales increased by 15.9% year on year to ¥32,491 million, operating profit increased by 25.6% to ¥3,271 million and orders received increased by 6.2% to ¥34,043 million.

● Plant Business

In the Plant Business, net sales increased by 10.7% year on year to ¥9,420 million, from the maintenance of oil refineries in Japan.

Operating profit increased by 26.4% to ¥708 million and orders received increased by 42.1% to ¥10,041 million.

● Next-Generation Energy Development Business

In the Next-Generation Energy Development Business, net sales increased by 43.5% year on year to ¥1,497 million, from increased sales of new storage tanks. This segment posted an operating loss of ¥481 million, compared with a loss of ¥734 million in the previous fiscal year.

● Business Innovation Business

The Industrial Machinery Business saw growth in revenue by stepping up sales for mainstay winches and balancers through intensive sales activities but the sharp rise in manufacturing costs and the deployment of growth investment reduced profit. The Building Construction Business sales and profits increased year on year, as a result of contributions from building renovation work, construction gondola rentals, and temporary installation services. The Environmental Business secured steady earnings by providing 24-hour environmental monitoring systems to government agencies and municipalities. Amid the favorable conditions of the growing market, this business segment has been leveraging Group-wide synergies in its sales activities to receive increased revenues from the resulting growth in asbestos assessment and analysis services. However, profit was lower as a result of investing in personnel in preparation for the coming growth.

Reflecting the factors above, net sales increased by 9.1% year on year to ¥9,937 million. Operating profit decreased by 11.8% year on year to ¥786 million, as a result of the respective operating profits of each segment along with measures to shore up the overall structure to further promote new business development.

Business Risks

The Company's risk management system includes a risk management officer appointed from among the directors who oversees the risk management of the Company and the Group, as well as a Group-wide risk management department which identifies risks and monitors evaluations and results under the command of the risk management officer. Important risks are regularly reviewed after considering changes in the business environment and the status of risk responses, and we strive to ensure that effective risk countermeasures are being quickly implemented.

Of all the risks that could affect our business activities, some risks with a possible significant impact are shown below. However, this is not an exhaustive list of risks related to the Group and there are risks that are difficult to foresee.

Forward-looking statements in the text are based on assessments as of March 31, 2024, the date of the fiscal year ended.

1. Impact of climate change

The TKK Group places great importance on the promotion of ESG management and the international goals set out in the SDGs and Paris Agreement. Especially, we recognize that "responding to changes in the business environment caused by climate change" is one of our most important material issues for management.

Growing awareness of global environmental issues and the transition to a low-carbon or decarbonized society are accelerating the shift to using clean energy. Accordingly, the Company's operating environment could be adversely affected due to the inevitably declining demand for tanks used to store LNG, crude oil, and other fossil fuels. Recognizing these trends, and with the goal of helping achieve a low-carbon society, the Group is proactively working on infrastructure-related initiatives that leverage our strengths, with a focus on applying our technologies to develop large-scale storage containers for liquid hydrogen, and working to meet the expanding demand for hydrogen and ammonia as fuel. The TKK Group as a whole has been promoting initiatives for realizing a low-carbon and decarbonized society, including the development of products and services that save energy and the adoption of renewable energy, especially by installing solar panels. In 2022, the Group declared the goal of becoming carbon neutral by 2050 by reducing greenhouse gas emissions (Scopes 1 and 2). We also began disclosing information about climate-related risks and opportunities, starting from 2022, based on the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD). Recognizing our response to climate change as an excellent opportunity for considering ways of dealing with long-term climate-related risks and opportunities, the Group's management intends to disclose information and to dialogue with investors and other stakeholders.

In addition, the Group recognizes that public trust could be lost if we or one of our subsidiaries causes an environmental accident or disaster. To mitigate this risk, we have acquired and periodically renew our ISO 14001 certification, and we have established and actively implement a compliant environmental management system in accordance with our environmental policies.

2. Risks related to the execution of projects

In the Logistics Solutions Business, project management and the ability to execute operations are becoming increasingly important. This is because the role of distribution centers in the supply chain is growing with the expansion of the e-commerce market and more outsourcing of logistics operations, and because there is a tendency for distribution centers to grow larger in line with the streamlining of logistics operations and the consolidation of bases.

For these reasons, we carefully manage delivery deadlines—from sales proposals through to construction—and strive to reduce costs and workloads by standardizing processes and improving productivity. We also established a system for executing sustainable projects and increased the number of companies using this system. In June 2023, Scrum Software Co.,Ltd joined the Group as a subsidiary, and the Group focused on entering the new domains by utilizing the strengthened structure of our Warehouse Management System (WMS). However, unexpected costs could be incurred due to various factors, such as shortened construction periods due to unexpected changes in construction plans under pressure to reduce delivery times and delivery deadline adjustments due to carrying out multiple large projects simultaneously within a certain time period.

Moreover, some of the core products provided by this business segment include products purchased from specific overseas business partners. The execution of projects could be affected if these products cannot be purchased consistently due to changes in the business policies and environment of our business partners, demand and supply fluctuations, or due to natural disasters, accidents, and so on.

The Plant & Next-Generation Energy Development Business repairs storage tanks, mainly at oil refineries in Japan. Our ability to execute these projects could be negatively affected by a shortage of construction workers, a sharp rise in the costs of materials and equipment, or when the skills of site managers and foremen are passed down too slowly. Therefore, as part of efforts to strengthen collaboration with partner companies, we acquired shares in KIMOTO CORPORATION (to make it an equity-method affiliate), and while establishing a stable construction organization, we established TKK Plant Engineering K.K. as a new company to hire and train workers for construction sites. Furthermore, we have set up a centralized organization led by a team of experts to collect information and manage all stages of new tank installation projects, from receiving orders through to construction work, in order to execute projects more quickly and efficiently.

The TKK Group conducts some operations overseas, primarily by the Plant & Next-Generation Energy Development Business. Further, our consolidated subsidiary in Indonesia works on local construction projects and processes steel materials, including steel used for storage tanks. Our local subsidiary in Malaysia maintains baggage handling equipment at local airports and maintains equipment at local petrochemical plants. These overseas operations carry inherent risks, as stated below, and the TKK Group's business results and financial position could be adversely affected by these risks.

(1) Unexpected changes in laws and regulations
(2) Political and economic instability
(3) Difficulties in securing human resources
(4) Tax system revisions that could be unfavorable to the TKK Group
(5) Social disorder due to terrorism, war, epidemics, disasters, or other factors

The TKK Group is working to reduce risks by making early arrangements against shortages of parts and steeply rising prices affected by the impact of the COVID-19 pandemic and the materialization of geopolitical risks.

In addition, when working on a project, we take out product liability insurance for that project, and to ensure quality, the Group has established internal regulations and put in place a quality management system to strengthen quality control. We have also established a system that enables a quick response to quality problems by placing the department responsible for quality control directly under the president. However, in the unlikely event of serious quality complaints or problems with a product, not only would profits from the project deteriorate due to repair costs and indemnification, this could also lead to a decline in the Group's social reputation, which could adversely affect our business results and financial position.

3. Impact on securing and developing human resources

The TKK Group recognizes that securing and developing human resources are two of our most important issues, and that any drain of human resources and increasing recruitment costs could affect our business activities.

Therefore, through several initiatives, we have broadened our hiring practices to recruit a more diverse range of employees and have worked hard to improve employee retention by creating a more comfortable workplace environment and by being more flexible. For example, we have created an action plan to promote women's participation and advancement in the workplace, and we have implemented programs to train and promote female employees to management positions. We also allow employees to choose staggered work hours, and are striving to improve the rate of taking paid leave as well as male employees taking childcare leave. As a result of these initiatives, the Company was certified as a Health Management® Excellent Corporation 2024 (Large Corporation Category).

In addition, the Company improves employees' skills and provides safety training for our Logistics Solutions Business operations at an education center.

4. Impact of intensifying competition for orders

The TKK Group's main businesses are order based, exposing us to severe competition for orders, so unreasonable downward pressure on profitability could adversely affect our business results and financial position. Further, customer policies and plans, changes in the business environment of the industry, and industry restructuring could affect our ability to obtain orders.

In response to these risks, in the Logistics Solutions Business, we are expanding our customer areas in Japan and overseas, and providing optimal solutions by flexibly introducing outside technologies, while at the same time promoting in-house production and standardized products to strengthen price competitiveness. We are taking on other initiatives, such as revamping our internal systems, to further improve the efficiency of our operations.

In the Plant & Next-Generation Energy Development Business, as the severe business environment drags on, we are improving and developing our core technology for tank EPC (engineering, procurement, construction) contracts, and are working to obtain orders by taking advantage of our superior quality, as well as expanding our business domains through overseas subsidiaries.

Furthermore, with intense competition for orders, the TKK Group develops a wide range of technologies by collaborating with domestic and overseas companies that have leading technologies, and by partnering with startups using corporate venture capital. With these initiatives, the Group intends to continually increase our value and contribute to the prosperity of society based on our management vision, to become an Innovator of Solutions that solve social issues through innovative technology and execution capability.

However, as the lifecycle of products and technologies becomes shorter and shorter, any delays in meeting market requests could result in a decline in the Group's competitiveness, adversely affecting our business results and financial position over the medium to long term.

On a consolidated basis, the Group owns both tangible and intangible fixed assets, and continually monitors financial performance as a means to forecast when it may be difficult to secure returns on investments in these assets. If we determine that these assets are less profitable or cannot generate sufficient cash flow due to significant changes in the operating environment or business situation, we might record an impairment loss on the assets, which could negatively affect the Group's financial results and financial position.

5. Risks related to the launch of new businesses

For a long time, the TKK Group has been developing two main business segments: Logistics Solutions and Plant & Next-Generation Energy Development. So far, these two businesses have underpinned the Group's earnings in a complementary way, but we recognize that fluctuations in the environment surrounding these businesses are large and the volatility of earnings is high.

To mitigate this risk, we are pursuing opportunities to establish a third main business segment through all available means, including mergers, acquisitions, setting up corporate venture capital, and collaborations with startups. If, however, a lengthy amount of time is taken to launch a third mainstay business segment, the Group's business results and financial position could be adversely affected.

6. Impact on occupational health and safety

The TKK Group considers safety to be our highest priority. Under our Occupational Safety and Health Policy, we strive to ensure and improve the health and safety of our employees by acquiring and renewing OHSAS 18001 and ISO 45001 certifications, establishing a supervisory department directly under the president, holding group safety meetings, conducting on-site patrols, and maintaining and improving safety systems, including at partner companies.

However, in the event of problems or an accident, even though countermeasures have been taken, they could not only interfere with plant operations and customer service, but could also lead to compensation for damages, criminal penalties, administrative punishment, and the loss of social trust, which could affect our business activities and financial position.

7. Compliance risks

The TKK Group operates in the field of social infrastructure, a field that cannot exist without the trust of society. We recognize that compliance with laws and regulations is one of the most important fundamentals of trusted business operations.

Therefore, in addition to putting in place an organizational structure, such as of setting up the Compliance Committee and appointing supervisors, the Company has established regulations, including TKK Group Charter of Corporate Behavior and we are promoting initiatives to maintain compliance, such as ensuring all Group directors and employees are fully informed of their social responsibility and public mission.

However, in the unlikely event that laws and regulations in Japan or overseas are violated, large surcharges and damages could occur, which would not only adversely affect the Group's business results and financial position but would also reduce the public's trust in the Group and affect our business continuity.

8. Risks related to natural disasters, epidemics, etc.

To prepare for fires, earthquakes, large-scale natural disasters, and epidemics, the TKK Group has written a business continuity plan (BCP) manual, and we have taken all necessary steps for business continuity, such as establishing a contact system, building up stockpiles of emergency supplies, conducting seismic reinforcement work and setting up shelters at major manufacturing and development bases in Japan, and acquiring land for a new plant in Hashimoto, Wakayama.

However, serious physical or human injury caused by a greater-than-expected disaster could have a significant impact not only on the health of employees but also on the operation of our plants, and although appropriate coverage is taken out through non-life insurance, the direct and indirect damage and recovery costs could be larger than anticipated, which would adversely affect our business results and financial position.

Recognizing that the impact of epidemics, etc. poses risks at many levels, the TKK Group has issued infection prevention guidelines, compiled a manual for dealing with practical situations, and put measures in place to prevent the spread of infection. Human resource systems were updated to allow remote working and encourage paid days off, and improvements were made to IT systems, such as electronic application systems and cloud storage, to facilitate the changes in workplace conditions.

9. Impact of information security and maintaining the information infrastructure

The TKK Group handles, while doing business, a range of confidential information, including customer and technical information. To strengthen the management of this information, we have organized the Information Security Committee to thoroughly communicate the importance of information security, for instance through employee education, and to implement security measures for information systems. In April 2023, we obtained Information Security Management System (ISMS) certification.

However, if confidential information were lost or leaked by unexpected cyberattacks, including via computer viruses, it could damage the Group's reputation for reliability and affect business activities. The Group uses the Box file-sharing service and prohibits sending a password-protected attachment via email (followed by another email with the password) to guard against cyberattacks, effectively manage information assets, and to safeguard the privacy of customers and business partners.

Moreover, while the Group aims to transform the business model through IT, including by automating and streamlining operations through robotic process automation (RPA), and by introducing business standardization systems, if we lag behind in these digital transformation (DX) initiatives, or if we encounter circumstances that hinder the operation of our existing business-critical systems, we could lose out on business opportunities.

10. Risks related to market trends

In the Logistics Solutions Business, we supply products and systems mainly for the retail, wholesale, and co-op industries. We also provide baggage handling systems, primarily to airports in Japan. Consequently, this business segment could be affected if investments in logistics facilities slow due to a lower volume in logistics as a result of a recession or declining birthrate and aging population or trends in demand for air travel. We are therefore intensifying our business operations using AI and IoT technologies.

In the Plant & Next-Generation Energy Development Business, we supply tanks for LNG plants and refineries, as well as perform maintenance on existing crude oil tanks, etc. This segment's results could be adversely affected due to a plant owner discontinuing, postponing, or making major revisions to investment plans due to global economic trends. Other factors that could affect business results are the economic and social conditions of oil and gas producing and consuming countries; trends in energy and environmental policies in each country; trends in crude oil and LNG prices; and other factors. We are therefore strengthening initiatives that improve the profitability of maintenance projects, in this way establishing a business structure that is resistant to fluctuations in orders and that secures a stable source of income.

In addition, risks such as the following are possible due to a deterioration of the economic environment:

a) Fluctuations in foreign exchange rates
The TKK Group's business activities include the overseas manufacture of products, sales of materials, and construction work, and transactions that are mainly conducted in U.S. dollars. Currently, we view the risk of fluctuations in foreign exchange rates as low because foreign currency-denominated transactions and the amount of assets held in foreign currencies are relatively small, but the unexpected fluctuation could adversely affect the Group's business results and financial position in the future.

b) Fluctuations in interest rates
To establish credit for trade receivables and to acquire fixed assets, the TKK Group secures funding from financial institutions that consider the balance of short- and long-term purchasing ratios. Although low interest rates have continued due to large-scale monetary easing, etc., funding costs could increase if interest rates rise, which could adversely affect the Group's business results and financial position.

c) Valuations of held securities
The TKK Group holds securities with market value and redetermines their value based on share prices as of the final day of each fiscal year. If share prices fall significantly, the Group's business results and financial position could be adversely affected.

Approaches and Initiatives for Material Issues

Basic Approach to Sustainability

The Toyo Kanetsu Group has identified 10 important material issues to prioritize in order to raise the value for stakeholders through business activities. By devising solutions for these issues, the Group is working to grow sustainably while helping accomplish the UN's Sustainable Development Goals (SDGs) and realize a sustainable planet. Our sustainability actions are organized around two categories of material issues: responding to changes in the business environment caused by climate change, as well as the training and utilization of human resources.

For information about the Group's specific initiatives, please refer to our integrated report, *TKK Report 2024*.

1. Governance

Governance related to the business risks that could affect the TKK Group is overseen by the Company's Sustainability Committee, which is chaired by a director designated by the Board of Directors. This committee formulates and executes all necessary plans.
The Company's Risk Management Office serves as the committee's executive office. The members of the Sustainability Committee are selected from among the directors or executive officers in charge of relevant businesses in each division. This facilitates the sharing of knowledge and experience in countering risks and addressing climate change issues, etc., when formulating plans for implementation.

2. Strategy

(1) Disclosure of information based on the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD)

The Group has endorsed the TCFD recommendations and with the assistance of a team of outside experts has disclosed information based on the framework of the recommendations. Based on the recommendations, a scenario analysis was conducted to identify climate change risks and opportunities that could significantly impact the Group's operations.

The period up to 2050 was covered in this analysis, and we referred to several existing scenarios published by the International Energy Agency (IEA), the Intergovernmental Panel on Climate Change (IPCC), and other organizations from three perspectives: short-term (about 3 years), medium- term (up to 2030), and long-term (up to 2050). The analysis was exhaustive, assuming a world view based on two climate change scenarios (one with an average temperature increase of less than 2°C from the Industrial Revolution to the end of the century, and one with an average temperature increase of 4°C).

We examined the risks and opportunities for the Group based on the two scenarios and their associated business and financial implications. Looking ahead to 2050, we believe that the opportunities outweigh the risks associated with their overall financial impact on the Group's three core businesses (Logistics Solutions Business, Plant Business, and Next-Generation Energy Development Business) which accounted for roughly 80% of the Group's operations.

In the Logistics Solutions Business segment, opportunities are expected to significantly outweigh risks as demand for labor- and energy-saving systems at logistics facilities is projected to continue growing due to the environmental impact on logistics facilities caused by climate change, as well as the impact of the aging of Japan's population.

For the Plant Business segment, although demand for maintaining oil and gas storage tanks is forecast to gradually decline, these tanks are expected to be replaced with others for storing methylcyclohexane (MCH) and ammonia, expected to be next-generation energy sources, driving up demand for upgrading and maintenance.

For the Next-Generation Energy Development Business segment, while demand for upgrading oil and gas storage tanks is on the decline due to fossil fuel restrictions, this decline is expected to be offset by demand for new tanks that store hydrogen and ammonia fuel, considered alternative energy sources for the next generation, as well as for liquid carbon dioxide.

Based on the 4°C temperature increase scenario, among the most acute physical risks is a high probability of water damage from swollen rivers, typhoons, and floods impacting the operation of

facilities in the supply chain. Rising sea levels, among the most impactful physical risks, could by the end of the century affect our business sites. However, our analysis up to 2050 concluded that the financial impact would be minor. The TKK Group will take steps to mitigate the impact of these physical risks on operations and manufacturing plants.

(2) Policies and strategies for developing human resources and improving workplace conditions

a) Basic Policies

Under the slogan, “Action for the Future,” the Group has formulated a basic policy to train and capitalize on human resources that excel in creativity, exercise critical thinking, and possess specialized expertise. The goal is to realize the management vision of becoming an Innovator of Solutions that solve social issues through innovative technology and execution capability.

The Group also recognizes that promoting diversity and fostering employee-friendly workplaces lead to value creation. For this reason, we introduced varied training programs and an employee evaluation system for helping to motivate employees and improve their skills.

Basic policies for developing human resources and bettering workplace conditions are outlines below.

[Human resource development policy]

As a basic policy for developing human resources, the Group proactively promotes highly talented individuals to management positions regardless of their gender, nationality, or current job position, especially those with managerial skills and the ability to produce results. For this reason, the Group provides many opportunities for all employees to receive training both on and off the job while encouraging them to continue learning, with an awareness of the expertise and skills they need.

Guided by this policy, the Group has set up general training programs for every category and job level, specialized training for specific areas, as well as training programs designed to boost knowledge and skills about the wider issues that society is facing. By offering these programs on a regular basis, the Group can determine what knowledge and which skills are required, particularly for women, employees from overseas, and mid-career hires, then offer opportunities for acquiring those skills through training. In addition, English-language classes are provided to all employees regardless of their job level as well as career development training to those being assigned to new jobs.

[Policy for improving the workplace]

As a basic policy, the Group fosters employee-friendly workplaces that stress the importance of a work-life balance in order to retain and attract diverse human resources. At the same time, we are promoting a workplace environment where every employee’s opinions and values are respected and their health and wellbeing are protected. Through these actions, the Group will improve the corporate culture and employee engagement.

In line with this policy, workplaces have adopted remote working and flex-time systems that are making it easier for employees to take childcare and nursing care leave regardless of their gender, while we proactively hire people with disabilities. In addition, employee self-evaluations are being used for assignments to job positions that consider personal preferences, aptitude, and skills.

b) Human Resource Initiatives

[Multiple-track personnel promotion system and providing a wide array of training opportunities]

The Group has adopted a two-track career program to train highly specialized people how are capable of realizing our management vision and to nurture highly skilled managers who can leverage the abilities and unique talents of diverse employees. Further, while stressing the importance of career development paths based on the abilities and aptitude of individual employees, the Group is providing training opportunities in many fields, including training programs for business skills and specializations, interpersonal and management skills, as well as self-development.

[New trainee program]

The Group has set up a trainee program for new employees to determine whether new hires who have no specializations can start a career in a designated field. After joining the Group, the new employees participate in the program for six months up to an official job assignment and gain work experience in several workplaces. To the extent that it is possible, the trainees are assigned to the positions they request after completing the program and reach an understanding of their duties and the work processes. Through this self-selection process, the trainees are expected to become employees who take responsibility for their work and are conscientious at all aspects of their job.

[Promoting diversity]

Volatility, uncertainty, complexity, and *ambiguity* are words used to describe our current age. In this context, the Group recognizes that incorporating diverse ways of thinking into decision-making is essential for increasing the value we provide to customers. To meet this requirement, we have, for instance, initiated projects that promote the advancement of women. Open to everyone regardless of gender or personal beliefs, these projects have attracted many participants from across the Group. These projects allow employees to voice their opinions in discussions about improving job satisfaction and workplace conditions, make proposals to management, and become involved in carrying out initiatives.

In addition, the Group is recruiting mid-career professionals to secure self-motivated employees who have advanced skills and extensive experience, which encourages other employees and brings vitality to the Company.

3. Risk Management

As the environment surrounding the Company becomes more complex and diverse, the Group is placing greater importance on the appropriate management of risks that could significantly impact business, and the practice of sophisticated risk management has been included as one of the Group’s key management issues.

The Sustainability Committee meets at least once a quarter and periodically reports to the Board of Directors and management councils. The councils handle important discussions and make decisions based on the reports and findings of the committee. The Board of Directors reviews reports on the councils’ and committee’s discussions and decisions, then oversees the execution and progress of the Group’s policies as well as plans for responding to the Group’s overall business risks.

For information about the Group’s risk management, please refer to Business Risks on page 2.

4. Metrics and Targets

(1) Disclosing information based on TCFD recommendations

(Reducing greenhouse gases (GHGs) with the goal of achieving carbon neutrality)

GHGs to be reduced:

Scope 1 and 2 GHG emissions from Toyo Kanetsu and our consolidated subsidiaries worldwide

*Scope 1 emissions: Direct emissions of GHGs from inhouse fuel consumption

*Scope 2 emissions: Indirect emissions of GHGs from purchased electricity and heat

GHG reduction targets:

Achieve carbon neutrality by 2050

50% reduction of GHGs by 2030 compared with amounts in fiscal 2019

The TKK Group intends to become carbon neutral by 2050 by reducing GHG emissions, including energy conservation and employing renewable energy sources.

We will also work to reduce Scope 3 emissions across the value chain in partnership with suppliers and customers.

*Scope 3 emissions: Indirect emissions of GHGs (aside from Scopes 1 and 2) from operations within the supply chain

The TKK Group’s GHG emissions across the supply chain have been calculated based on the standards of the Greenhouse Gas Protocol.

Combined Scope 1 and 2 emissions for the entire TKK Group worldwide (tonnes of CO_2 equivalent):

5,276 in FY2019, 4,993 in FY2020, 5,142 in FY2021, 3,600 in FY2022, and 3,663 in FY2023

Scope 1 and 2 GHG emissions from the entire TKK Group worldwide were reduced by 31% in FY2023 compared with FY2019 levels.

Scope 3 emissions for the entire TKK Group worldwide (tonnes of CO_2 equivalent):
204,327 in FY2020, 285,324 in FY2021, and 285,324 in FY2022

* Of this total, 136,121 fell under Category 11, “use of sold products,” and 127,331 fell under Category 1, “purchase of goods and services.” Combined, the results for these two categories accounted for 92.3% of Scope 3 emissions in fiscal 2022. Adding up all the fiscal 2022 results (above), total GHG emissions across the supply chain came to 288,924 tonnes of CO_2 equivalent, of these Scope 1 and 2 emissions made up 1.2% and Scope 3 emissions accounted for 98.8%.

In fiscal 2022 electricity consumption accounted for 51% of Scope 1 and 2 emissions, while gasoline and diesel oil consumption accounted for 38%. Accordingly, the Group recognizes the need for the following measures to reduce GHG emissions:

- Installing solar panels onsite for producing energy
- Procuring electricity from zero-emission and renewable-energy sources
- Switching over company vehicles to EVs
- Introducing energy-saving equipment

The TKK Group has examined initiatives for each category of Scope 3 emissions, such as reducing electricity consumption over the product lifecycle. We are also working with suppliers and customers to develop and implement measures for reducing GHG emissions.
In addition, the Group introduced an internal carbon pricing system in fiscal 2022. By using specified internal carbon prices for calculating reference costs when considering capital investment plans, the Group is integrating this system into investment decisions, while promoting investments in decarbonization.

For more information on corporate governance and risk management, please refer to sections 1 and 3 of Basic Approach to Sustainability (above).

(2) Indicators and targets for developing human resources and improving workplace conditions

[Targets of indicators]

- Percentage of female managers:
  10% by FY2024
- Percentage of male employees taking childcare leave:
  70% by FY2023
- Percentage of annual paid vacation taken:
  70% by FY2024

[Results]

The following results and indicators extend over the past three years.

Indicators		FY2021	FY2022	FY2023
Percentage of female managers (%)		5.4	6.9	8.3
Male employees taking childcare leave (%)		50.0	61.5	66.7
Female employees taking childcare leave (%)		100.0	100.0	100.0
Mid-career employees hired (%)		66.7	65.7	55.3
Mid-career managers hired (%)		35.1	38.0	37.5
Annual paid vacation taken (%)		66.8	71.8	76.5
Percentage of employees submitting proposals to the commendation system		70.7	79.8	73.0
Average wage difference between male and female employees (%)	All employees	60.6	62.1	64.4
	Full-time employees	61.2	62.7	65.5
	Part-time and temporary employees	45.2	31.2	41.5

Note: Targets and results are applicable to employees of the Company on a non-consolidated basis.
For more information about corporate governance and risk management, please refer to sections 1 and 3 of Basic Approach to Sustainability (above).

Consolidated financial statements, etc.

(1) Consolidated financial statements

(i) Consolidated balance sheet

(Millions of yen)

		Previous fiscal year (As of March 31, 2023)		Current fiscal year (As of March 31, 2024)
Assets				
Current assets				
Cash and deposits	*1	6,989		8,351
Notes and accounts receivable - trade, and contract assets	*2	23,649	*2, *7	25,571
Investments in leases		35		–
Merchandise and finished goods		19		26
Work in process		1,117		1,476
Raw materials and supplies		4,787		5,163
Other		1,156		1,420
Allowance for doubtful accounts		(20)		(34)
Total current assets		37,734		41,975
Non-current assets				
Property, plant and equipment				
Buildings and structures, net	*5	4,206	*5	4,634
Machinery, equipment and vehicles, net	*5	568	*5	698
Tools, furniture and fixtures, net	*5	434	*5	484
Land	*5, *6	10,092	*5, *6	10,092
Construction in progress		543		598
Other, net		58		43
Total property, plant and equipment	*3	15,903	*3	16,551
Intangible assets		877		634
Investments and other assets				
Investment securities		8,059	*4	6,971
Deferred tax assets		240		205
Retirement benefit asset		514		820
Other		894		948
Allowance for doubtful accounts		(221)		(216)
Total investments and other assets		9,486		8,729
Total non-current assets		26,267		25,915
Total assets		64,001		67,891

(Millions of yen)

		Previous fiscal year (As of March 31, 2023)		Current fiscal year (As of March 31, 2024)
Liabilities				
Current liabilities				
Notes and accounts payable - trade		1,243	*7	997
Short-term borrowings	*5	5,357	*5	11,375
Current portion of long-term borrowings	*5	1,700	*5	2,480
Accrued expenses		4,715		5,197
Income taxes payable		908		1,384
Contract liabilities		2,138		584
Provision for bonuses		423		410
Provision for loss on orders received		45		104
Provision for warranties for completed construction		202		106
Other		696		1,043
Total current liabilities		17,430		23,685
Non-current liabilities				
Bonds payable		1,000		1,000
Long-term borrowings	*5	3,380	*5	2,160
Deferred tax liabilities		1,730		858
Deferred tax liabilities for land revaluation	*6	1,095	*6	1,095
Retirement benefit liability		392		420
Asset retirement obligations		800		820
Other		84		99
Total non-current liabilities		8,483		6,454
Total liabilities		25,914		30,139
Net assets				
Shareholders' equity				
Share capital		18,580		18,580
Capital surplus		1,273		1,273
Retained earnings		18,135		17,722
Treasury shares		(3,200)		(1,704)
Total shareholders' equity		34,789		35,871
Accumulated other comprehensive income				
Valuation difference on available-for-sale securities		3,374		1,835
Deferred gains or losses on hedges		(6)		21
Revaluation reserve for land	*6	684	*6	684
Foreign currency translation adjustment		(899)		(958)
Remeasurements of defined benefit plans		140		291
Total accumulated other comprehensive income		3,293		1,874
Non-controlling interests		4		5
Total net assets		38,087		37,752
Total liabilities and net assets		64,001		67,891

(ii) Consolidated statement of income and comprehensive income

(Millions of yen)

		Previous fiscal year (From April 1, 2022 to March 31, 2023)		Current fiscal year (From April 1, 2023 to March 31, 2024)
Net sales	*1	47,351	*1	53,787
Cost of sales	*2	36,543	*2	42,018
Gross profit		10,807		11,768
Selling, general and administrative expenses	*3, *4	8,310	*3, *4	8,678
Operating profit		2,497		3,090
Non-operating income				
Interest income		6		5
Dividend income		252		231
Foreign exchange gains		100		129
Insurance return		–		79
Gain on sale of scraps		38		33
Subsidy income		33		21
Reversal of allowance for doubtful accounts		0		0
Other		68		105
Total non-operating income		499		607
Non-operating expenses				
Interest expenses		82		81
Share of loss of entities accounted for using equity method		–		13
Other		17		24
Total non-operating expenses		100		118
Ordinary profit		2,896		3,579
Extraordinary income				
Gain on sale of non-current assets		149		439
Gain on sale of investment securities		880		1,210
Insurance claim income		–		496
Other		0		0
Total extraordinary income		1,030		2,146
Extraordinary losses				
Loss on valuation of investment securities		74		12
Impairment losses	*5	304	*5	368
Extra retirement payments		111		–
Loss on disaster		–		509
Other		27		11
Total extraordinary losses		518		902
Profit before income taxes		3,408		4,823
Income taxes - current		1,257		1,523
Income taxes - deferred		(228)		(255)
Total income taxes		1,028		1,267
Profit		2,379		3,555
Profit attributable to				
Profit attributable to owners of parent		2,378		3,554
Profit attributable to non-controlling interests		1		1

(Millions of yen)

		Previous fiscal year (From April 1, 2022 to March 31, 2023)		Current fiscal year (From April 1, 2023 to March 31, 2024)
Other comprehensive income				
Valuation difference on available-for-sale securities		742		(1,538)
Deferred gains or losses on hedges		(9)		27
Foreign currency translation adjustment		(20)		(59)
Remeasurements of defined benefit plans, net of tax		(20)		151
Share of other comprehensive income of entities accounted for using equity method		–		(0)
Total other comprehensive income	*6	691	*6	(1,419)
Comprehensive income		3,071		2,136
Comprehensive income attributable to				
Comprehensive income attributable to owners of parent		3,069		2,134
Comprehensive income attributable to non-controlling interests		1		1

(iii) Consolidated statement of changes in equity

Previous fiscal year (From April 1, 2022 to March 31, 2023)

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	18,580	1,273	17,533	(2,936)	34,450
Changes during period					
Dividends of surplus			(1,197)		(1,197)
Profit attributable to owners of parent			2,378		2,378
Purchase of treasury shares				(302)	(302)
Disposal of treasury shares				38	38
Reversal of revaluation reserve for land			(577)		(577)
Net changes in items other than shareholders' equity					
Total changes during period	–	–	602	(263)	339
Balance at end of period	18,580	1,273	18,135	(3,200)	34,789

	Accumulated other comprehensive income						Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	2,632	3	106	(878)	160	2,024	2	36,477
Changes during period								
Dividends of surplus								(1,197)
Profit attributable to owners of parent								2,378
Purchase of treasury shares								(302)
Disposal of treasury shares								38
Reversal of revaluation reserve for land								(577)
Net changes in items other than shareholders' equity	742	(9)	577	(20)	(20)	1,269	1	1,270
Total changes during period	742	(9)	577	(20)	(20)	1,269	1	1,610
Balance at end of period	3,374	(6)	684	(899)	140	3,293	4	38,087

Current fiscal year (From April 1, 2023 to March 31, 2024)

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	18,580	1,273	18,135	(3,200)	34,789
Changes during period					
Dividends of surplus			(1,197)		(1,197)
Profit attributable to owners of parent			3,554		3,554
Purchase of treasury shares				(1,203)	(1,203)
Cancellation of treasury shares			(2,769)	2,769	–
Increase in treasury shares arising from increase in entities accounted for using equity method				(70)	(70)
Net changes in items other than shareholders' equity					
Total changes during period	–	–	(413)	1,495	1,082
Balance at end of period	18,580	1,273	17,722	(1,704)	35,871

	Accumulated other comprehensive income						Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	3,374	(6)	684	(899)	140	3,293	4	38,087
Changes during period								
Dividends of surplus								(1,197)
Profit attributable to owners of parent								3,554
Purchase of treasury shares								(1,203)
Cancellation of treasury shares								–
Increase in treasury shares arising from increase in entities accounted for using equity method								(70)
Net changes in items other than shareholders' equity	(1,538)	27	–	(59)	151	(1,419)	1	(1,417)
Total changes during period	(1,538)	27	–	(59)	151	(1,419)	1	(335)
Balance at end of period	1,835	21	684	(958)	291	1,874	5	37,752

(iv) Consolidated statement of cash flows

(Millions of yen)

	Previous fiscal year (From April 1, 2022 to March 31, 2023)		Current fiscal year (From April 1, 2023 to March 31, 2024)
Cash flows from operating activities			
Profit before income taxes	3,408		4,823
Depreciation	783		755
Amortization of goodwill	1		6
Share of loss (profit) of entities accounted for using equity method	–		13
Impairment losses	304		368
Increase (decrease) in allowance for doubtful accounts	(7)		9
Increase (decrease) in retirement benefit liability	(10)		2
Decrease (increase) in retirement benefit asset	(92)		(73)
Increase (decrease) in provision for loss on orders received	45		58
Increase (decrease) in provision for warranties for completed construction	(97)		(95)
Interest and dividend income	(258)		(237)
Interest expenses	82		81
Insurance claim income	–		(496)
Loss on disaster	–		509
Foreign exchange losses (gains)	(110)		(105)
Loss (gain) on valuation of investment securities	74		12
Loss (gain) on sale of investment securities	(880)		(1,210)
Loss (gain) on sale of non-current assets	(129)		(439)
Loss on retirement of non-current assets	3		10
Decrease (increase) in trade receivables and contract assets	1,689		(1,874)
Decrease (increase) in investments in leases	185		30
Decrease (increase) in inventories	(2,541)		(737)
Decrease (increase) in advance payments to suppliers	(164)		(426)
Increase (decrease) in trade payables	(697)		214
Increase (decrease) in contract liabilities	1,478		(1,550)
Other, net	(1,054)	*2	468
Subtotal	2,013		118
Interest and dividends received	258		237
Interest paid	(82)		(79)
Proceeds from insurance income	–		496
Payments associated with disaster loss	–		(492)
Income taxes paid	(1,083)		(1,019)
Net cash provided by (used in) operating activities	1,105		(739)
Cash flows from investing activities			
Payments into time deposits	(102)		(102)
Proceeds from withdrawal of time deposits	138		102
Purchase of non-current assets	(1,187)		(1,460)
Proceeds from sale of non-current assets	507		449
Purchase of investment securities	(55)		(1,392)
Proceeds from sale and redemption of investment securities	1,565		1,379
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	–		15
Other, net	(39)		(36)
Net cash provided by (used in) investing activities	826		(1,045)

(Millions of yen)

	Previous fiscal year (From April 1, 2022 to March 31, 2023)		Current fiscal year (From April 1, 2023 to March 31, 2024)
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings	(2,763)		6,018
Proceeds from long-term borrowings	500		1,200
Repayments of long-term borrowings	–		(1,700)
Purchase of treasury shares	(302)		(1,203)
Proceeds from disposal of treasury shares	38		–
Dividends paid	(1,193)		(1,194)
Net cash provided by (used in) financing activities	(3,719)		3,120
Effect of exchange rate change on cash and cash equivalents	53		28
Net increase (decrease) in cash and cash equivalents	(1,733)		1,364
Cash and cash equivalents at beginning of period	8,654		6,921
Cash and cash equivalents at end of period	*1 6,921	*1	8,285

Notes

Basis of presenting the consolidated financial statements

The accompanying consolidated financial statements of the Company and its domestic consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan. The accounts of overseas consolidated subsidiaries are based on their financial statements prepared in conformity with generally accepted accounting principles and practices prevailing in the respective countries in which the subsidiaries are incorporated.

Significant accounting policies for preparation of the consolidated financial statements

1. Disclosure of scope of consolidation

Number of consolidated subsidiaries: 12 companies
Names of major consolidated subsidiaries are omitted since those names are described in "TKK Group Companies."

2. Disclosure about application of the equity method

Number of entities accounted for using equity method: 1 company
Name of entity accounted for using equity method is omitted since the name is described in "TKK Group Companies."

3. Disclosure about fiscal years, etc. of consolidated subsidiaries

Of the Company's consolidated subsidiaries, Kankyo Research Institute Inc., Scrum Software Co.,Ltd, Toyo Kanetsu Corporate Venture Investment Partnership, Toyo Kanetsu Corporate Venture Fund II, PT Toyo Kanetsu Indonesia, and Toyo Kanetsu (Malaysia) Sdn. Bhd. have a closing date of December 31. In preparation of the consolidated financial statements, their financial statements as of December 31 are used. However, for major transactions that occurred between that date and the consolidated balance sheet date, the necessary adjustments are made in the consolidated financial statements.

4. Disclosure of accounting policies

(1) Accounting policy for measuring significant assets
(i) Securities
a) Held-to-maturity bonds: Stated at amortized cost (straight-line method)
b) Available-for-sale securities

Securities other than shares that do not have a market value are stated at fair value (valuation differences are directly charged or credited to net assets, and cost of securities sold is determined by the moving-average method).

Shares that do not have a market value are valued at cost determined by the moving-average method.

(ii) Derivatives

Derivatives are valued at fair value.

(iii) Inventories
a) Finished goods: Primarily, at cost using the first-in first-out method
(The value on the balance sheet is written down to reflect a decline in profitability.)
b) Work in process: Primarily, at cost using the specific identification method
(The value on the balance sheet is written down to reflect a decline in profitability.)
c) Raw materials: Primarily, at cost using the weighted-average method
(The value on the balance sheet is written down to reflect a decline in profitability.)

(2) Accounting policy for depreciation of significant assets
(i) Property, plant and equipment

The Company and its domestic consolidated subsidiaries use the declining-balance method, and overseas consolidated subsidiaries use the straight-line method in accordance with provisions of accounting standards in their respective countries.
However, the Company and its domestic consolidated subsidiaries use the straight-line method to depreciate buildings (excluding facilities attached to buildings) acquired on or after April 1, 1998, and facilities attached to buildings and structures acquired on or after April 1, 2016.
The estimated useful lives of major items are as follows:

Buildings and structures	3 to 57 years
Machinery and equipment	2 to 13 years

(ii) Intangible assets

Intangible assets are amortized using the straight-line method.
Software for internal use is amortized using the straight-line method over the estimated useful life as internally determined (5 years).

(3) Accounting policy for significant provisions
(i) Allowance for doubtful accounts

To cover losses from bad debts for trade receivables, loans receivable and others, an allowance for doubtful accounts is provided based on historical experience of bad debts for general receivables. For specific receivables such as highly doubtful receivables, the collectability is individually considered and the estimated amount of uncollectible accounts is provided as the allowance.

(ii) Provision for bonuses

To pay bonuses to employees, out of the estimated amount to be paid in the following fiscal year, an amount attributable to the current fiscal year is recorded.

(iii) Provision for loss on orders received

To make provision for losses on orders received, as for existing construction, for which an amount of loss can be reasonably estimated at the end of the current fiscal year, an expected amount of loss in future is recorded as the provision.

(iv) Provision for warranties for completed construction

To cover costs of warranty against defects and after-sales service for completed construction, an amount is recorded based on the historical loss rate as well as consideration of an amount for individual construction that is expected to incur in future at the end of the current fiscal year.

(4) Method of accounting for retirement benefits
(i) Method of attributing estimated retirement benefits to periods

For the purpose of attributing estimated retirement benefits over the period up to the end of the current fiscal year in the calculation of retirement benefit obligations, the benefit formula method is applied.

(ii) Method of amortizing actuarial gain or loss and past service cost

Past service costs are recorded as an expense in the year they are incurred.
With regard to actuarial gain or loss, the amount is amortized by the straight-line method over a certain term within the average remaining service period of the eligible employees (5 years) for each applicable fiscal year, and expensed from the year following the year in which the gain or loss is recognized.

(5) Accounting policies for significant revenues and expenses

The Group enters into long-term construction contracts mainly in the Logistics Solutions Business, the Plant Business and the Next-Generation Energy Development Business, such that entail assuming obligations to deliver merchandise and finished goods such as logistics facilities and storage tanks pursuant to such construction contracts. Given that costs with respect to any such construction contract are deemed to arise in proportion to appreciation of customer-controlled assets, revenue in relation to a construction contract is recognized according to the degree of progress thereof. The degree of progress is calculated as the proportion of construction cost incurred to date relative to total estimated cost under the construction contract.

Revenue is recognized using the cost recovery method in cases where recovery of incurred costs is likely but reasonable estimation regarding the degree of progress is not possible.

In addition, no adjustments are made to significant financing components because consideration for business transactions is mainly received within 180 days of having satisfied a performance obligation.

(6) Significant accounting policy for hedging

(i) Method of hedge accounting

In principle, the deferral accounting is applied. The allocation method is applied to forward foreign exchange contracts that meet requirements thereof, and the exceptional treatment is applied to interest rate swaps that meet requirements thereof.

(ii) Hedging instruments and hedged items

Hedging instruments: ..... Forward foreign exchange contracts, Interest rate swaps
Hedged items:..... Forecast transactions denominated in foreign currencies and borrowings

(iii) Hedging policy

In accordance with the "Rules on Handling of Derivative Transactions" established by the Company, the Company and its consolidated subsidiaries (collectively, the "Group") do not enter into any derivative transaction for speculative purposes but use derivative transactions only to hedge exchange rate fluctuation risk and interest rate fluctuation risk.

(iv) Method of assessing the hedging effectiveness

The Group confirms effectiveness by comparing and examining cash flows of hedging instruments and hedged items in advance. However, the Group omits assessment of effectiveness on interest rate swaps to which the exceptional treatment is applied.

(7) Scope of cash and cash equivalents in consolidated statement of cash flows

Cash and cash equivalents include cash in hand, readily available deposits and short-term investments with maturities of three months or less from the purchase date whose value is not subject to significant fluctuation risk.

Notes - Significant accounting estimates

(Construction contracts for which revenue is recognized based on degree of progress)

(1) Amount recognized in the consolidated financial statements for the current fiscal year

(Millions of yen)

	Previous fiscal year	Current fiscal year
Net sales	12,497	19,235

(2) Information on the content of significant accounting estimates related to identified items

With respect to construction contracts for which revenue is recognized based on degree of progress, the Group records net sales based on the progress rate calculated as the proportion of construction cost incurred corresponding to value of work done at the end of the current fiscal year, relative to the total amount of estimated cost of construction work.

The estimated amount of total cost of construction work has been determined on the basis of management's best estimate and judgments based on past experience and available information collected as well as individual work specifications. However, changes to original estimates may occur due to price fluctuations in the market, changes to specifications, natural disasters and others, and such changes may have a significant effect on the amount recognized in the consolidated statement of income for the next fiscal year.

Notes - Changes in accounting policies

Not applicable

Notes - New accounting standards to be applied

- "Accounting Standard for Current Income Taxes" (ASBJ Statement No. 27, issued by the Accounting Standards Board of Japan on October 28, 2022)
- "Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No. 25, issued by the Accounting Standards Board of Japan on October 28, 2022)
- "Guidance on Accounting Standard for Tax Effect Accounting" (ASBJ Guidance No. 28, issued by the Accounting Standards Board of Japan on October 28, 2022)

(1) Overview

In February 2018, "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28) and other standards (hereinafter "ASBJ Statement No. 28, etc.") were released, completing the transfer of practical guidelines on tax effect accounting from the Japanese Institute of Certified Public Accountants to the Accounting Standards Board of Japan. In the course of deliberation, the following two issues, which were to be reviewed after the release of ASBJ Statement No. 28, etc., were discussed and published:

- Classification of tax expenses (taxation on other comprehensive income)
- Tax effect on the sale of shares in subsidiaries, etc. (shares of subsidiaries or affiliates) when the group tax sharing system is applied

(2) Scheduled date of application

These ASBJ statement and guidance will be applied at the start of the fiscal year beginning on April 1, 2024.

(3) Effects of application of the accounting standard, etc.

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

Notes - Additional information

Transaction of granting the Company's own shares to Directors, etc. through a trust

The Company has introduced a performance-linked share-based compensation using a trust for Directors (excluding Directors who are Audit and Supervisory Committee Members and outside Directors), and Managing Officers who are not Directors and other Executive Officers in a higher rank (hereinafter collectively referred to as "Directors, etc.") from FY2019, for the purpose of increasing the incentive to improve the Company's medium- to long-term performance and enhance the corporate value more than ever by clarifying the linkage between remuneration of Directors, etc., and the Company's medium- to long-term performance and stock value, and sharing profits and risks resulting from the linkage with stock price between Directors, etc. and shareholders.

To the accounting treatment for this trust agreement, "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts" (ASBJ PITF No. 30, issued on March 26, 2015) is applied correspondingly.

(1) Outline of transaction

Money is entrusted to a trust designated by the Company (hereinafter referred to as the "Trust"), which acquires shares of the Company. Points are given to each Director, etc. at the end of each fiscal year of the medium-term business plan in accordance with the Share Delivery Regulations established by the Company's Board of Directors, and shares of the Company are delivered through the Trust in a certain period during the tenure of the Director, etc. specified in the Regulations for the Provision of Shares for the Performance-linked Share-based Remuneration Plan for officers, or at the time of retirement of the Director, etc. in the number corresponding to the number of points accumulated by then.

(2) The Company's shares remaining in the Trust

Shares of the Company remaining in the Trust have been recorded at the book value in the Trust (excluding the amount of incidental costs) as treasury shares in net assets. The book value and number of these treasury shares for the previous fiscal year were ¥105 million and 59,400 shares, respectively, and for the current fiscal year were ¥105 million and 59,400 shares, respectively.

Notes - Consolidated balance sheet

*1. The following amounts have been restricted by a bank in return for its issuing a bank guarantee, which was provided by the Company:

	Previous fiscal year (As of March 31, 2023)	Current fiscal year (As of March 31, 2024)
Cash and deposits	¥1 million	¥– million

*2. Of the amount stated for notes and accounts receivable - trade, and contract assets, amounts of receivables and contract assets from contracts with customers are as follows:

	Previous fiscal year (As of March 31, 2023)	Current fiscal year (As of March 31, 2024)
Notes receivable - trade	¥652 million	¥658 million
Accounts receivable - trade	10,733	8,632
Contract assets	12,263	16,281

*3. Accumulated depreciation of property, plant and equipment are as follows:

Previous fiscal year (As of March 31, 2023)	Current fiscal year (As of March 31, 2024)
¥12,341 million	¥12,850 million

*4. Matters concerning affiliates are as follows:

	Previous fiscal year (As of March 31, 2023)	Current fiscal year (As of March 31, 2024)
Investment securities (shares)	¥– million	¥1,304 million

*5. Assets pledged and liabilities secured

Assets pledged and liabilities secured as collateral are as follows:

Assets pledged

	Previous fiscal year (As of March 31, 2023)		Current fiscal year (As of March 31, 2024)	
Buildings and structures	¥207 million	[¥207 million]	¥186 million	[¥186 million]
Machinery, equipment and vehicles	0	[0]	0	[0]
Tools, furniture and fixtures	0	[0]	0	[0]
Land	5,458	[5,458]	5,458	[5,458]
Total	5,666	[5,666]	5,645	[5,645]

Liabilities secured as collateral

	Previous fiscal year (As of March 31, 2023)		Current fiscal year (As of March 31, 2024)	
Short-term borrowings	¥1,246 million	[¥1,246 million]	¥1,670 million	[¥1,670 million]
Current portion of long-term borrowings	500	[500]	1,480	[1,480]
Long-term borrowings	1,480	[1,480]	500	[500]
Total	3,226	[3,226]	3,650	[3,650]

In the above table, figures in brackets present mortgages on factory foundation and the relevant debts. The amounts of land are after revaluation.

*6. In accordance with the “Act on Revaluation of Land” (Act No. 34 promulgated on March 31, 1998), the Company revalues its land for business use and, as for the valuation difference, records an amount equivalent to tax relating to the valuation difference as “deferred tax liabilities for land revaluation” in the liabilities section and an amount after deducting said amount as “revaluation reserve for land” in the net assets section.

- Method of revaluation – The Company revalues the land by the calculation method where a value based on the assessed value of fixed asset tax set forth in Article 2, Item 3 and road rating set forth in Article 2, Item 4 of the “Order for Enforcement of the Act on Revaluation of Land” (Cabinet Order No. 119 promulgated on March 31, 1998) is reasonably adjusted.
- Date of revaluation – March 31, 2002

	Previous fiscal year (As of March 31, 2023)	Current fiscal year (As of March 31, 2024)
Difference between the year-end value of revaluated land and the book value after the revaluation	¥(2,455) million	¥(2,370) million

*7. Notes matured at the end of the consolidated fiscal year

Notes matured at the end of the fiscal year are accounted for as if they were settled at the maturity date.

Since the last day of the current fiscal year was a bank holiday, the following notes maturing on the year-end date are accounted for as if they were settled at the maturity date.

	Previous fiscal year (As of March 31, 2023)	Current fiscal year (As of March 31, 2024)
Notes receivable - trade	¥– million	¥95 million
Notes payable - trade	–	97

Notes - Consolidated statement of income and comprehensive income

*1. Revenue from contracts with customers

Revenue from contracts with customers and revenue other than that from contracts with customers are not stated separately with respect to net sales. Amounts of revenue from contracts with customers have been presented in “Notes - Revenue recognition, 1. Information on disaggregation of revenue from contracts with customers” of the consolidated financial statements.

*2. Provision for loss on orders received included in cost of sales

Previous fiscal year (From April 1, 2022 to March 31, 2023)	Current fiscal year (From April 1, 2023 to March 31, 2024)
¥45 million	¥58 million

*3. Major components of selling, general and administrative expenses are as follows:

	Previous fiscal year (From April 1, 2022 to March 31, 2023)	Current fiscal year (From April 1, 2023 to March 31, 2024)
Salaries and allowances	¥2,441 million	¥2,517 million
Bonuses	617	545
Provision for bonuses	157	148
Retirement benefit expenses	132	146
Commission expenses	1,277	1,292
Provision of allowance for doubtful accounts	(7)	8

*4. Total of research and development expenses included in general and administrative expenses and manufacturing costs for the period

Previous fiscal year (From April 1, 2022 to March 31, 2023)	Current fiscal year (From April 1, 2023 to March 31, 2024)
¥568 million	¥468 million

*5. Impairment losses

Previous fiscal year (From April 1, 2022 to March 31, 2023)

The Company recorded impairment losses on the following asset groups.

(1) Outline of asset groups on which impairment losses were recognized

Location	Use	Type
Head Office (Koto-ku, Tokyo)	Next-Generation Energy Development Business	Machinery, equipment and vehicles
Toyo Kanetsu (Malaysia) Sdn. Bhd. (Bintulu, Malaysia)	Same as above	Tools, furniture and fixtures
PT Toyo Kanetsu Indonesia (Batam, Indonesia)	Same as above	Machinery, equipment and vehicles

(2) Circumstances leading to recognition of impairment losses

For asset groups of which cash flows arising from operating activities continued, or were expected to continue, to be negative, the carrying amount was reduced to the recoverable amount, and the reduced amount was recorded as impairment losses in extraordinary losses.

(3) Amount of impairment losses and breakdown of the amount by type of major non-current assets

Type	Amount (Millions of yen)
Buildings and structures	0
Machinery, equipment and vehicles	266
Tools, furniture and fixtures	9
Intangible assets	27
Total	304

(4) Method of grouping assets

In principle, the Group's assets for business use are grouped on the basis of the business, and the Group's idle assets are grouped by each asset. In addition, as for Head Office, the assets are grouped as commonly used assets.

(5) Method of calculating the recoverable amount

The recoverable amount of this asset group is measured at value in use, and the amount calculated by discounting future cash flows at weighted average cost of capital of 5.20% is applied.

Current fiscal year (From April 1, 2023 to March 31, 2024)

The Company recorded impairment losses on the following asset groups.

(1) Outline of asset groups on which impairment losses were recognized

Location	Use	Type
Head Office (Koto-ku, Tokyo)	Company-wide	Intangible assets
Head Office (Koto-ku, Tokyo)	Next-Generation Energy Development Business	Machinery, equipment and vehicles
Toyo Kanetsu (Malaysia) Sdn. Bhd. (Bintulu, Malaysia)	Same as above	Machinery, equipment and vehicles
PT Toyo Kanetsu Indonesia (Batam, Indonesia)	Same as above	Machinery, equipment and vehicles

(2) Circumstances leading to recognition of impairment losses

For asset groups of which cash flows arising from operating activities continued, or were expected to continue, to be negative, the carrying amount was reduced to the recoverable amount, and the reduced amount was recorded as impairment losses in extraordinary losses.

(3) Amount of impairment losses and breakdown of the amount by type of major non-current assets

Type	Amount (Millions of yen)
Buildings and structures	2
Machinery, equipment and vehicles	21
Tools, furniture and fixtures	9
Intangible assets	335
Total	368

(4) Method of grouping assets

In principle, the Group's assets for business use are grouped on the basis of the business, and the Group's idle assets are grouped by each asset. In addition, as for Head Office, the assets are grouped as commonly used assets.

(5) Method of calculating the recoverable amount

The recoverable amount of this asset group is measured at value in use, and the amount calculated by discounting future cash flows at weighted average cost of capital of 4.70% is applied.

*6. Reclassification adjustments and tax effects relating to other comprehensive income

	Previous fiscal year (From April 1, 2022 to March 31, 2023)	Current fiscal year (From April 1, 2023 to March 31, 2024)
Valuation difference on available-for-sale securities:		
Amount recorded during the period	¥1,928 million	¥(1,028) million
Reclassified amount	(880)	(1,166)
Pre-adjustment of tax effect	1,048	(2,195)
Tax effect amount	(306)	656
Valuation difference on available-for-sale securities	742	(1,538)
Deferred gains or losses on hedges:		
Amount recorded during the period	(10)	31
Reclassified amount	(3)	8
Pre-adjustment of tax effect	(13)	39
Tax effect amount	4	(12)
Deferred gains or losses on hedges	(9)	27
Foreign currency translation adjustment:		
Amount recorded during the period	(20)	(58)
Reclassified amount	–	(0)
Pre-adjustment of tax effect	(20)	(59)
Tax effect amount	–	–
Foreign currency translation adjustment	(20)	(59)
Remeasurements of defined benefit plans, net of tax:		
Amount recorded during the period	28	273
Reclassified amount	(58)	(53)
Pre-adjustment of tax effect	(29)	220
Tax effect amount	9	(69)
Remeasurements of defined benefit plans, net of tax	(20)	151
Share of other comprehensive income of entities accounted for using equity method:		
Amount recorded during the period	–	(0)
Total other comprehensive income	691	(1,419)

Notes - Consolidated statement of changes in equity

Previous fiscal year (From April 1, 2022 to March 31, 2023)

1. Matters concerning class and total number of issued shares, and class and number of treasury shares

(Thousands of shares)

	Number of shares at beginning of period	Number of shares increased in period	Number of shares decreased in period	Number of shares at end of period
Issued shares				
Common shares	9,323	–	–	9,323
Total	9,323	–	–	9,323
Treasury shares				
Common shares (Notes 1, 2 and 3)	1,145	111	21	1,235
Total	1,145	111	21	1,235

(Notes) 1. The number of treasury shares of common shares includes shares of the Company held by the benefit trust for officers (81 thousand shares at beginning of period, 59 thousand shares at end of period).

2. Total number of treasury shares of common shares increased by 111 thousand shares because of an increase due to acquisition of treasury shares based on a resolution by the Board of Directors of 110 thousand shares and an increase due to purchase of shares less than one unit of 0 thousand shares.

3. Total number of treasury shares of common shares decreased by 21 thousand shares due to a disposal of treasury shares to the benefit trust for officers based on a resolution by the Board of Directors.

2. Matters concerning dividends

(1) Dividends paid

Resolution	Class of shares	Total dividends	Dividends per share	Record date	Effective date
Ordinary General Meeting of Shareholders on June 28, 2022	Common shares	¥1,197 million	¥145	March 31, 2022	June 29, 2022

(Note) The total amount of dividends based on a resolution at the Ordinary General Meeting of Shareholders on June 28, 2022 includes dividends on shares of the Company held by the benefit trust for officers of ¥11 million.

(2) Dividends whose record dates are in the current fiscal year but whose effective dates fall in the next fiscal year

Resolution	Class of shares	Total dividends	Source of dividends	Dividends per share	Record date	Effective date
Ordinary General Meeting of Shareholders on June 28, 2023	Common shares	¥1,197 million	Retained earnings	¥147	March 31, 2023	June 29, 2023

(Note) The total amount of dividends based on a resolution at the Ordinary General Meeting of Shareholders on June 28, 2023 includes dividends on shares of the Company held by the benefit trust for officers of ¥8 million.

Current fiscal year (From April 1, 2023 to March 31, 2024)

1. Matters concerning class and total number of issued shares, and class and number of treasury shares

(Thousands of shares)

	Number of shares at beginning of period	Number of shares increased in period	Number of shares decreased in period	Number of shares at end of period
Issued shares				
Common shares (Note 3)	9,323	–	1,000	8,323
Total	9,323	–	1,000	8,323
Treasury shares				
Common shares (Notes 1, 2 and 3)	1,235	375	1,000	611
Total	1,235	375	1,000	611

(Notes) 1. The number of treasury shares of common shares includes shares of the Company held by the benefit trust for officers (59 thousand shares at beginning of period, 59 thousand shares at end of period).

2. Total number of treasury shares of common shares increased by 375 thousand shares because of an increase due to acquisition of treasury shares based on a resolution by the Board of Directors of 353 thousand shares, an increase due to purchase of shares less than one unit of 1 thousand shares, and a portion of the Company's shares belonged to the Company held by entities accounted for using the equity method of 21 thousand shares.

3. The decrease of 1,000 thousand shares in common shares issued and the number of treasury shares is due to the cancellation of treasury shares based on a resolution by the Board of Directors.

2. Matters concerning dividends

(1) Dividends paid

Resolution	Class of shares	Total dividends	Dividends per share	Record date	Effective date
Ordinary General Meeting of Shareholders on June 28, 2023	Common shares	¥1,197 million	¥147	March 31, 2023	June 29, 2023

(Note) The total amount of dividends based on a resolution at the Ordinary General Meeting of Shareholders on June 28, 2023 includes dividends on shares of the Company held by the benefit trust for officers of ¥8 million.

(2) Dividends whose record dates are in the current fiscal year but whose effective dates fall in the next fiscal year

Resolution	Class of shares	Total dividends	Source of dividends	Dividends per share	Record date	Effective date
Ordinary General Meeting of Shareholders on June 26, 2024	Common shares	¥1,784 million	Retained earnings	¥229	March 31, 2024	June 27, 2024

(Note) The total amount of dividends based on a resolution at the Ordinary General Meeting of Shareholders on June 26, 2024 includes dividends on shares of the Company held by the benefit trust for officers of ¥13 million.

Notes - Consolidated statement of cash flows

*1 Reconciliation of ending balance of cash and cash equivalents with account balances on the consolidated balance sheet

	Previous fiscal year (From April 1, 2022 to March 31, 2023)	Current fiscal year (From April 1, 2023 to March 31, 2024)
Cash and deposits	¥6,989 million	¥8,351 million
Time deposits with maturity over 3 months	(66)	(66)
Restricted deposits	(1)	–
Cash and cash equivalents	6,921	8,285

*2 Significant non-cash transactions
Newly recorded asset retirement obligations

	Previous fiscal year (From April 1, 2022 to March 31, 2023)	Current fiscal year (From April 1, 2023 to March 31, 2024)
Asset retirement obligations	¥– million	¥18 million

Notes - Leases

(Borrower)
Operating lease transactions
Future lease payments under non-cancelable operating leases

	Previous fiscal year (As of March 31, 2023)	Current fiscal year (As of March 31, 2024)
Within 1 year	¥75 million	¥80 million
Over 1 year	146	176
Total	222	257

(Lender)
Finance lease transactions
(1) The components of investments in leases
Current assets

	Previous fiscal year (As of March 31, 2023)	Current fiscal year (As of March 31, 2024)
Lease payments receivable	¥28 million	¥– million
Estimated residual value	11	–
Amount equivalent to interest income	(5)	–
Investments in leases	35	–

(2) Amounts expected to be collected on lease payments receivable of investments in leases after consolidated balance sheet date
Current assets

(Millions of yen)

	Previous fiscal year (As of March 31, 2023)					
	Within 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years	Over 5 years
Investments in leases	28	–	–	–	–	–

(Millions of yen)

	Current fiscal year (As of March 31, 2024)					
	Within 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years	Over 5 years
Investments in leases	–	–	–	–	–	–

Notes - Financial instruments

1. Status of financial instruments

(1) Policy on treatment of financial instruments

The Group raises funds necessary to run its business smoothly by bonds payable and borrowing from banks. In the case where the Group has temporary surplus funds, it invests them only in safe financial instruments.
The Group uses derivative transactions to hedge various risks described in (2) in accordance with the “Rules on Handling of Derivative Transactions” established by the Company and has a policy not to enter into any speculative transaction.

(2) Content and risks of financial instruments and risk management system therefor

The Group’s notes and accounts receivable - trade are subject to credit risk of its customers, and its certain receivables denominated in foreign currencies are subject to exchange rate fluctuation risk. The Group mitigates the credit risk of its customers by periodically confirming whether there is any overdue receivable using an aging schedule and other documents and mitigates the exchange rate fluctuation risk by borrowing in foreign currencies as needed.
The Company’s securities are subject to credit risk of its investees, but the Company invests surplus funds in safe financial instruments with high ratings through prescribed internal procedures.
The Group’s investment securities are subject to credit risk of its investees and market price fluctuation risk. They are equity securities of listed companies with which the Group has business relationships, most of which are categorized as available-for-sale securities, and the Group periodically ascertains the fair value thereof.
The Group’s notes and accounts payable - trade and accrued expenses are subject to liquidity risk, and its certain payables denominated in foreign currencies are subject to exchange rate fluctuation risk. The Group mitigates the liquidity risk by periodically preparing a schedule of cash receipts and disbursements and other documents and mitigates the exchange rate fluctuation risk by forward exchange contracts and other means as needed.
Of bonds payable and borrowings, short-term borrowings are primarily for daily business transactions, and long-term borrowings and bonds payable are primarily for temporary advances on large-scale projects. Variable-rate borrowings are subject to interest rate fluctuation risk, and the Group uses interest rate swaps as hedging instruments for respective contracts for most of the long-term borrowings in order to hedge the fluctuation risk of the interest rates to be paid and fix interest expenses. The Group limits interest rate swaps to those to which the exceptional treatment can be applied and omits assessment of hedge effectiveness thereon. The Group mitigates the liquidity risk by periodically preparing a schedule of cash receipts and disbursements and other documents.
The Group executes and manages derivative transactions in accordance with the Company’s Rules on Handling of Derivative Transactions and, when using derivatives, enters into transactions with financial institutions with high ratings to mitigate credit risk. Please see “Significant accounting policy for hedging” of “Disclosure of accounting policies” in “Significant accounting policies for preparation of the consolidated financial statements” described previously for the hedging instruments, hedging policy, method of assessing the hedging effectiveness and other information on hedge accounting.

(3) Supplementary explanation concerning fair values of financial instruments

As several variable factors are incorporated in measuring fair value of financial instruments, the resulting amount may vary depending on the different preconditions employed. In addition, the contract amounts of derivative transactions, mentioned in “Notes - Derivatives” in Notes, should not be considered indicative of the sizes of the market risks involved in the derivative transactions.

2. Fair values of financial instruments

Carrying amounts on the consolidated balance sheet, fair values and differences therebetween of the financial instruments are as shown below.

Previous fiscal year (As of March 31, 2023)

(Millions of yen)

	Carrying amount on the consolidated balance sheet	Fair value	Difference
(1) Investment securities (*2)	6,595	6,595	–
Total assets	6,595	6,595	–
(1) Bonds payable	1,000	1,006	6
(2) Long-term borrowings (including within 1 year)	5,080	5,157	77
Total liabilities	6,080	6,164	84
Derivatives (*3)			
(1) Those not qualifying for hedge accounting	2	2	–
(2) Those qualifying for hedge accounting	12	12	–
Total derivatives	14	14	–

Current fiscal year (As of March 31, 2024)

(Millions of yen)

	Carrying amount on the consolidated balance sheet	Fair value	Difference
(1) Investment securities (*2)	4,189	4,189	–
Total assets	4,189	4,189	–
(1) Bonds payable	1,000	1,009	9
(2) Long-term borrowings (including within 1 year)	4,640	4,732	92
Total liabilities	5,640	5,742	102
Derivatives (*3)			
(1) Those not qualifying for hedge accounting	–	–	–
(2) Those qualifying for hedge accounting	32	32	–
Total derivatives	32	32	–

(*1) This information has been omitted with respect to “cash and deposits,” “notes receivable - trade,” “accounts receivable – trade,” “notes and accounts payable - trade,” “short-term borrowings,” and “accrued expenses” because they are cash or their fair values approximate the carrying amounts given that they are settled on a short-term basis.

(*2) Shares that do not have a market value have not been included in “(1) Investment securities.” The carrying amount of such financial instruments on the consolidated balance sheet is as follows:

(Millions of yen)

Classification	Previous fiscal year	Current fiscal year
Unlisted equity securities, etc.	1,464	2,782

(*3) Net receivables and payables arising from derivative transactions are presented in their net amounts.

(Notes) 1. Projected redemption amounts for monetary claims and securities with maturities after the consolidated balance sheet date

Previous fiscal year (As of March 31, 2023)

(Millions of yen)

	Within 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years
Deposits	6,950	–	–	–
Notes receivable - trade	652	–	–	–
Accounts receivable - trade	10,733	–	–	–
Securities	–	–	–	–
Investment securities				
Held-to-maturity bonds	–	–	–	–
Available-for-sale securities	–	–	–	–
Total	18,336	–	–	–

Current fiscal year (As of March 31, 2024)

(Millions of yen)

	Within 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years
Deposits	8,307	–	–	–
Notes receivable - trade	658	–	–	–
Accounts receivable - trade	8,632	–	–	–
Securities	–	–	–	–
Investment securities				
Held-to-maturity bonds	–	–	–	–
Available-for-sale securities	–	–	–	–
Total	17,598	–	–	–

2. Scheduled repayment amounts of bonds payable, long-term borrowings and other interest-bearing liabilities after the consolidated balance sheet date

Previous fiscal year (As of March 31, 2023)

(Millions of yen)

	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years	Over 5 years
Bonds payable	–	–	–	1,000	–
Long-term borrowings	2,480	400	–	–	500
Total	2,480	400	–	1,000	500

Current fiscal year (As of March 31, 2024)

(Millions of yen)

	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years	Over 5 years
Bonds payable	–	–	1,000	–	–
Long-term borrowings	400	–	–	1,200	560
Total	400	–	1,000	1,200	560

3. Matters regarding the breakdown of financial instruments by each fair value level

The fair values of financial instruments are categorized into the following three levels, in accordance with the observability and significance of the inputs used in the measurement of fair value.

Level 1 fair value: Fair value is measured using the market price related to the asset or liability subject to measurement of fair value formed in an active market, from among the observable inputs used in fair value measurement.

Level 2 fair value: Fair value is measured enlisting the inputs used in the measurement of fair value, other than the Level 1 inputs, from among the observable inputs used in fair value measurement.

Level 3 fair value: Fair value is measured enlisting the unobservable inputs used in fair value measurement.

In cases where multiple inputs which have a material effect on the measurement of fair value are used, the fair value is categorized at the level with the lowest priority in the fair value measurement among the levels to which the respective inputs belong.

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

Previous fiscal year (As of March 31, 2023)

(Millions of yen)

Classification	Fair value			
	Level 1	Level 2	Level 3	Total
Investment securities				
Available-for-sale securities				
Stocks	6,595	–	–	6,595
Derivative transactions				
Currencies	–	3	–	3
Total assets	6,595	3	–	6,598
Derivative transactions				
Currencies	–	11	–	11
Total liabilities	–	11	–	11

Current fiscal year (As of March 31, 2024)

(Millions of yen)

Classification	Fair value			
	Level 1	Level 2	Level 3	Total
Investment securities				
Available-for-sale securities				
Stocks	4,186	–	–	4,186
Corporate bonds	–	2	–	2
Derivative transactions				
Currencies	–	32	–	32
Total assets	4,186	35	–	4,221
Derivative transactions				
Currencies	–	0	–	0
Total liabilities	–	0	–	0

(2) Financial instruments other than those recorded on the consolidated balance sheet at fair value

Previous fiscal year (As of March 31, 2023)

(Millions of yen)

Classification	Fair value			
	Level 1	Level 2	Level 3	Total
Bonds payable	–	1,006	–	1,006
Long-term borrowings (including within 1 year)	–	5,157	–	5,157
Total liabilities	–	6,164	–	6,164

Current fiscal year (As of March 31, 2024)

(Millions of yen)

Classification	Fair value			
	Level 1	Level 2	Level 3	Total
Bonds payable	–	1,009	–	1,009
Long-term borrowings (including within 1 year)	–	4,732	–	4,732
Total liabilities	–	5,742	–	5,742

(Note) Explanation of valuation methods used to measure fair value and inputs relating to fair value measurement

Investment securities

Listed stocks and corporate bonds are valued using quoted market prices. The fair value of listed stocks is classified as level 1 fair value given that listed stocks are traded in active markets. Corporate bonds are classified at Level 2 because their trade frequency in the market is low and their fair value is not considered to be their quoted market price in an active market.

Derivative transactions

The fair values of interest rate swaps and forward exchange contracts are measured using the discounted present value method (DCF method: discounted cash flow method) with observable inputs, such as interest rate and currency exchange rate. They are categorized as the Level 2 fair value. The fair value of interest rate swaps that are accounted for using exceptional treatment is included in fair value of "Liabilities (2) Long-term borrowings (including within 1 year)," as those interest rate swaps are treated together with the long-term borrowings that are subject to hedging (refer to "Long-term borrowings," below). The fair value of forward exchange contracts is measured enlisting the discounted cash flow method using observable inputs such as exchange rates.

Bonds payable

The fair value of bonds payable issued by the Company is measured enlisting the discounted cash flow method based on interest rates considering the sum of principal and interest, and the interest rates considering the remaining duration and credit risk of the bonds payable, and is categorized as Level 2 fair value.

Long-term borrowings

The fair value of long-term borrowings is measured enlisting the discounted cash flow method based on interest rates considering the sum of principal and interest, and the interest rates considering the remaining duration and credit risk of the obligation, and is categorized as Level 2 fair value. Long-term borrowings with variable interest rates are subject to exceptional treatment of interest rate swaps (refer to "Derivative transactions," above), and their fair values are measured using the sum of principal and interest accounted for with the relevant interest rate swaps.

Notes - Securities

1. Held-to-maturity bonds

Previous fiscal year (As of March 31, 2023)

Not applicable

Current fiscal year (As of March 31, 2024)

Not applicable

2. Available-for-sale securities (securities classified as other securities under Japanese GAAP)

Previous fiscal year (As of March 31, 2023)

(Millions of yen)

	Type	Carrying amount on the consolidated balance sheet	Acquisition cost	Difference
Securities for which the carrying amount on the consolidated balance sheet exceeds the acquisition cost	(1) Stocks	6,595	1,969	4,625
	(2) Bonds			
	(i) Government bonds and municipal bonds, etc.	–	–	–
	(ii) Corporate bonds	–	–	–
	(iii) Other	–	–	–
	(3) Other	–	–	–
	Subtotal	6,595	1,969	4,625
Securities for which the carrying amount on the consolidated balance sheet does not exceed the acquisition cost	(1) Stocks	–	–	–
	(2) Bonds			
	(i) Government bonds and municipal bonds, etc.	–	–	–
	(ii) Corporate bonds	–	–	–
	(iii) Other	–	–	–
	(3) Other	–	–	–
	Subtotal	–	–	–
Total		6,595	1,969	4,625

(Note) "Available-for-sale securities" in the above table do not include shares that do not have a market value (unlisted equity securities; carrying amount on the consolidated balance sheet of ¥1,464 million).

Current fiscal year (As of March 31, 2024)

(Millions of yen)

	Type	Carrying amount on the consolidated balance sheet	Acquisition cost	Difference
Securities for which the carrying amount on the consolidated balance sheet exceeds the acquisition cost	(1) Stocks	3,905	1,370	2,534
	(2) Bonds			
	(i) Government bonds and municipal bonds, etc.	–	–	–
	(ii) Corporate bonds	–	–	–
	(iii) Other	–	–	–
	(3) Other	–	–	–
	Subtotal	3,905	1,370	2,534
Securities for which the carrying amount on the consolidated balance sheet does not exceed the acquisition cost	(1) Stocks	280	443	(162)
	(2) Bonds			
	(i) Government bonds and municipal bonds, etc.	–	–	–
	(ii) Corporate bonds	2	2	(0)
	(iii) Other	–	–	–
	(3) Other	–	–	–
	Subtotal	283	446	(162)
Total		4,189	1,817	2,372

(Note) "Available-for-sale securities" in the above table do not include shares that do not have a market value (unlisted equity securities; carrying amount on the consolidated balance sheet of ¥2,782 million).

3. Available-for-sale securities that were sold

Previous fiscal year (From April 1, 2022 to March 31, 2023)

(Millions of yen)

Type	Sales amount	Total gain on sales	Total loss on sales
(1) Shares	1,544	880	–
(2) Bonds			
(i) Government bonds and municipal bonds, etc.	–	–	–
(ii) Corporate bonds	–	–	–
(iii) Other	–	–	–
(3) Other	–	–	–
Total	1,544	880	–

Current fiscal year (From April 1, 2023 to March 31, 2024)

(Millions of yen)

Type	Sales amount	Total gain on sales	Total loss on sales
(1) Shares	1,595	1,210	–
(2) Bonds			
(i) Government bonds and municipal bonds, etc.	–	–	–
(ii) Corporate bonds	–	–	–
(iii) Other	–	–	–
(3) Other	–	–	–
Total	1,595	1,210	–

4. Securities subject to the recognition of impairment loss

In the previous fiscal year, impairment loss of ¥74 million (shares in available-for-sale securities: ¥74 million) was recognized on securities. In the current fiscal year, impairment loss of ¥12 million (shares in available-for-sale securities: ¥12 million) was recognized on securities.

In the treatment for impairment loss, impairment loss is recognized in principle when the fair market value at the period-end decreased by 50% or more compared with the acquisition cost, and impairment loss is recognized to the extent of the amount considered necessary in light of materiality of the amount, recoverability and other factors when the fair market value at the period-end decreased by approximately 30% to 50%.

Notes - Derivatives

1. Derivative transactions to which hedge accounting is not applied

Previous fiscal year (As of March 31, 2023)

(Millions of yen)

Classification	Type of derivative transaction, etc.	Contract amount	Portion of contract amount over 1 year	Fair value	Valuation gain or loss
Transaction other than market transaction	Forward exchange contract				
	Buy contract				
	U.S. dollar	33	–	35	2
Total		33	–	35	2

Current fiscal year (As of March 31, 2024)

Not applicable

2. Derivative transactions to which hedge accounting is applied

(1) Currencies

Previous fiscal year (As of March 31, 2023)

(Millions of yen)

Classification	Type of derivative transaction, etc.	Principal hedged items	Contract amount	Portion of contract amount over 1 year	Fair value	Fair value calculation method
Allocation method for forward exchange contract	Forward exchange contract	Accounts payable - trade				Fair value is calculated based on the price provided by counterparty financial institutions or other prices.
	Buy contract					
	U.S. dollar		385	–	375	
Total			385	–	375	

Current fiscal year (As of March 31, 2024)

(Millions of yen)

Classification	Type of derivative transaction, etc.	Principal hedged items	Contract amount	Portion of contract amount over 1 year	Fair value	Fair value calculation method
Allocation method for forward exchange contract	Forward exchange contract	Accounts payable - trade				Fair value is calculated based on the price provided by counterparty financial institutions or other prices.
	Buy contract					
	U.S. dollar		1,054	–	1,085	
Total			1,054	–	1,085	

(2) Interest rates

Previous fiscal year (As of March 31, 2023)

(Millions of yen)

Classification	Type of derivative transaction, etc.	Principal hedged items	Contract amount	Portion of contract amount over 1 year	Fair value	Fair value calculation method
Exceptional treatment of interest rate swaps	Interest rate swap transactions Receive variable, pay fixed	Long-term borrowings	3,200	2,000	(Note)	(Note)

(Note) The fair value of interest rate swaps that are accounted for using exceptional treatment is included in that of corresponding long-term borrowings, as those interest rate swaps are treated as an adjustment to long-term borrowings as hedged items.

Current fiscal year (As of March 31, 2024)

(Millions of yen)

Classification	Type of derivative transaction, etc.	Principal hedged items	Contract amount	Portion of contract amount over 1 year	Fair value	Fair value calculation method
Exceptional treatment of interest rate swaps	Interest rate swap transactions Receive variable, pay fixed	Long-term borrowings	2,700	1,200	(Note)	(Note)

(Note) The fair value of interest rate swaps that are accounted for using exceptional treatment is included in that of corresponding long-term borrowings, as those interest rate swaps are treated as an adjustment to long-term borrowings as hedged items.

Notes - Retirement benefits

1. Summary of retirement benefit plans adopted

The Company and certain consolidated subsidiaries have defined benefit corporate pension plans as defined benefit plans, and certain consolidated subsidiaries have a small and medium sized enterprise retirement allowance cooperative plan and lump-sum retirement plans.
In addition, the Company and certain consolidated subsidiaries have defined contribution corporate pension plans.
The Company and certain consolidated subsidiaries participate in Nihon Sangyo Kikai Kougyo Kigyonenkin Kikin (pension fund of Japan industrial machinery manufacturers) or Zenkankyo Kigyonenkin Kikin (pension fund for employees in the environmental measurement certification sector nationwide). For this fund, since the amount of pension plan assets corresponding to contributions by the respective companies cannot be reasonably calculated, the fund is accounted for similar to defined contribution plans.

2. Defined benefit plans

(1) Reconciliation between beginning balance and ending balance of retirement benefit obligations

	Previous fiscal year (From April 1, 2022 to March 31, 2023)	Current fiscal year (From April 1, 2023 to March 31, 2024)
Beginning balance of retirement benefit obligations	¥3,925 million	¥3,817 million
Service cost	237	244
Interest expenses	12	11
Unrecognized net actuarial gain or loss	25	3
Retirement benefits paid	(342)	(192)
Past service cost	(40)	1
Other	1	1
Ending balance of retirement benefit obligations	3,817	3,888

(2) Reconciliation between beginning balance and ending balance of pension plan assets

	Previous fiscal year (From April 1, 2022 to March 31, 2023)	Current fiscal year (From April 1, 2023 to March 31, 2024)
Beginning balance of pension plan assets	¥3,982 million	¥3,939 million
Expected return on plan assets	36	36
Unrecognized net actuarial gain or loss	53	277
Amount of employer contribution	268	214
Retirement benefits paid	(407)	(181)
Other	5	0
Ending balance of pension plan assets	3,939	4,288

(3) Retirement benefit obligations and pension plan assets at the end of the fiscal year and reconciliation of retirement benefit liability and retirement benefit asset on consolidated balance sheet

	Previous fiscal year (From April 1, 2022 to March 31, 2023)	Current fiscal year (From April 1, 2023 to March 31, 2024)
Retirement benefit obligations under funded system	¥3,817 million	¥3,888 million
Pension plan assets	(3,939)	(4,288)
	(122)	(400)
Retirement benefit obligations under unfunded system	–	–
Net amount of assets and liabilities stated in the consolidated balance sheet	(122)	(400)
Retirement benefit liability	392	420
Retirement benefit asset	(514)	(820)
Net amount of assets and liabilities stated in the consolidated balance sheet	(122)	(400)

(4) Retirement benefit expenses and components thereof

	Previous fiscal year (From April 1, 2022 to March 31, 2023)	Current fiscal year (From April 1, 2023 to March 31, 2024)
Service cost	¥237 million	¥244 million
Interest expenses	12	11
Expected return on plan assets	(36)	(36)
Amortization of net actuarial gain or loss	(59)	(55)
Amortization of past service cost	(40)	1
Retirement benefit expenses pertaining to defined benefit plans	112	165
Extra retirement payments (Note)	111	–

(Note) Extra retirement payments are included in “extra retirement payments” under extraordinary losses.

(5) Remeasurements of defined benefit plans on consolidated statement of income and comprehensive income

The components of remeasurements of defined benefit plans (before tax effects deduction) are as follows:

	Previous fiscal year (From April 1, 2022 to March 31, 2023)	Current fiscal year (From April 1, 2023 to March 31, 2024)
Past service cost	¥– million	¥– million
Actuarial gains and losses	(29)	(220)
Total	(29)	(220)

(6) Remeasurements of defined benefit plans on consolidated balance sheet

The components of remeasurements of defined benefit plans (before tax effects deduction) are as follows:

	Previous fiscal year (From April 1, 2022 to March 31, 2023)	Current fiscal year (From April 1, 2023 to March 31, 2024)
Unrecognized past service cost	¥– million	¥– million
Unrecognized net actuarial gain or loss	(203)	(422)
Total	(203)	(422)

(7) Pension plan assets

(i) Major components of pension plan assets

Ratio of major components for total pension plan assets is as follows:

	Previous fiscal year (From April 1, 2022 to March 31, 2023)	Current fiscal year (From April 1, 2023 to March 31, 2024)
Bonds	23%	25%
Shares	42	42
General account	29	25
Other	6	8
Total	100	100

(ii) Method of establishing expected long-term rates of return on plan assets

In order to determine the expected long-term rates of return on plan assets, the current and forecast distribution of plan assets and the current and expected future long-term rates of return from the diverse assets that comprise the plan assets are taken into consideration.

(8) Matters relating to the basis for actuarial calculations

Main basis for actuarial calculations

	Previous fiscal year (As of March 31, 2023)	Current fiscal year (As of March 31, 2024)
Discount rate	0.25%	0.25%
Expected long-term rates of return on pension plan assets	1.00%	1.00%

3. Defined contribution plans

The required contribution from the Company and its consolidated subsidiaries into the defined contribution pension plans was ¥76 million in the previous fiscal year and ¥85 million in the current fiscal year.

4. Multi-employer plan

The required contribution amount to the corporate pension fund plan under the multi-employer plan, which is accounted for in the same manner as a defined contribution plan, was ¥99 million in the previous fiscal year and ¥105 million in the current fiscal year.

(1) Nihon Sangyo Kikai Kougyo Kigyonenkin Kikin (pension fund of Japan industrial machinery manufacturers)

(i) Funded status of multi-employer plan

	Previous fiscal year (As of March 31, 2022)	Current fiscal year (As of March 31, 2023)
Plan assets	¥15,269 million	¥15,832 million
Sum of actuarial obligations calculated for finance status of pension plan and minimum reserve	20,314	19,987
Net amount	(5,045)	(4,155)

(ii) Group's proportion of total contributions to plan

Previous fiscal year 7.71% (As of March 31, 2023)

Current fiscal year 7.79% (As of March 31, 2024)

(iii) Supplementary explanation

Major factors for the net amount in (i) above are the balance of past service liabilities (¥7,281 million as of March 31, 2023 and ¥6,096 million as of March 31, 2024) and surplus amount (¥2,096 million as of March 31, 2023 and ¥1,941 million as of March 31, 2024) for pension financing calculation.

The principal and interest of past service liabilities in this plan are amortized equally over 10 years and 6 months, and the Group recorded special contributions applied to such amortization (¥70 million as of March 31, 2023 and ¥74 million as of March 31, 2024) as expenses in the consolidated financial statements.

The proportions in (ii) above are not consistent with the proportions actually funded by the Group.

(2) Zenkankyo Kigyonenkin Kikin (pension fund for employees in the environmental measurement certification sector nationwide)

(i) Funded status of multi-employer plan

	Previous fiscal year (As of March 31, 2022)	Current fiscal year (As of March 31, 2023)
Plan assets	¥9,341 million	¥9,456 million
Sum of actuarial obligations calculated for finance status of pension plan and minimum reserve	7,023	7,155
Net amount	2,318	2,300

(ii) Group's proportion of total contributions to plan

Previous fiscal year 1.27% (As of March 31, 2022)

Current fiscal year 1.57% (As of March 31, 2023)

(iii) Supplementary explanation

The proportions in (ii) above are not consistent with the proportions actually funded by the Group.

Notes - Share options, etc.

Not applicable

Notes - Tax effect accounting

1. Significant components of deferred tax assets and liabilities

	Previous fiscal year (As of March 31, 2023)	Current fiscal year (As of March 31, 2024)
Deferred tax assets		
Tax loss carry-forward (Note)	¥155 million	¥145 million
Accrued business tax	68	92
Retirement benefit liability	72	75
Provision for bonuses	131	128
Allowance for doubtful accounts	74	76
Provision for loss on orders received	13	31
Loss on valuation of investment securities	225	169
Loss on valuation of investments in capital	247	185
Impairment loss	255	251
Depreciation	252	210
Asset retirement obligations	245	251
Other	345	426
Deferred tax assets subtotal	2,087	2,044
Valuation reserve for tax loss carry-forwards (Note)	(150)	(142)
Valuation reserve for the total of deductible temporary differences, etc.	(1,085)	(781)
Valuation reserve subtotal	(1,235)	(924)
Total deferred tax assets	852	1,120
Offset with deferred tax liabilities	(611)	(915)
Net deferred tax assets	240	205
Deferred tax liabilities		
Revaluation reserve for land	1,095	1,095
Valuation difference on available-for-sale securities	1,302	623
Reserve for tax purpose reduction entry of non-current assets	856	851
Retirement benefit asset	161	252
Other	22	46
Total deferred tax liabilities	3,437	2,869
Offset with deferred tax assets	(611)	(915)
Net deferred tax liabilities	2,826	1,954

(Note) Amounts of tax loss carry-forwards and related deferred tax assets by carry-forward period

Previous fiscal year (As of March 31, 2023)

(Millions of yen)

	Within 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years	Over 5 years	Total
Tax loss carry-forwards (*)	7	4	55	4	18	64	155
Valuation reserve	(2)	(4)	(55)	(4)	(18)	(64)	(150)
Deferred tax assets	4	–	–	–	–	–	4

Current fiscal year (As of March 31, 2024)

(Millions of yen)

	Within 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years	Over 5 years	Total
Tax loss carry-forwards (*)	2	56	4	2	6	72	145
Valuation reserve	–	(56)	(4)	(2)	(6)	(72)	(142)
Deferred tax assets	2	–	–	–	–	–	2

(*) Tax loss carry-forwards represents the amount multiplied by the statutory effective tax rate.

2. Main components causing significant differences between the statutory effective tax rate and the actual effective tax rate after application of tax effect accounting

	Previous fiscal year (As of March 31, 2023)	Current fiscal year (As of March 31, 2024)
Statutory effective tax rate	30.62%	30.62%
Adjustments		
Increase/decrease in valuation reserve	(3.48)	(7.25)
Expenses not deductible for income tax purposes, such as entertainment expenses	1.74	1.59
Income not included for income tax purposes, such as dividends received	(0.38)	(0.29)
Per capita levy of inhabitant taxes	1.04	0.65
Effect of differences in tax rates applicable to subsidiaries from tax rate applicable to the Company	0.80	0.58
Retained earnings of overseas subsidiaries	(0.18)	0.25
Tax credits	(0.49)	(0.34)
Other	0.51	0.57
Actual effective tax rate	30.19	26.36

Notes - Asset retirement obligations

Of asset retirement obligations, items recorded on the consolidated balance sheet

1. Outline of asset retirement obligations

   The Group assumes obligations to restore the original state of certain facilities for rent, such that are associated with costs of removing asbestos from buildings containing asbestos and real estate lease agreements for manufacturing facilities and other owned sites situated on leased land under the Ordinance on Prevention of Asbestos Hazards and other such regulations.

2. Calculation method for determining asset retirement obligation amount

   With respect to facilities containing asbestos, this amount is not discounted because the estimated period of use has already elapsed. Estimates regarding future costs of removing asbestos are recognized as asset retirement obligations.

   With respect to obligations to restore the original state of sites associated with real estate lease agreements, the amount of asset retirement obligations was calculated using a discount rate of 0.643% assuming an estimated period of use of 28 years from acquisition.

3. Increase (decrease) in total asset retirement obligations

	Previous fiscal year (From April 1, 2022 to March 31, 2023)	Current fiscal year (From April 1, 2023 to March 31, 2024)
Beginning balance	¥799 million	¥800 million
Increase due to acquisition of property, plant and equipment	–	–
Increase due to change in estimates	–	18
Adjustments associated with passage of time	0	0
Decrease due to settlement of asset retirement obligations	(0)	–
Ending balance	800	820

Notes - Real estate for lease, etc.

The Company and certain subsidiaries rent out a space such as in their business places as well as land mainly for rental housing and buildings in the Tokyo metropolitan area and other areas. Rental profit related to the real estate for rent, etc. for the previous fiscal year was ¥123 million (rent income is recorded in net sales, and rent expenses are recorded in cost of sales). Rental profit related to the real estate for rent, etc. for the current fiscal year was ¥43 million (rent income is recorded in net sales, and rent expenses are recorded in cost of sales).
Carrying amounts on the consolidated balance sheet, changes during period for the previous and current fiscal years and fair values of the real estate for rent, etc. are as follows:

(Millions of yen)

		Previous fiscal year (From April 1, 2022 to March 31, 2023)	Current fiscal year (From April 1, 2023 to March 31, 2024)
Carrying amount on the consolidated balance sheet			
	Balance at beginning of period	4,489	4,976
	Increase (decrease) during period	487	(882)
	Balance at end of period	4,976	4,093
Fair value at end of period		3,393	2,753

(Notes) 1. Carrying amount on the consolidated balance sheet is calculated by subtracting accumulated depreciation and impairment loss from acquisition cost.
2. The increase (decrease) during period for the previous fiscal year primarily consists of an increase in rentable space (¥798 million) and a decrease due to sale (¥311 million). The decrease for the current fiscal year primarily consists of a decrease in rentable space (¥661 million) and a decrease due to a change in intended use (¥218 million).
3. Fair value of property whose amount has significance at the end of the period is an amount based on a value investigation report by an external licensed real estate appraiser, and that of other property whose amount has little significance is an amount based on an index which is believed to reflect a market value appropriately.

Notes - Revenue recognition

1. Information on disaggregation of revenue from contracts with customers
Information on disaggregated revenue by timing of revenue recognition is as follows:
Previous fiscal year (From April 1, 2022 to March 31, 2023)

(Millions of yen)

	Reportable segments					Other (Note)	Total
	Logistics Solutions Business	Plant Business	Next-Generation Energy Development Business	Business Innovation	Total		
Goods and services transferred at a point in time	7,459	–	70	8,786	16,315	19	16,335
Goods and services transferred over time	20,573	8,508	973	325	30,380	–	30,380
Revenue from contracts with customers	28,032	8,508	1,043	9,112	46,696	19	46,716
Other revenue	–	–	–	–	–	635	635
Sales to external customers	28,032	8,508	1,043	9,112	46,696	655	47,351

(Note) "Other" represents business segments not included in the reportable segments of the Company including leasing and real estate rental operations.

Current fiscal year (From April 1, 2023 to March 31, 2024)

(Millions of yen)

	Reportable segments					Other (Note)	Total
	Logistics Solutions Business	Plant Business	Next-Generation Energy Development Business	Business Innovation	Total		
Goods and services transferred at a point in time	9,189	–	210	9,229	18,629	7	18,637
Goods and services transferred over time	23,301	9,420	1,286	707	34,716	–	34,716
Revenue from contracts with customers	32,491	9,420	1,497	9,937	53,346	7	53,353
Other revenue	–	–	–	–	–	434	434
Sales to external customers	32,491	9,420	1,497	9,937	53,346	441	53,787

(Note) "Other" represents business segments not included in the reportable segments of the Company including leasing and real estate rental operations.

2. Information that serves as a basis for understanding revenue from contracts with customers
Information that serves as a basis for understanding revenue from contracts with customers has been presented in, "Notes - Significant accounting policies for preparation of the consolidated financial statements, 4. Disclosure of accounting policies, (5) Accounting policies for significant revenues and expenses."

3. Information on the relationship between satisfying performance obligations pursuant to contracts with customers and cash flows from such contracts, and the amount and timing of revenue expected to be recognized in subsequent fiscal years from contracts with customers that existed at the end of the current fiscal year.

(1) Balance of contract assets and contract liabilities

(Millions of yen)

	As of March 31, 2023	As of March 31, 2024
Receivables from contracts with customers	11,386	9,290
Contract assets	12,263	16,281
Contract liabilities	2,138	584

Contract assets represent the unbilled revenue recognized based on the measurement of progress primarily in construction contracts. Contract assets are transferred to receivables from contracts with customers when the right to compensation becomes unconditional.

Main components of contract liabilities relate to advances received from customers based on contractual terms and conditions in construction contracts, and are reversed upon recognition of revenue due to satisfying performance obligations. Of the revenues recognized in the current fiscal year, ¥2,107 million is included in the balance of contract liabilities as of the beginning of the fiscal year.

In the current fiscal year, the amount of revenue recognized from the performance obligations satisfied in the past period is not significant.

In addition, since the payment terms in each construction contract vary by contract, there is no clear relationship between the timing of satisfaction of performance obligations and payment terms.

(2) Transaction price allocated to remaining performance obligations

Unsatisfied performance obligations are ¥41,402 million as of March 31, 2023. These performance obligations mainly involve construction contracts in the Logistics Solutions Business, the Plant Business and the Next-Generation Energy Development Business, with respect to which approximately 90% is to be recognized as revenue within one year subsequent to the end of the fiscal year and the remaining 10% is to be recognized as revenue within two to five years.

Unsatisfied performance obligations are ¥44,029 million as of March 31, 2024. These performance obligations mainly involve construction contracts in the Logistics Solutions Business, the Plant Business and the Next-Generation Energy Development Business, with respect to which approximately 90% is to be recognized as revenue within one year subsequent to the end of the fiscal year and the remaining 10% is to be recognized as revenue within two to five years.

Notes - Segment information, etc.

[Segment information]

1. Description of reportable segments

The reportable segments of the Company are components for which discrete financial information is available and whose operating results are regularly reviewed by the Board of Directors of the Company to make decisions about resource allocation and assess their performance.

The Group develops comprehensive business strategies and engages in business activities for respective products and service of divisions by product and service in the Company.

Accordingly, the Company is comprised of segments by product and service, and its reportable segments consist of “Logistics Solutions Business,” “Plant Business,” “Next-Generation Energy Development Business,” and “Business Innovation.”

“Logistics Solutions Business” develops, designs, and builds material handling systems focusing on sorting, picking and conveying systems that integrate IT, and provides maintenance services and other operations for these systems. “Plant Business” provides maintenance services and other operations for storage tanks for LNG, LPG, crude oil and other gas and liquid. “Next-Generation Energy Development Business” designs, builds, and executes construction works of, storage tanks for LNG, LPG, crude oil and other gas and liquid. “Business Innovation” undertakes construction works, manufactures and sells industrial equipment and machinery, surveys, measures and analyzes asbestos and other materials, provides maintenance and management services for environmental measurement equipment, and conducts environmental surveys.

The environmental and industrial infrastructure business and other businesses such as the Company’s real estate rental business were combined into one reportable segment as “Business Innovation and Other Business.” However, the business relationship between the environmental and industrial infrastructure business and other businesses that were combined in the past has become less relevant. Thus, from the current fiscal year onward, businesses other than the environmental and industrial infrastructure business which had been consolidated in the “Business Innovation and Other Business” segment are now included in the “Other” segment. Segment information for the previous fiscal year was prepared and disclosed based on the classification of reportable segments after the corporate reorganization.

2. Method of measurements of sales, profit (loss), asset, and other items for each reportable segment

The accounting procedures for the reporting operating segments are nearly the same as those stated in “Significant accounting policies for preparation of the consolidated financial statements.” Profits of the reportable segments are based on operating profit. Intersegment transactions are based on actual transaction amounts.

3. Disclosure of sales, profit (loss), asset, and other items for each reportable segment

Previous fiscal year (From April 1, 2022 to March 31, 2023)

(Millions of yen)

	Reportable segments					Other (Note)	Adjustment	Total
	Logistics Solutions Business	Plant Business	Next-Generation Energy Development Business	Business Innovation	Total			
Sales								
Sales to external customers	28,032	8,508	1,043	9,112	46,696	655	–	47,351
Transactions with other segments	–	14	–	84	99	163	(263)	–
Total	28,032	8,522	1,043	9,196	46,795	819	(263)	47,351
Segment profit (loss)	2,605	560	(734)	892	3,323	185	(1,011)	2,497
Segment assets	34,955	6,135	2,083	9,765	52,940	4,604	6,456	64,001
Other items								
Depreciation	433	12	17	195	658	89	35	783
Increase in property, plant and equipment, and intangible assets	604	32	48	283	969	188	6	1,164

(Note) “Other” includes real estate rental and leasing operations.

Current fiscal year (From April 1, 2023 to March 31, 2024)

(Millions of yen)

	Reportable segments					Other (Note)	Adjustment	Total
	Logistics Solutions Business	Plant Business	Next-Generation Energy Development Business	Business Innovation	Total			
Sales								
Sales to external customers	32,491	9,420	1,497	9,937	53,346	441	–	53,787
Transactions with other segments	–	21	–	75	97	187	(285)	–
Total	32,491	9,442	1,497	10,013	53,443	629	(285)	53,787
Segment profit (loss)	3,271	708	(481)	786	4,285	86	(1,281)	3,090
Segment assets	35,228	7,633	2,510	10,385	55,757	4,850	7,283	67,891
Other items								
Depreciation	431	11	4	231	678	64	11	755
Increase in property, plant and equipment, and intangible assets	878	15	40	324	1,259	390	26	1,676

(Note) "Other" includes real estate rental and leasing operations.

4. Differences between total amounts for reportable segments and amounts in the consolidated financial statements and main details of these differences (matters relating to difference adjustments)

(Millions of yen)

Profit	Previous fiscal year	Current fiscal year
Reportable segments total	3,323	4,285
Profit of "other"	185	86
Corporate expenses (Note)	(996)	(1,200)
Other adjustments	(14)	(80)
Operating profit in the consolidated financial statements	2,497	3,090

(Note) Corporate expenses mainly represent expenses related to administrative divisions such as the general affairs division, which are not attributable to the reportable segments.

(Millions of yen)

Asset	Previous fiscal year	Current fiscal year
Reportable segments total	52,940	55,757
Assets of "other"	4,604	4,850
Corporate assets (Note)	6,487	7,380
Other adjustments	(30)	(96)
Total assets in the consolidated financial statements	64,001	67,891

(Note) Corporate assets mainly represent assets related to divisions managing cash and deposits, investment securities and other assets of the Company, which are not attributable to the reportable segments.

[Information associated with reportable segments]

Previous fiscal year (From April 1, 2022 to March 31, 2023)

1. Information for each product and service

(Millions of yen)

	Material handling system equipment, etc.	Storage tank, etc.	Maintenance services of storage tanks	Other	Total
Sales to external customers	28,032	1,043	8,508	9,767	47,351

2. Information about geographical area

(1) Sales

(Millions of yen)

Japan	Southeast Asia	Other	Total
46,269	1,006	76	47,351

(Note) Sales are classified by country or region on the basis of construction sites.

(2) Property, plant and equipment

(Millions of yen)

Japan	Southeast Asia	Oceania	Total
15,829	36	37	15,903

3. Information for each of main customers

Name of customer	Sales	Relevant segment
Amazon Japan G.K.	¥9,598 million	Logistics Solutions Business

Current fiscal year (From April 1, 2023 to March 31, 2024)

1. Information for each product and service

(Millions of yen)

	Material handling system equipment, etc.	Storage tank, etc.	Maintenance services of storage tanks	Other	Total
Sales to external customers	32,491	1,497	9,420	10,379	53,787

2. Information about geographical area

(1) Sales

(Millions of yen)

Japan	Southeast Asia	Other	Total
52,349	1,347	91	53,787

(Note) Sales are classified by country or region on the basis of construction sites.

(2) Property, plant and equipment

(Millions of yen)

Japan	Southeast Asia	Oceania	Total
16,477	38	36	16,551

3. Information for each of main customers

Name of customer	Sales	Relevant segment
Amazon Japan G.K.	¥10,794 million	Logistics Solutions Business

[Disclosure of impairment loss on non-current assets for each reportable segment]

Previous fiscal year (From April 1, 2022 to March 31, 2023)

(Millions of yen)

	Reportable segments				Other	Adjustment	Total
	Logistics Solutions Business	Plant Business	Next-Generation Energy Development Business	Business Innovation			
Impairment losses	–	–	304	–	–	–	304

Current fiscal year (From April 1, 2023 to March 31, 2024)

(Millions of yen)

	Reportable segments				Other	Adjustment	Total
	Logistics Solutions Business	Plant Business	Next-Generation Energy Development Business	Business Innovation			
Impairment losses	–	–	10	–	–	358	368

(Note) "Adjustment" is the impairment loss on own use assets not attributable to any segment.

[Amortization and unamortized balance of goodwill for each reportable segment]

Previous fiscal year (From April 1, 2022 to March 31, 2023)

(Millions of yen)

	Reportable segments				Other	Adjustment	Total
	Logistics Solutions Business	Plant Business	Next-Generation Energy Development Business	Business Innovation			
Amortization in the current fiscal year	–	–	–	1	–	–	1
Ending balance	–	–	–	5	–	–	5

Current fiscal year (From April 1, 2023 to March 31, 2024)

(Millions of yen)

	Reportable segments				Other	Adjustment	Total
	Logistics Solutions Business	Plant Business	Next-Generation Energy Development Business	Business Innovation			
Amortization in the current fiscal year	4	–	–	1	–	–	6
Ending balance	38	–	–	3	–	–	42

[Gain on bargain purchase for each reportable segment]

Previous fiscal year (From April 1, 2022 to March 31, 2023)
Not applicable

Current fiscal year (From April 1, 2023 to March 31, 2024)
Not applicable

[Information associated with related parties]

1. Related party transactions

(1) Transactions between the company submitting the consolidated financial statements and related parties
Not applicable

(2) Transactions between consolidated subsidiaries of the company submitting the consolidated financial statements and related parties

Officers, major shareholders (individuals only), etc. of the company submitting the consolidated financial statements

Previous fiscal year (From April 1, 2022 to March 31, 2023)

Type	Name of company, etc.	Location	Share capital or stake (Millions of yen)	Nature of business or occupation	Ratio of voting rights, etc. holding (held) (%)	Relationship with related parties	Transactions	Amount of transactions (Millions of yen)	Item	Ending balance (Millions of yen)
Close family member of an officer	Yasuko Yanagawa	–	–	Close family member of an officer	–	–	Renovation of housing facilities	18	–	–

(Note) The terms and conditions for the renovation work were determined based on arm's length transactions.

Current fiscal year (From April 1, 2023 to March 31, 2024)
Not applicable

2. Notes concerning the parent company or important affiliated companies
Not applicable

Notes - Per share information

	Previous fiscal year (From April 1, 2022 to March 31, 2023)	Current fiscal year (From April 1, 2023 to March 31, 2024)
Net assets per share	¥4,708.95	¥4,894.51
Basic earnings per share	¥293.63	¥456.13

(Notes) 1. The amount of diluted earnings per share is not provided because there are no potential shares.

2. In the calculation of "net assets per share," shares of the Company held by the benefit trust for officers are included in treasury shares deducted from the total number of shares issued at the end of the fiscal year (59,400 shares in the previous fiscal year, 59,400 shares in the current fiscal year).
In addition, in the calculation of "basic earnings per share," such shares are included in treasury shares deducted in the calculation of the average number of shares during the period (65,223 shares in the previous fiscal year, 59,400 shares in the current fiscal year).

3. The basis for calculation for basic earnings per share is as follows:

	Previous fiscal year (From April 1, 2022 to March 31, 2023)	Current fiscal year (From April 1, 2023 to March 31, 2024)
Profit attributable to owners of parent	¥2,378 million	¥3,554 million
Profit not relating to common shareholders	–	–
Profit attributable to owners of parent pertaining to common shares	¥2,378 million	¥3,554 million
Average number of shares during the period	8,099 thousand shares	7,792 thousand shares

Notes - Significant events after reporting period

Not applicable

(v) Annexed consolidated detailed schedules

Annexed consolidated detailed schedule of bonds payable

Company name	Type of bond	Date of issuance	Beginning balance (Millions of yen)	Ending balance (Millions of yen)	Interest rate (%)	Collateral	Date of maturity
Toyo Kanetsu K.K.	1st Series of Unsecured Bonds	September 25, 2020	500	500	0.39	None	September 24, 2027
Toyo Kanetsu K.K.	2nd Series of Unsecured Bonds	March 25, 2021	500	500	0.41	None	March 24, 2028
Total	–	–	1,000	1,000	–	–	–

(Note) Projected redemption amounts for five years after the consolidated balance sheet date are as follows:

(Millions of yen)

Within 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years
–	–	–	1,000	–

Annexed consolidated detailed schedule of borrowings

Classification	Beginning balance (Millions of yen)	Ending balance (Millions of yen)	Average interest rate (%)	Repayment due
Short-term borrowings	5,357	11,375	0.480	–
Current portion of long-term borrowings	1,700	2,480	0.848	–
Long-term borrowings (excluding current portion)	3,380	2,160	1.120	Between 2025 and 2031
Total	10,437	16,015	–	–

(Notes) 1. In calculating the average interest rate, the weighted average interest rate on the ending balance of borrowings, is shown.

2. Repayment of long-term borrowings (excluding the current portion) scheduled within five years after the consolidated balance sheet date is as follows:

(Millions of yen)

Classification	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years
Long-term borrowings	400	–	–	1,200

Annexed consolidated detailed schedule of asset retirement obligations

A schedule of asset retirement obligations has been omitted since matters to be stated in the schedule are stated as notes prescribed in Article 15-23 of the Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements.

(2) Other information

Quarterly information for the current fiscal year

(Cumulative period)	First quarter (Cumulative) (From April 1, 2023 to June 30, 2023)	Second quarter (Cumulative) (From April 1, 2023 to September 30, 2023)	Third quarter (Cumulative) (From April 1, 2023 to December 31, 2023)	Current fiscal year (From April 1, 2023 to March 31, 2024)
Net sales (Millions of yen)	9,987	23,140	37,012	53,787
Profit (loss) before income taxes (Millions of yen)	(726)	518	2,310	4,823
Profit (loss) attributable to owners of parent (Millions of yen)	(469)	402	1,693	3,554
Basic earnings (loss) per share(Yen)	(59.03)	51.24	216.58	456.13

(Accounting period)	First quarter	Second quarter	Third quarter	Fourth quarter
Basic earnings (loss) per share(Yen)	(59.03)	112.80	167.04	241.25

(TRANSLATION)

INDEPENDENT AUDITOR'S REPORT

June 26, 2024

To the Board of Directors of
Toyo Kanetsu K.K.

GYOSEI & CO.
Tokyo Office

Designated Partner
Engagement Partner
Certified Public Accountant Tetsuo Noguchi

Designated Partner
Engagement Partner
Certified Public Accountant Akira Mishima

Audit of Consolidated Financial Statements

Audit Opinion

Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act of Japan, we have audited the accompanying consolidated financial statements of Toyo Kanetsu K.K. (the "Company"), which comprise the consolidated balance sheet as of March 31, 2024, and the consolidated statements of income and comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the fiscal year from April 1, 2023 to March 31, 2024, and significant accounting policies for preparation of the consolidated financial statements, other notes, and annexed consolidated detailed schedules, all expressed in Japanese yen.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its consolidated subsidiaries (the "Group") as of March 31, 2024, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Basis for Audit 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 in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current fiscal year. 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.

Consideration of the estimate of total cost of construction work involving contracts for which revenue is recognized based on degree of progress	
Description of key audit matters and reason for determining the matter	How we addressed the matter in our audit
As stated in the "Notes - Significant accounting estimates," net sales under contracts for which revenue is recognized based on degree of progress recorded in the consolidated statement of income and comprehensive income for the current fiscal year by the consolidated group of Toyo Kanetsu K.K. (hereinafter referred to as the "Company") are ¥19,235 million. Most of the amount was recorded in the Company's Logistics Solutions Business. Therefore, for auditing purposes, there is significance of the amount in it. The Company records sales based on degree of progress, which is calculated as the proportion of construction cost incurred corresponding to value of work done at the end of the current fiscal year, relative to the total amount of estimated cost of construction work. The estimated amount of total cost of construction work has been determined on the basis of management's best estimate and judgments based on past experience and available information collected as well as individual work specifications, and changes to original estimates may occur due to price fluctuations in the market, changes to specifications, natural disasters and others. Therefore, for auditing purposes, there is qualitative significance in it. Due to the above factors, we have judged that the estimate of total cost of construction work that the Company recognizes as revenue based on degree of progress in the Logistics Solutions Business is a key audit matter.	In examining appropriateness of the estimate of total cost of construction work involving contracts for which revenue is recognized based on degree of progress, we mainly implemented the following audit procedures. (1) Assessment of internal control We assessed design of internal control related to estimation of total cost of construction work, and effectiveness of the operational status. (2) Assessment of reasonableness of the estimate of total cost of construction work With regard to the estimate of total cost of construction work as at the end of the current fiscal year, we mainly implemented the following audit procedures. - We questioned the person responsible for the managerial unit of the division estimating total cost of construction works to understand the overview of the construction work, and examined consistency between the description of the work understood and major components of the total cost of construction work. - We checked materials supporting estimation of cost of construction work such as quotations received from subcontractors and suppliers of products against components of the total cost of construction work, and examined appropriateness of the estimated amount of the total cost of construction work. - With regard to total cost of construction work for which the cost rate was estimated to be lower in light of past records, we asked questions about reasons why the cost rate was estimated to be lower in light of past results, and examined reasonableness of the estimate. - With regard to construction works that were completed or delivered in the current fiscal year, we compared the estimated amount of total cost of construction work with the actual amount, verified appropriateness of the estimate of total cost of construction work as at the end of the previous fiscal year ex post facto, and checked whether there was any matter to be taken into account in examining appropriateness of the estimated amount of total cost of construction work as at the end of the current fiscal year.

Other information

The other information comprises the information included in the Annual Securities Report aside from the consolidated financial statements, the non-consolidated financial statements, and the auditor's reports thereon. Management is responsible for preparing and disclosing the other information. The Audit and Supervisory Committee is responsible for overseeing Directors in executing their duties with respect to developing and administering 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 the Audit and Supervisory Committee 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 designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation 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 whether it is appropriate to prepare the consolidated financial statements with the assumption of the Group's ability to continue as a going concern, and for disclosing matters related to going concern, as applicable in accordance with accounting principles generally accepted in Japan.

The Audit and Supervisory Committee is responsible for overseeing the Directors' execution of duties relating to designing and operating the Group's financial reporting process.

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

Our responsibilities 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 on the consolidated financial statements based on our audit from an independent point of view. 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.

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, and design and perform audit procedures responsive to those risks. Selecting audit procedures to be applied is at the discretion of the auditor. Obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

- Consider, in making those risk assessments, internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used by management and their method of application, as well as the reasonableness of accounting estimates made by management and related notes thereto.

- Conclude on the appropriateness of management's use of the going concern basis for preparing the consolidated financial statements 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 notes to the consolidated financial statements or, if such notes are inadequate, to express a qualified opinion with exceptions on the consolidated financial statements. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

We communicate with the Audit and Supervisory Committee regarding the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit, and other matters required by auditing standards.

We also provide the Audit and Supervisory Committee with a statement that we have complied with relevant ethical requirements in Japan regarding independence, and communicate with it all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, measures taken to eliminate obstruction factors or related safeguards in order to reduce obstruction factors to an acceptable level.

We determine which of the matters discussed with the Audit and Supervisory Committee were of most significance in the audit of the consolidated financial statements of the current fiscal year and therefore are the key audit matters, and describe the matters in the auditor's report. However, we do not describe such a matter, if law or regulation precludes public disclosure about the matter, or if in extremely rare circumstances, we determine that the matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Audit of Internal Control

Audit Opinion

Pursuant to the second paragraph of Article 193-2 of the Financial Instruments and Exchange Act of Japan, we have audited management's report on internal control of the Company as of March 31, 2024.

In our opinion, the management's report on internal control referred to above, which represents that the internal control over financial reporting of the Company as of March 31, 2024 was effective, presents fairly, in all material respects, the results of the assessment of internal control over financial reporting in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

Basis for Audit Opinion

We conducted our internal control audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Our responsibilities under the auditing standards for internal control over financial reporting are further described in the "Auditor's Responsibilities for the Audit of the Report on Internal Control" section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management and the Audit and Supervisory Committee for the Report on Internal Control

Management is responsible for designing and operating effective internal control over financial reporting, and for the preparation and fair presentation of the report on internal control in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

The Audit and Supervisory Committee is responsible for overseeing and verifying the design and operation of effective internal control over financial reporting.

There is a possibility that misstatements may not be completely prevented or detected by internal control over financial reporting.

Auditor's Responsibilities for the Audit of the Report on Internal Control

Our responsibilities are to obtain reasonable assurance about whether the report on internal control is free from material misstatement, and to issue a report on audit of internal control that includes our opinion on the report on internal control based on our internal control audit from an independent point of view.

In accordance with auditing standards for internal control over financial reporting generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Perform audit procedures in order to obtain audit evidence regarding the evaluation results for internal control

over financial reporting in the report on internal control. The audit procedures for internal control auditing selected and applied depend on the auditor's judgment, including the significance of effects on the reliability of financial reporting.

- Evaluate disclosures on the scope, procedures and results of the assessment of internal control over financial reporting made by management, as well as evaluate the overall presentation of the report on internal control.

- Obtain audit evidence that is sufficient and appropriate regarding the results of the assessment of internal control over financial reporting in the report on internal control. We are responsible for the direction, supervision and performance of the audit of the report on internal control. We remain solely responsible for our audit opinion.

We communicate with the Audit and Supervisory Committee regarding the planned scope and timing of the internal control audit, results of the internal control audit, significant identified deficiencies in internal control that should be disclosed, results of their correction, and other matters required by auditing standards for internal control.

We also provide the Audit and Supervisory Committee with a statement that we have complied with relevant ethical requirements in Japan regarding independence, and communicate with it all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, measures taken to eliminate obstruction factors or related safeguards in order to reduce obstruction factors to an acceptable level.

Remuneration-related Information

Remuneration based on audit attestation services and non-audit services for the Group, to our firm and others in the same network as our firm, is described in [Audit Status] "Status of Corporate Governance, etc." included in "Status of the Submitting Company"

Conflicts of Interest

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

The above represents a translation, for convenience only, of the original report issued in the Japanese language.
Please note that the other information contained in the TKK Report 2024 Financial Section differs from the other information contained in the Annual Securities Report.

Corporate Data

Date of Establishment	May 16, 1941
Common Stock	¥18,580 million
Authorized Shares	297,000,000
Capital Stock Issued	8,323,074
Number of Shareholders	12,234
Security Traded	Tokyo Stock Exchange, Prime Market
Transfer Agent and Registrar	The Mitsubishi UFJ Trust and Banking Corporation 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan
Annual Meeting	The annual meeting of shareholders is normally held in June in Tokyo, Japan

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TOYO KANETSU K.K.

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