



# KURITA WATER INDUSTRIES LTD. MD&A and Consolidated Financial Statements

For the year ended March 31, 2024

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# Management's Discussion and Analysis

Kurita Water Industries Ltd. and Consolidated Subsidiaries

## 1. Business Results

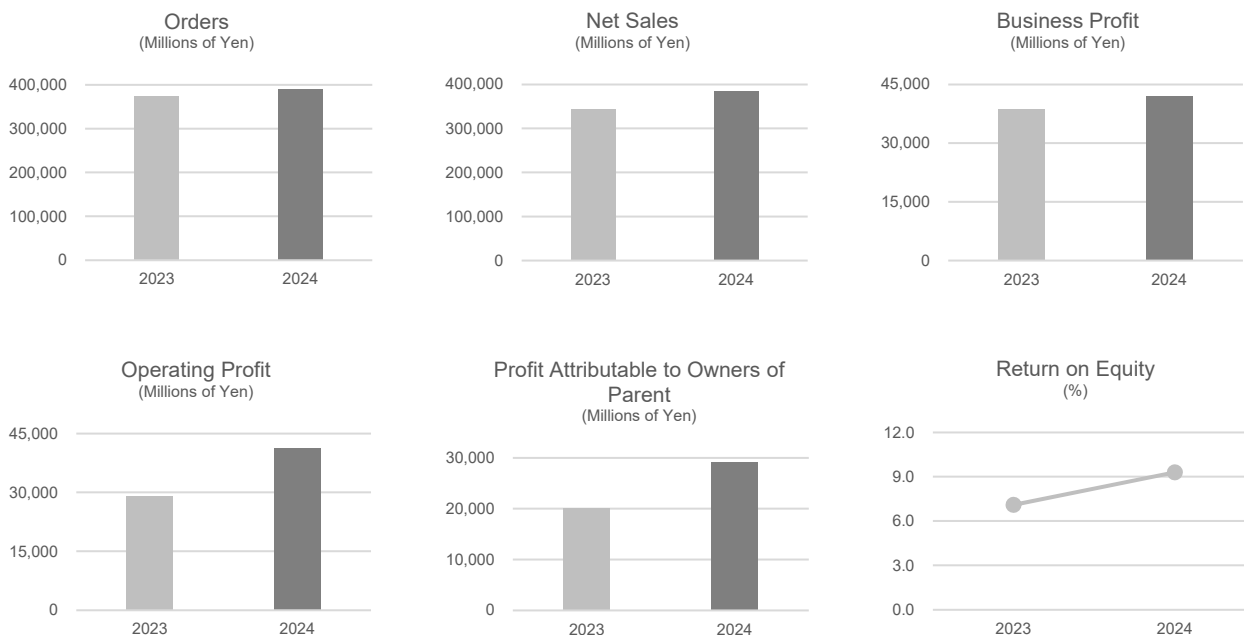
During the fiscal year ended March 31, 2024, the global economy experienced increasing uncertainty, a reflection of the prolonged war in Ukraine and growing tensions over the Middle East crisis. Despite this, signs of an economic recovery continued to emerge, although there was evidence of weakness in some areas due to price hikes and interest rate increases.

Looking at the market conditions surrounding the Kurita Group (the "Group"), production activity in Japan's manufacturing industry showed a tendency towards recovery due to increasing consumer spending following the normalization of social activities, which resulted from the COVID-19 pandemic being downgraded to a Class 5 infectious disease. The removal of constraints on the supply of raw materials also played a role in the recovery of production. However, the recovery slowed down in the second half of the fiscal year, chiefly due to weak semiconductor-related demand and production stoppages at certain auto manufacturers. Capital investment held firm against a backdrop of high corporate earnings. Overseas, the U.S. economy remained firm, but European economies saw sluggish growth due to rising prices, especially energy prices, and interest-rate hikes. The Chinese economy's rebound was weak, mainly due to the prolonged slump in the real estate market, while other Asian regions showed signs of recovery.

In this environment, the Group has begun implementing a five-year medium-term management plan named PSV-27 (Pioneering Shared Value 2027). The basic policy is to refine human resources, technologies and business processes to create value that exceeds expectations from stakeholders through overwhelming speed and problem-solving ability. In the electronics industry, the Group utilized, throughout the value chain, its water knowledge, which it had acquired and visualized by leveraging digital technology and analyzing the data accumulated primarily in the ultrapure water supply business. At the same time, the Group brought together in a single organization three functions—sales, production, and development—to offer solutions that help customers solve their problems based on a deep understanding of them in the areas of environmental impact reduction, including water saving, greenhouse gas emission reduction, and waste recycling, as well as productivity improvements. In the general industry, the Group identified, in a centralized manner, the trends and needs of customers involved in various types of business across different countries and regions and stepped up solutions that create value shared with society, including initiatives to expand the CSV (creating shared value) business globally, offering solutions that create value shared with society. Overseas, the Group acquired four companies, Arcade Group companies including Arcade Engineering GmbH (Head Office: Germany). As a result, the Group obtained local manufacturing bases and a supply chain for its water treatment facilities business for the electronics industry in Europe. The Group worked to build a business foundation for responding promptly to an increase in demand for water treatment facilities for the electronics industry chiefly due to the European Chips Act.

As a result, total consolidated orders for the Group in the fiscal year ended March 31, 2024 rose 4.2% from the level of the previous fiscal year, to ¥390,152 million, and net sales increased 11.7%, to ¥384,825 million. Business profit increased 9.0%, to ¥42,055 million, operating profit was ¥41,232 million, up 41.9% versus the previous fiscal year, profit before tax was ¥41,686 million, rising 38.3%, and profit attributable to owners of parent amounted to ¥29,189 million, up 45.0%.

During the fiscal year, other income of ¥1,968 million and other expenses of ¥2,791 million were posted. Other income increased ¥404 million from the previous fiscal year, chiefly due to foreign exchange gains posted at European subsidiaries. Other expenses decreased ¥8,304 million, chiefly reflecting the absence of a goodwill impairment loss of ¥7,646 million related to Kurita America, Inc. (Water Treatment Chemicals business) posted in the previous fiscal year. The other income and expenses significantly boosted operating profit, profit before tax, and profit attributable to owners of parent.



## 2. Business Segment Information

Previously, the Group's reportable segments were the Water Treatment Chemicals segment and the Water Treatment Facilities segment, from the viewpoint of the products and services provided; however, starting from the fiscal year under review, the Group has Electronics Industry and General Industry as the two reportable segments in its segment information, in order to formulate strategies based on an in-depth examination of the characteristics of each market and to expand solutions by combining diverse products and services, from the viewpoint of providing value to society and customers.

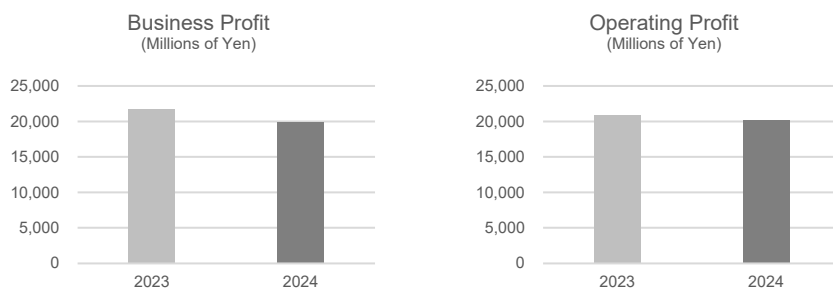
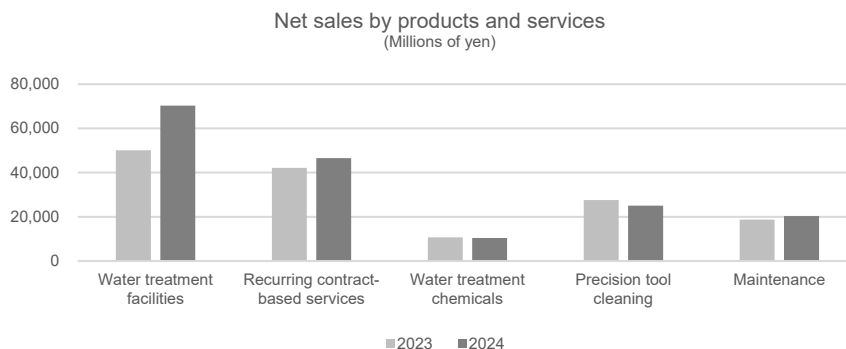
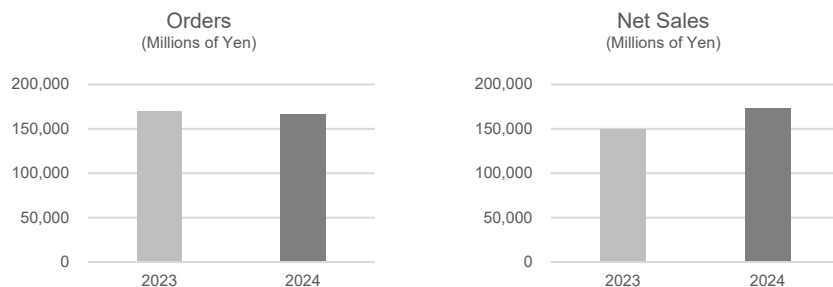
Year-on-year comparisons are based on figures for the same period of the previous fiscal year which have been reclassified to conform to the new segments.

### (1) Electronics Industry

Total Group orders for the Electronics Industry segment fell 2.4%, to ¥165,805 million from the previous fiscal year. Orders for recurring contract-based services increased chiefly due to the contribution of an ultrapure water supply contract that began in the previous fiscal year, and orders for maintenance exceeded the high level recorded a year ago. However, orders for water treatment facilities decreased due to the absence of orders for large-scale projects posted in the the previous year. Orders for precision tool cleaning fell, reflecting the impact of lower capacity utilization at customers' plants in Japan and the U.S. associated with the deterioration in semiconductor market conditions.

Total Group net sales for the Electronics Industry segment amounted to ¥172,698 million, an increase of 15.7% year on year. While net sales of precision tool cleaning decreased, net sales of water treatment facilities rose sharply due to progress with the construction of already ordered large-scale projects and net sales of recurring contract-based services and maintenance also grew.

In terms of profits, business profit amounted to ¥19,938 million, a decrease of 8.3% year on year, and operating profit declined 3.3%, to ¥20,202 million, reflecting a decrease in sales of precision tool cleaning and a deterioration in the cost of sales ratio due to an increase in facility projects with a comparatively high cost ratio.

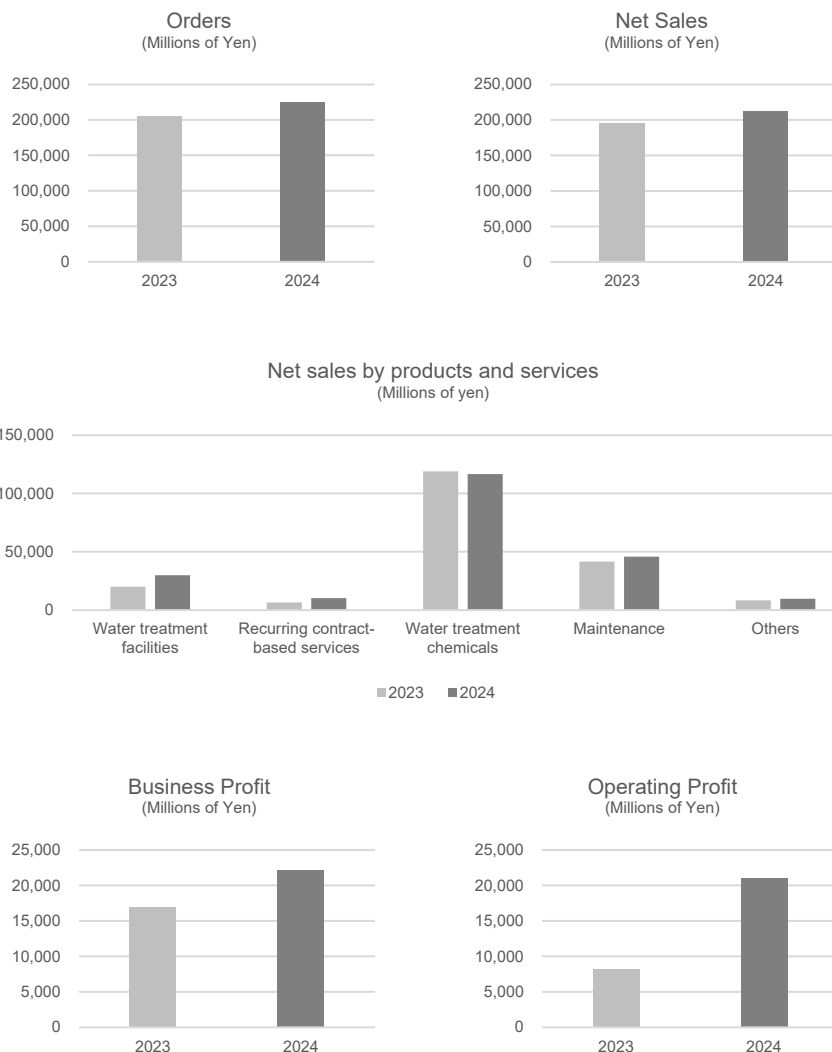


## (2) General Industry

Total Group orders for the General Industry segment increased 9.8% from the previous fiscal year, to ¥224,346 million. Orders for water treatment chemicals declined given lower capacity utilization at customers' plants, mainly in China. Orders for water treatment facilities rose mainly due to the addition of four Arcade companies as new consolidated subsidiaries. Orders for recurring contract-based services, engineering cleaning, and maintenance also increased.

Total Group net sales for the General Industry segment amounted to ¥212,127 million, an increase of 8.6% year on year. Decline in sales of water treatment chemicals was offset by the addition of new consolidated subsidiaries and recognition of revenue from the order backlog in the water treatment facilities business and maintenance business, as well as growth in recurring contract-based services and engineering cleaning, resulting in growth in net sales.

In terms of profits, business profit amounted to ¥22,103 million, an increase of 30.8% year on year, reflecting higher sales and efforts to improve profitability, including product mix optimization and cost-cutting. Operating profit rose significantly to ¥21,030 million, up 155.1% year on year, reflecting the absence of a goodwill impairment loss of ¥7,646 million related to Kurita America, Inc. (Water Treatment Chemicals business) posted in the previous fiscal year.



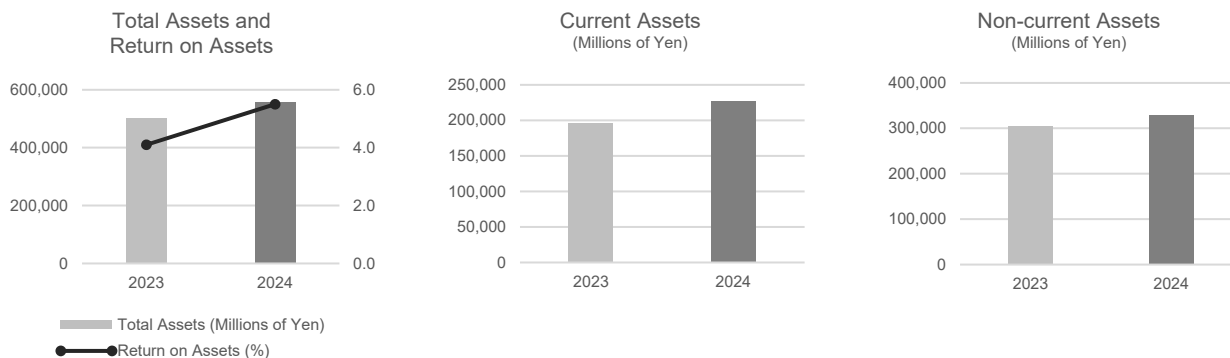
### 3. Financial Position

#### (1) Assets

Total assets were ¥557,407 million, an increase of ¥55,869 million from the end of the previous fiscal year.

Current assets totaled ¥228,018 million at the end of the period, an increase of ¥31,602 million from the end of the previous fiscal year. This was mainly due to an increase of ¥19,165 million in trade and other receivables, a rise of ¥4,222 million in inventories, and a climb of ¥3,541 million in cash and cash equivalents.

Non-current assets totaled ¥329,388 million at the end of the period, an increase of ¥24,267 million from the end of the previous fiscal year. Property, plant and equipment increased ¥12,236 million chiefly due to the acquisition of new facilities in the ultrapure water supply business (Electronics Industry), and goodwill rose ¥10,588 million. The rise in goodwill is attributable to an increase of ¥2,734 million due to the acquisition of Arcade Engineering GmbH, Arcade Industrie SAS and Kurita Switzerland AG (former Arcade Engineering AG, whose name changed on December 18, 2023), companies manufacturing and sales of water treatment facilities in Europe, and Arcade Engineering (Asia) Pte. Ltd. during the second quarter under review, and also reflects the weakening of the yen against foreign currencies.



## (2) Liabilities

Total liabilities were ¥223,995 million, an increase of ¥18,217 million from the end of the previous fiscal year.

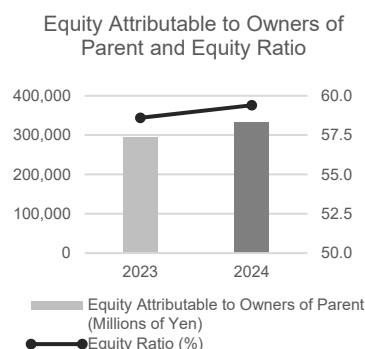
Current liabilities totaled ¥118,620 million at the end of the period, an increase of ¥9,152 million from the end of the previous fiscal year. This is chiefly attributable to increases of ¥16,938 million in trade and other payables and ¥2,302 million in other current liabilities, which offset a decrease of ¥9,901 million in bonds and borrowings.

Non-current liabilities totaled ¥105,375 million at the end of the period, an increase of ¥9,065 million from the end of the previous fiscal year. This was mainly due to an increase in bonds and borrowings of ¥9,956 million resulting from the increase of long-term borrowings.

## (3) Equity

Total equity stood at ¥333,411 million, an increase of ¥37,652 million from the end of the previous fiscal year.

This was attributable to an increase of ¥16,251 million in other components of equity mainly due to the posting of exchange differences on translation of foreign operations, reflecting the weakening of the yen against other currencies, and a rise of ¥21,019 million in retained earnings due to the posting of a profit attributable to owners of parent.



## 4. Cash Flows

Consolidated net cash and cash equivalents at the end of the fiscal year ended March 31, 2024 totaled ¥54,009 million, an increase of ¥3,541 million from the end of the previous fiscal year ended March 31, 2023.

### (1) Cash Flows from Operating Activities

Net cash provided by operating activities during the fiscal year ended March 31, 2024 totaled ¥50,874 million, an increase of ¥2,243 million from the previous fiscal year. This was chiefly due to inflows, including profit before tax of ¥41,686 million and depreciation, amortization and impairment losses of ¥32,637 million, which were partially offset by outflows, including an increase in trade and other receivables of ¥15,177 million and income taxes paid of ¥12,965 million.

### (2) Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥35,801 million, a decrease of ¥10,473 million from the previous fiscal year. Cash was used mainly for purchases of property, plant and equipment of ¥28,958 million and the acquisition of subsidiaries of ¥3,080 million (after deducting cash and cash equivalents included in acquired assets).

### (3) Cash Flows from Financing Activities

Net cash used in financing activities totaled ¥15,337 million, an increase of ¥16,438 million from the previous fiscal year. Cash was used mainly for dividends paid of ¥9,236 million, a net decrease in short-term borrowings and commercial papers of ¥10,196 million, and repayments of lease liabilities of ¥5,310 million, which were partially offset by proceeds from long-term borrowings of ¥12,013 million.

## 5. Commitment Line

The Group's basic policy is to constantly secure the liquidity necessary for business operations and establish a stable fund-raising structure. Short-term working capital, capital investment and other investments in growth fields depend chiefly on the Group's own funds, but the Group procures financing through bond markets and bank loans as needed. As of the end of the fiscal year under review, the Group has concluded commitment line contracts with two financial institutions (no borrowing executed and unexecuted borrowings within the commitment line was ¥20,000 million).

## 6. Research and Development

The Group is prioritizing the development of new products and technologies to support the provision of innovative solutions that help resolve issues faced by society and increase the corporate value and competitiveness of customers. The Group is also focusing on developing sensing technology, data analytics technology, and optimization and control technology needed for the digital transformation of business models, while also conducting research into the development of mathematical modeling for water treatment technology and understanding water treatment process mechanisms and limitations to support product development.

The Group will continue to refine the water-related technology it has developed over many years, aiming to realize its corporate vision of "Pioneering 'new value for water' to contribute to the realization of a sustainable society." In line with this vision, the Group's main development centers in Japan, Germany, Singapore, and North America are working together to proactively develop products and technologies that meet the wide-ranging needs of society and industry.

R&D activities are performed mainly by the Innovation Division of Kurita Water Industries Ltd. There are approximately 187 R&D staff across the Group, representing 2.3% of all employees. Total R&D expenses in the fiscal year ended March 31, 2024 were ¥7,412 million, equivalent to 1.9% of net sales.

### (1) Electronics Industry

To contribute to productivity gains in the electronics industry, the Group is working on development aimed at realizing a circular economy society by helping to reduce CO<sub>2</sub> emissions, water usage and waste, and by recycling used materials. Total R&D expenses related to this segment were ¥3,230 million in the fiscal year ended March 31, 2024.

<Major Accomplishments for the Fiscal Year>

- The Group has developed an ultrapure water production system that can produce a variable amount of ultrapure water in response to changes in water consumption in the semiconductor manufacturing process, resulting in the stable production of water without fluctuations in quality. The system curbs excessive energy used to maintain the constant circulation of a fixed amount of ultrapure water to maintain water quality, significantly reducing CO<sub>2</sub> emissions in the customer's operations.
- Working with a leading semiconductor research institute, the Group has developed cleaning technology, supported by a high-grade water supply unit, that prevents the dissolution of copper, which is used as a wiring material in the semiconductor manufacturing process. This technology will contribute to productivity gains and reduce the use of ultrapure water and chemicals in the semiconductor manufacturing process.

### (2) General Industry

The Group is developing technologies that help to save water, reduce CO<sub>2</sub> emissions and improve productivity for customers, while also creating technologies that help to realize a circular economy society through wastewater recovery and reuse, waste reduction and recycling, and renewable energy generation. Total R&D expenses related to this segment were ¥4,182 million in the fiscal year ended March 31, 2024.

<Major Accomplishments for the Fiscal Year>

- The Group has developed an additive that can reform fine raw material-derived sludge created in the papermaking process at paperboard mills into raw material for paperboard. This reduces the amount of disposed sludge by reusing it as raw material for paperboard, while also helping to curb any increase in steam used during the papermaking process.
- The Group has developed a pretreatment technology to improve the purity of plastic recovered from the Kurita SAMS System, which separates and treats materials from used diapers. The Group aims to optimize manufacturing conditions for plastic pellets for a wide range of products and upgrade solutions for the recycling of used diapers.

## 7. Capital Investments

The Group is committed to making the necessary investments to pursue technological innovation, expand production capacity, and address intensifying competition. In the fiscal year ended March 31, 2024, capital investments totaled ¥38,916 million, a decrease of ¥7,712 million year on year, including the amount recorded for right-of-use assets.

The Group undertook capital investments in the Electronics Industry business totaling ¥31,949 million primarily for the installation and expansion of facilities in the ultrapure water supply business.

The Group carried out capital investments in the General Industry business totaling ¥6,967 million reflecting the expansion and upgrade of existing facilities.

In the one-year period following the fiscal year ended March 31, 2024, the Group plans to undertake a total of ¥46.4 billion in capital investments for new construction, expansion, and renovation. Significant fluctuations in the economy and in customers' capital investment trends tend to have an especially large impact on the purchase of equipment for the ultrapure water supply business. As such, the Group may adjust its capital investments plan if conditions deviate from current assumptions.

## 8. Dividend Policy

Kurita's basic policy is to continue paying stable dividends to shareholders.

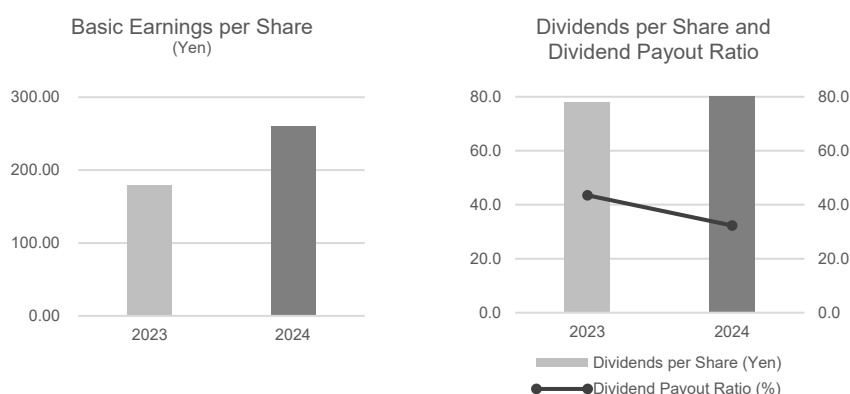
Specifically, Kurita has set a consolidated dividend payout ratio target of 30%–50%. Kurita will work to continue raising the dividend, making decisions based on payout ratios for the most recent five years to respond flexibly to yearly fluctuations in business performance.

Kurita's basic policy is to pay dividends from surplus twice a year, an interim and a year-end dividend.

The decision-making body for paying dividends from surplus is the General Meeting of Shareholders for year-end dividends and the Board of Directors for interim dividends.

Regarding dividends paid from surplus for the fiscal year ended March 31, 2024, in consideration of future business growth and with shareholder support, it was decided to pay a total dividend of ¥84 per share, including an interim dividend of ¥42 per share. As a result, the dividend payout ratio was 54.8% (32.3% on a consolidated basis) for the fiscal year.

Regarding retained earnings, Kurita will prioritize the use of retained earnings for businesses with prospects for growth while maintaining rigorous investment discipline. If Kurita determines that a surplus has accumulated, it will consider the repurchase of shares, taking the share price level into account, as well as seek to improve capital efficiency and increase returns to shareholders.





## 9. Details of Audit Fees, etc.

### (1) Compensation for Certified Public Accountants, etc.

Category	Millions of yen			
	2023		2024	
	Compensation for audit certification services	Compensation for non-audit services	Compensation for audit certification services	Compensation for non-audit services
Submitting company	78	2	93	0
Consolidated subsidiaries	10	–	10	–
Total	88	2	104	0

### (2) Compensation Paid to the Same Network (Grant Thornton) as the Certified Public Accountants (excluding (1))

Category	Millions of yen			
	2023		2024	
	Compensation for audit certification services	Compensation for non-audit services	Compensation for audit certification services	Compensation for non-audit services
Submitting company	–	–	–	–
Consolidated subsidiaries	122	18	134	21
Total	122	18	134	21

Note: Non-audit services provided to the Company and its consolidated subsidiaries include tax and legal advisory services.

### (3) Details of Remuneration for Other Significant Audit and Attestation Services

Not applicable.

# Business Risks

Kurita Water Industries Ltd. and Consolidated Subsidiaries

The Executive General Manager of the Corporate Control and Administration Division is designated as the officer in charge of monitoring risks and promoting risk management for the Group. The officer seeks to regularly analyze and assess risks facing the Company and its Group companies, and to continue monitoring risks to prevent problems from materializing. The Executive General Manager of the Sustainability Division is in charge of risks related to sustainability, including climate change.

The following are summaries of major foreseeable risks present in the business environments in which the Group operates.

Forward-looking statements herein are based on judgments made by management as of March 31, 2024.

## 1. Economic and Market Conditions

The Group's businesses are affected by economic conditions in Japan and in other countries and regions where it operates. Demand fluctuates due to trends in factory utilization rates and capital investment in both the Electronics Industry and General Industry, which may affect the Group's financial results. In the electronics industry, demand fluctuates due to changes in business conditions at customers. Such fluctuations in demand could affect the Group's financial results. Furthermore, rising US-China trade friction may lead to stricter export controls, tariff sanctions and other rules, which could impact the business operations of the Group's customers, leading to an indirect impact on the Group's financial results. The Group's financial results may also be affected by the response to climate change, including moves by customers to shrink or exit from fossil fuel-related businesses, a shift to alternative fuels and water resources, and the introduction of or an increase in carbon taxes on CO<sub>2</sub> emissions generated by the Group's facilities or products. The Group provides solutions for issues related to water and the environment to customers in a wide range of industries. In addition, the Group is transitioning to a service business as part of efforts to generate stable earnings. The Company also manages the operations of affiliated companies. Specifically, the Company verifies earnings and progress with the implementation of strategies and measures at affiliated companies on a monthly and quarterly basis, monitors internal audits, financial reporting and other matters related to internal controls, and makes decisions on important matters at affiliated companies, in line with the Company's Internal Decision Approval and Review Rules. In addition, increasing competition with rivals in the Group's business domains could lead to declines in the price of products and services, which could lower the Group's profitability. However, as noted in 3., the Group is working to secure competitive advantages.

## 2. Impact on Materials and Parts Procurement from Soaring Prices for Raw Materials, Parts and Materials and Energy, and Supply Chain Disruption

The Group procures raw materials and parts from outside the Group for the manufacture of products and the construction of facilities. The Group also procures external services to support various business processes. The Group conducts these procurement activities with respect for human rights, in accordance with the Kurita Group Code of Conduct, and also complies with laws and regulations and takes into account economic, social and environmental factors, as set out in the Kurita Group Procurement Policy. The prices of raw materials, parts and services fluctuate based on changes in market conditions, and this may affect the Group's financial results. Meanwhile, the spread of COVID-19 or other infectious diseases or developments in international relations, including rising tensions in Ukraine and the Middle East, could again lead to a spike in prices for raw materials for water treatment chemicals and for parts and materials used in water treatment facilities, as well as higher logistics costs amid another surge in energy prices and renewed supply chain disruption. In response, the Group plans to raise prices to pass on higher costs and work to secure inventories.

### **3. Development of New Technologies, Products and Services and Transformation of Business Processes**

The Group operates CSV businesses that help to significantly cut greenhouse gas (GHG) emissions, save water and recycle industrial waste compared with previous approaches and also develops new technologies, products and services to improve and expand its range of total solutions, which leverage chemicals, facilities and maintenance technologies, products and services. In addition, the Group has established a Digital Strategy Division to actively drive the Group's digital transformation (DX) by introducing IoT and AI into new products and services and by digitizing business processes. However, the success of new technology and product development efforts and business transformation cannot be guaranteed. The Group may not be able to offer new technologies or superior products, services, or solution models that meet the needs of its customers in a timely fashion. The Group may also fail to keep pace with rapid technological innovation, changing customer needs and advances in digital technologies. Failure to develop superior new products, services or solution models, delays to DX initiatives, or slow progress with measures to reduce GHG emissions from customers' operations could limit future growth and profitability or otherwise affect the Group's financial results.

### **4. Overseas Business Development**

The Group is working to expand its business outside Japan. In contrast to the Japanese market, conducting business in overseas markets involves a number of inherent risks, including unexpected changes to local laws and regulations, political and economic instability, and conflict or terrorist incidents. If such risks materialized, the Group's financial results could be affected. In regions where the Group operates, the Group obtains information about the local security situation and other conditions from the Ministry of Foreign Affairs or consultants, and uses local legal counsel, certified public accountants and other experts to verify the legal and regulatory framework in local markets. The Group also uses a guidebook for overseas deployments to provide safety training and advice to employees being sent overseas, provides medical and emergency support services to employees based overseas and publishes safety information as part of efforts to ensure the safety of all directors, officers, and employees. In addition, the Group is potentially exposed to an impact from tighter regulations and sanctions related to Russia's invasion of Ukraine and the situation in Taiwan or the Korean Peninsula, as well as any associated deterioration in the economy.

### **5. Large-Scale Natural Disasters**

A large-scale natural disaster or other similar event that directly or indirectly disrupts the Group's business execution could affect the Group's business activities, financial results and financial condition. The Group has established the Kurita Group Business Continuity Management (BCM) Policy to prepare for earthquakes, typhoons, severe rainstorms or other large-scale natural disasters. In line with the policy, the Group develops business continuity plans, conducts water damage risk assessments of Group facilities, offices, and residences of directors, officers, and employees and implements response measures, establishes safety verification systems, reinforces buildings against earthquakes, builds stockpiles of disaster prevention supplies and conducts disaster response drills for directors, officers, and employees.

### **6. Exchange Rate Fluctuations**

The ratio of overseas sales to total consolidated sales in the Group is 48.5%, reflecting overseas acquisitions and other factors.

The local currency-denominated financial statements of each overseas subsidiary are reflected in the consolidated financial statements after conversion to Japanese yen. Therefore, exchange rate fluctuations may affect the Group's business results and financial condition. To hedge against exchange rate risk, the Group may use forward exchange contracts, currency swap contracts and other types of derivatives.

## **7. Risk of Unprofitable Projects**

The installation of water treatment facilities may lead to additional costs if the Group fails to meet contractual obligations to customers for raw water and other criteria, or due to defects with products or services arising from faults with design or engineering work, or as a result of accidents. The Group may also face requests for compensation for damages incurred by customers as a result of these issues. The Group rigorously carries out design and engineering work in accordance with design and engineering procedures, and prior to the issue of project budget documents, establishes an engineering review meeting to verify various aspects of project design, including quality, cost, delivery, safety and environmental criteria. In addition, the Company holds monthly business process review meetings from when the order is received until the project is delivered to confirm engineering progress and manage the profitability of each project component, allowing total project costs to be estimated using the latest information. Overseas Group companies follow similar procedures, and the Company also provides them with design and engineering management support for large projects. In this way, the Group aims to prevent any problems before they occur by sharing information about project issues and other areas.

## **8. Impairment Loss on Fixed Assets**

### **(1) Impairment Loss on Goodwill and Intangible Assets**

The Group has acquired companies to obtain a foundation for overseas business and to gain access to competitive technologies and business models. As a result, the current balance of goodwill is ¥71,001 million (12.7% of consolidated total assets). Goodwill is not amortized, and is tested for impairment annually, or whenever there are signs of possible impairment. If, because of changes in the business environment, an acquisition does not yield expected benefits, or if there is a difference between the estimated future cash flows obtained by the impairment test and actual cash flows, impairment losses on goodwill or other impairment losses may occur. Recoverable amounts are estimated based on value in use in impairment tests, and value in use is calculated using a discount rate for future cash flow referencing the weighted average cost of capital (WACC) for each cash-generating unit. Future cash flow forecasts have a five-year horizon and are formulated based on historical trends and external data. The forecasts form the basis of business plans approved by management. Forecasts for periods longer than five years are calculated based on average long-term growth rates, taking into account conditions in markets for each cash-generating unit. Sales growth estimates in business plans and growth rates for periods beyond business plans and discount rates are used by the Group as key assumptions. Any change in these assumptions could have an impact on the Group's financial results and financial condition. The Company has established an Investment Committee to strengthen the Group's investment and lending screening functions. The committee is chaired by the Deputy Executive General Manager of the Corporate Control and Administration Division. The committee conducts pre-screening of investment and lending projects to be discussed by the Board of Directors or the Executive Committee, focusing on business plans, investment amounts, adequacy of risk assessments, profitability, competitive advantages, legality and other criteria. The results of the screening and key points for discussion are presented to the Board of Directors and the Executive Committee, ensuring corporate acquisitions are only conducted after careful consideration and discussion by the Company. In addition, all acquired companies are subject to business management procedures for affiliated companies explained in 1. above.

### **(2) Impairment Loss on Property, Plant and Equipment**

The Group's ultrapure water supply business and other businesses install equipment at customers' plants. In cases where a customer withdraws from a business or suspends operations at a plant, impairment losses on fixed assets may occur, which may affect the Group's financial results and financial condition. When making investment decisions on installing equipment at customer plants, the Group carefully considers factors such as the customer's business conditions, customer contract terms and return on investment.

## **9. Information System Security**

The Group's use of information systems and the importance of those systems in the Group's business are increasing. If a computer virus or other factor were to obstruct the functions of the Group's information systems, the Group's business activities, financial results and financial condition could be negatively affected. In accordance with the Kurita Group Information System Management Policy, the Group is strengthening measures against computer viruses by installing antivirus software and providing information security education and awareness training to directors, officers, and employees, including training about targeted email attacks. In addition, the Group has established a team to implement an emergency response to minimize opportunity losses in the event of a security incident.

## **10. Laws and Compliance**

In the event that the Group's directors, officers, or employees fail to comply with laws or regulations or are responsible for conduct that contravenes social ethics, the Group may face restrictions on its business activities, fines, damage to public trust or other issues, which could affect the Group's financial results and financial condition. The Group has established a Sustainability Committee, chaired by the Executive General Manager of the Sustainability Division. This committee is tasked with rigorously ensuring all the Group's activities are underpinned by socially ethical behavior, rather than conducting compliance activities simply to meet legal requirements.

## **11. Product and Service Quality and Water Treatment Facility Operational Errors**

The supply or discharge of water that falls short of required standards due to human error or other operational issues at customers' or the Group's water treatment facilities may lead to claims for damage compensation or a loss of public trust. The Group's financial results may be affected if its obligations exceed the scope of liability insurance coverage, or if there is a loss of public trust. As explained in 7. above, the Group has created a quality management system and continuously implements improvements to increase customer satisfaction.

## **12. Intellectual Property**

Given the wide scope of the Group's business, there is potential for the Group's intellectual property rights to be infringed and potential for the Group to infringe rights held by third parties. While such actions could affect the Group's financial results, the Group recognizes the importance of intellectual property and continually seeks to register its own intellectual property while avoiding infringements of rights held by third parties, both in Japan and overseas.

# Consolidated Statement of Financial Position

Kurita Water Industries Ltd. and Consolidated Subsidiaries

	Notes	Millions of yen		Thousands of
		2023	2024	U.S. dollars
				2024
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	8	¥50,468	¥54,009	\$357,675
Trade and other receivables	9, 25, 34	120,299	139,464	923,602
Other financial assets	10, 34	3,357	6,367	42,165
Inventories	11	16,847	21,069	139,529
Other current assets		5,444	7,107	47,066
<b>Total current assets</b>		<b>196,416</b>	<b>228,018</b>	<b>1,510,052</b>
<b>Non-current assets</b>				
Property, plant and equipment	12	178,737	190,973	1,264,721
Right-of-use assets	20	21,928	22,898	151,642
Goodwill	13	60,413	71,001	470,205
Intangible assets	13	17,104	17,485	115,794
Investments accounted for using equity method	15	1,283	1,422	9,417
Other financial assets	10, 34	15,433	16,994	112,543
Deferred tax assets	16	9,984	8,340	55,231
Other non-current assets		235	272	1,801
<b>Total non-current assets</b>		<b>305,121</b>	<b>329,388</b>	<b>2,181,377</b>
<b>Total assets</b>	<b>6</b>	<b>¥501,538</b>	<b>¥557,407</b>	<b>\$3,691,437</b>

	Notes	Millions of yen		Thousands of
		2023	2024	U.S. dollars
2024				
<b>Liabilities and equity</b>				
<b>Liabilities</b>				
<b>Current liabilities</b>				
Trade and other payables	17, 25, 34	¥51,465	¥68,403	\$453,000
Bonds and borrowings	18, 34	28,998	19,097	126,470
Lease liabilities	20, 34	4,294	4,603	30,483
Income taxes payable		6,018	5,423	35,913
Provisions	22	2,301	2,399	15,887
Other current liabilities	2	16,390	18,692	123,788
<b>Total current liabilities</b>		<b>109,468</b>	<b>118,620</b>	<b>785,562</b>
<b>Non-current liabilities</b>				
Bonds and borrowings	18, 34	48,758	58,714	388,834
Lease liabilities	20, 34	18,016	18,774	124,331
Other financial liabilities	19, 34	1,666	2,338	15,483
Retirement benefit liability	21	17,321	17,527	116,072
Provisions	22	2,613	2,865	18,973
Deferred tax liabilities	16	2,362	1,628	10,781
Other non-current liabilities		5,570	3,526	23,350
<b>Total non-current liabilities</b>		<b>96,310</b>	<b>105,375</b>	<b>697,847</b>
<b>Total liabilities</b>		<b>205,778</b>	<b>223,995</b>	<b>1,483,410</b>
<b>Equity</b>				
Share capital	23	13,450	13,450	89,072
Capital surplus	23	(608)	(361)	(2,390)
Treasury shares	23	(10,638)	(10,869)	(71,980)
Other components of equity	23	14,132	30,383	201,211
Retained earnings	23	277,639	298,658	1,977,867
<b>Equity attributable to owners of parent</b>		<b>293,975</b>	<b>331,261</b>	<b>2,193,781</b>
Non-controlling interests		1,784	2,150	14,238
<b>Total equity</b>		<b>295,759</b>	<b>333,411</b>	<b>2,208,019</b>
<b>Total liabilities and equity</b>		<b>¥501,538</b>	<b>¥557,407</b>	<b>\$3,691,437</b>

# Consolidated Statement of Profit or Loss

Kurita Water Industries Ltd. and Consolidated Subsidiaries

	Notes	Millions of yen		Thousands of
		2023	2024	U.S. dollars
				2024
<b>Net sales</b>	6, 25	¥344,608	¥384,825	\$2,548,509
Cost of sales		(224,911)	(252,983)	(1,675,384)
<b>Gross profit</b>		119,696	131,841	873,119
Selling, general and administrative expenses	26	(81,106)	(89,786)	(594,609)
Other income	27	1,564	1,968	13,033
Other expenses	28	(11,095)	(2,791)	(18,483)
<b>Operating profit</b>	6	29,058	41,232	273,059
Finance income	29	1,990	1,439	9,529
Finance costs	29	(1,077)	(1,127)	(7,463)
Share of profit (loss) of investments accounted for using equity method	15	179	141	933
<b>Profit before tax</b>		30,151	41,686	276,066
Income tax expense	16	(9,473)	(12,099)	(80,125)
<b>Profit</b>		¥20,677	29,586	195,933
<b>Profit attributable to</b>				
Owners of parent		¥20,134	29,189	193,304
Non-controlling interests		543	396	2,622
<b>Profit</b>		¥20,677	¥29,586	\$195,933
	Notes	Yen		U.S. dollars
		2023	2024	2024
<b>Earnings per share</b>				
Basic earnings per share	31	¥179.14	¥259.70	\$1.72
Diluted earnings per share		—	—	—



# Consolidated Statement of Comprehensive Income

Kurita Water Industries Ltd. and Consolidated Subsidiaries

	Notes	Millions of yen		Thousands of
		2023	2024	U.S. dollars
				2024
<b>Profit</b>		¥20,677	¥29,586	\$195,933
<b>Other comprehensive income</b>				
<b>Items that will not be reclassified to profit or loss</b>				
Net change in fair value of financial assets measured at fair value through other comprehensive income	30	674	1,614	10,688
Remeasurements of defined benefit plans	30	830	192	1,271
Total of items that will not be reclassified to profit or loss	30	1,505	1,807	11,966
<b>Items that may be reclassified to profit or loss</b>	30			
Exchange differences on translation of foreign operations	30	5,245	15,413	102,072
Cash flow hedges	30	182	(88)	(582)
Share of other comprehensive income of investments accounted for using equity method	30	2	67	443
Total of items that may be reclassified to profit or loss	30	5,429	15,393	101,940
<b>Total other comprehensive income</b>	30	6,935	17,200	113,907
<b>Comprehensive income</b>		¥27,612	¥46,787	\$309,847
<b>Comprehensive income attributable to</b>				
Owners of parent		¥26,176	¥46,306	\$306,662
Non-controlling interests		1,436	481	3,185
<b>Comprehensive income</b>		¥27,612	¥46,787	\$309,847

# Consolidated Statement of Changes in Equity

Kurita Water Industries Ltd. and Consolidated Subsidiaries

Millions of yen							
Equity attributable to owners of parent							
	Notes	Other components of equity					
		Share capital	Capital surplus	Treasury shares	Exchange differences on translation of foreign operations	Cash flow hedges	Financial assets measured at fair value through other comprehensive income
<b>Balance as of April 1, 2022</b>		¥13,450	¥(3,076)	¥(10,694)	¥3,493	¥40	¥8,627
Profit		—	—	—	—	—	—
Other comprehensive income		—	—	—	4,354	182	674
<b>Comprehensive income</b>		—	—	—	4,354	182	674
Purchase of treasury shares	23	—	—	(2)	—	—	—
Dividends	24	—	—	—	—	—	—
Share-based remuneration transactions	33	—	76	58	—	—	—
Changes in ownership interest in subsidiaries		—	(19,793)	—	1,830	—	—
Liabilities pertaining to forward contracts concluded with non-controlling shareholders		—	22,051	—	—	—	—
Transfer from other components of equity to retained earnings		—	—	—	—	—	(5,070)
Other		—	132	—	—	—	—
<b>Total transactions with owners</b>		—	2,467	55	1,830	—	(5,070)
<b>Balance as of March 31, 2023</b>		¥13,450	¥(608)	¥(10,638)	¥9,678	¥222	¥4,231
Profit		—	—	—	—	—	—
Other comprehensive income		—	—	—	15,397	(88)	1,614
<b>Comprehensive income</b>		—	—	—	15,397	(88)	1,614
Purchase of treasury shares	23	—	—	(356)	—	—	—
Dividends	24	—	—	—	—	—	—
Share-based remuneration transactions	33	—	247	125	—	—	—
Changes in ownership interest in subsidiaries		—	—	—	—	—	—
Liabilities pertaining to forward contracts concluded with non-controlling shareholders		—	—	—	—	—	—
Transfer from other components of equity to retained earnings		—	—	—	—	—	(741)
Other		—	—	—	68	—	—
<b>Total transactions with owners</b>		—	247	(231)	68	—	(741)
<b>Balance as of March 31, 2024</b>		¥13,450	¥(361)	¥(10,869)	¥25,144	¥134	¥5,104

Millions of yen

Equity attributable to owners of parent							
Other components of equity							
Remeasurements of defined benefit plans	Total	Retained earnings	Total	Non- controlling interests	Total		Notes
¥ —	¥12,161	¥260,073	¥271,914	¥5,948	¥277,862	<b>Balance as of April 1, 2022</b>	
—	—	20,134	20,134	543	20,677	Profit	
830	6,041	—	6,041	893	6,935	Other comprehensive income	
830	6,041	20,134	26,176	1,436	27,612	Comprehensive income	
—	—	—	(2)	—	(2)	Purchase of treasury shares	23
—	—	(8,429)	(8,429)	(280)	(8,709)	Dividends	24
—	—	—	135	(31)	103	Share-based remuneration transactions	33
—	1,830	—	(17,962)	(5,289)	(23,251)	Changes in ownership interest in subsidiaries	
—	—	—	22,051	—	22,051	Liabilities pertaining to forward contracts concluded with non- controlling shareholders	
(830)	(5,901)	5,901	—	—	—	Transfer from other components of equity to retained earnings	
—	—	(39)	92	—	92	Other	
(830)	(4,070)	(2,567)	(4,115)	(5,600)	(9,715)	Total transactions with owners	
¥ —	¥14,132	¥277,639	¥293,975	¥1,784	¥295,759	<b>Balance as of March 31, 2023</b>	
—	—	29,189	29,189	396	29,586	Profit	
192	17,116	—	17,116	84	17,200	Other comprehensive income	
192	17,116	29,189	46,306	481	46,787	Comprehensive income	
—	—	—	(356)	—	(356)	Purchase of treasury shares	23
—	—	(9,105)	(9,105)	(112)	(9,218)	Dividends	24
—	—	—	373	(2)	370	Share-based remuneration transactions	33
—	—	—	—	—	—	Changes in ownership interest in subsidiaries	
—	—	—	—	—	—	Liabilities pertaining to forward contracts concluded with non- controlling shareholders	
(192)	(934)	934	—	—	—	Transfer from other components of equity to retained earnings	
—	68	—	68	—	68	Other	
(192)	(865)	(8,171)	(9,020)	(115)	(9,135)	Total transactions with owners	
¥ —	¥30,383	¥298,658	¥331,261	¥2,150	¥333,411	<b>Balance as of March 31, 2024</b>	

Thousands of U.S. dollars

Equity attributable to owners of parent							
	Notes	Other components of equity					
		Share capital	Capital surplus	Treasury shares	Exchange differences on translation of foreign operations	Cash flow hedges	Financial assets measured at fair value through other comprehensive income
<b>Balance as of March 31, 2023</b>		\$89,072	\$(4,026)	\$(70,450)	\$64,092	\$1,470	\$28,019
Profit		—	—	—	—	—	—
Other comprehensive income		—	—	—	101,966	(582)	10,688
<b>Comprehensive income</b>		—	—	—	101,966	(582)	10,688
Purchase of treasury shares	23	—	—	(2,357)	—	—	—
Dividends	24	—	—	—	—	—	—
Share-based remuneration transactions	33	—	1,635	827	—	—	—
Changes in ownership interest in subsidiaries		—	—	—	—	—	—
Liabilities pertaining to forward contracts concluded with non-controlling shareholders		—	—	—	—	—	—
Transfer from other components of equity to retained earnings		—	—	—	—	—	(4,907)
Other		—	—	—	450	—	—
<b>Total transactions with owners</b>		—	1,635	(1,529)	450	—	(4,907)
<b>Balance as of March 31, 2024</b>		\$89,072	\$(2,390)	\$(71,980)	\$166,516	\$887	\$33,801

Thousands of U.S. dollars

Equity attributable to owners of parent						
Other components of equity						
Remeasurements of defined benefit plans	Total	Retained earnings	Total	Non- controlling interests	Total	Notes
\$ —	\$93,589	\$1,838,668	\$1,946,854	\$11,814	\$1,958,668	<b>Balance as of March 31, 2023</b>
—	—	193,304	193,304	2,622	195,933	Profit
1,271	113,350	—	113,350	556	113,907	Other comprehensive income
1,271	113,350	193,304	306,662	3,185	309,847	Comprehensive income
—	—	—	(2,357)	—	(2,357)	Purchase of treasury shares 23
—	—	(60,298)	(60,298)	(741)	(61,046)	Dividends 24
—	—	—	2,470	(13)	2,450	Share-based remuneration transactions 33
—	—	—	—	—	—	Changes in ownership interest in subsidiaries
—	—	—	—	—	—	Liabilities pertaining to forward contracts concluded with non- controlling shareholders
(1,271)	(6,185)	6,185	—	—	—	Transfer from other components of equity to retained earnings
—	450	—	450	—	450	Other
(1,271)	(5,728)	(54,112)	(59,735)	(761)	(60,496)	Total transactions with owners
\$ —	\$201,211	\$1,977,867	\$2,193,781	\$14,238	\$2,208,019	<b>Balance as of March 31, 2024</b>

# Consolidated Statement of Cash Flows

Kurita Water Industries Ltd. and Consolidated Subsidiaries

	Note	Millions of yen		Thousands of
		2023	2024	U.S. dollars 2024
<b>Cash flows from operating activities</b>				
Profit before tax		¥30,151	¥41,686	\$276,066
Depreciation, amortization and impairment losses		37,276	32,637	216,139
Share of loss (profit) of investments accounted for using equity method		(179)	(141)	(933)
Loss (gain) on sale of fixed assets		76	(30)	(198)
Decrease (increase) in inventories		(3,109)	(2,741)	(18,152)
Decrease (increase) in trade and other receivables		(10,172)	(15,177)	(100,509)
Increase (decrease) in trade and other payables		7,965	7,290	48,278
Other		3,365	(144)	(953)
Subtotal		65,373	63,378	419,721
Interest received		301	508	3,364
Dividends received		442	336	2,225
Interest paid		(392)	(383)	(2,536)
Income taxes paid		(17,094)	(12,965)	(85,860)
Net cash provided by (used in) operating activities		48,631	50,874	336,913
<b>Cash flows from investing activities</b>				
Payments into time deposits		(4,871)	(10,467)	(69,317)
Proceeds from withdrawal of time deposits		4,902	7,695	50,960
Purchase of property, plant and equipment		(53,384)	(28,958)	(191,774)
Proceeds from sale of property, plant and equipment	27	265	66	437
Purchase of intangible assets		(1,601)	(3,096)	(20,503)
Proceeds from sale of investment securities		8,854	1,903	12,602
Payments for acquisition of subsidiaries (after deduction of cash and cash equivalents included in acquired assets)	32	—	(3,080)	(20,397)
Other		(439)	136	900
Net cash provided by (used in) investing activities		(46,274)	(35,801)	(237,092)
<b>Cash flows from financing activities</b>				
Net increase (decrease) in short-term borrowings and commercial papers		18,722	(10,196)	(67,523)
Proceeds from issuance of bonds	18	9,955	—	—
Proceeds from long-term borrowings	18	9,988	12,013	79,556
Repayments of long-term borrowings		(499)	(2,375)	(15,728)
Repayments of lease liabilities		(5,170)	(5,310)	(35,165)
Dividends paid	24	(8,699)	(9,236)	(61,165)
Purchase of shares of subsidiaries not resulting in change in scope of consolidation		(23,272)	—	—
Other		76	(231)	(1,529)
Net cash provided by (used in) financing activities		1,101	(15,337)	(101,569)
Effect of exchange rate changes on cash and cash equivalents		1,278	3,805	25,198
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>4,737</b>	<b>3,541</b>	<b>23,450</b>
Cash and cash equivalents at beginning of period	8	45,730	50,468	334,225
<b>Cash and cash equivalents at end of period</b>	<b>8</b>	<b>¥50,468</b>	<b>¥54,009</b>	<b>\$357,675</b>

# Notes to Consolidated Financial Statements

Kurita Water Industries Ltd. and Consolidated Subsidiaries

## 1. Reporting entity

Kurita Water Industries Ltd. (the “Company”) is a stock company located in Japan, which lists its shares on the Tokyo Stock Exchange. The registered addresses of its head office and major offices are disclosed on its official website (<https://www.kurita.co.jp/english/>).

The Company’s consolidated financial statements consist of the Company and its consolidated subsidiaries (together, the “Group”).

The major businesses of the Group are the Water Treatment Chemicals business (manufacturing and sales of water treatment chemicals and equipment, as well as provision of maintenance services) and the Water Treatment Facilities business (manufacturing and sales of water treatment equipment, maintenance services for water treatment equipment, water supply services, engineering cleaning, precision tool cleaning, soil and groundwater remediation, operation, maintenance, and management of water treatment facilities, etc.).

## 2. Basis of preparation

### (1) Compliance with IFRS

The consolidated financial statements of the Group are prepared in compliance with International Financial Reporting Standards (IFRS), pursuant to the provisions of Article 93 of the Regulation on Terminology, Forms, and Preparation Method of Consolidated Financial Statements (Ministry of Finance Order No. 28 of 1976), as the Group meets the requirements for a “specified company complying with designated international accounting standards” set forth in Article 1-2 of the said regulation.

The consolidated financial statements of the Group were approved by Hirohiko Ejiri, Director, President and Representative Executive Officer, on June 27, 2024.

### (2) Functional currency and presentation currency

The consolidated financial statements of the Group are presented in Japanese yen, which is the functional currency of the Company. Amounts are presented in millions of yen, with fractional amounts less than one million yen rounded down to the nearest million yen.

The translation of yen amounts as of or for the year ended March 31, 2024 into U.S. dollars is included solely for the convenience of readers and has been made, as a matter of arithmetical computation only, at the rate of ¥151 to US\$1, the prevailing rate on the Tokyo Foreign Exchange Market on March 29, 2024.

The translation should not be construed as a representation that yen amounts have been, could have been or could in the future be converted into U.S. dollars at the above or any other rate.

### (3) Changes in presentation

(Consolidated statement of financial position)

“Other financial liabilities” under current liabilities, which were presented separately for the fiscal year ended March 31, 2023, are included in “Other current liabilities” under current liabilities, since they have become less material in terms of amount. To reflect this change in presentation, the consolidated statement of financial position for the fiscal year ended March 31, 2023 has been reclassified.

As a result, “Other financial liabilities” of ¥3 million and “Other current liabilities” of ¥16,387 million, both under current liabilities in the consolidated statement of financial position for the fiscal year ended March 31, 2023 are reclassified as “Other current liabilities” of ¥16,390 million.

#### (4) Changes in accounting policies

The Group has applied the following accounting standards from the fiscal year ended March 31, 2024.

IFRS	Outline of the revision
IAS 12 Income taxes	This revision requires entities to disclose information on their exposure to income taxes that arise from the tax system established or virtually established to introduce the Pillar Two Model Rules announced by the Organisation for Economic Co-operation and Development (OECD) (hereinafter the “Global Minimum Tax System”).

The application of the aforementioned standards has no material impact on the consolidated financial statements of the Group for the fiscal year ended March 31, 2024. The Group applies the temporary exception as set forth in IAS 12 “Income Taxes,” and therefore does not recognize nor disclose the deferred tax assets and deferred tax liabilities related to income taxes arising from the Global Minimum Tax System.

### 3. Material accounting policy information

The consolidated financial statements of the Group are prepared based on the financial statements of the Company, its consolidated subsidiaries and its associates using unified accounting policies.

#### (1) Basis for consolidation

The Group’s consolidated financial statements include the financial statements of the Company and its subsidiaries, and equity equivalents in its associates.

##### 1) Subsidiaries

A subsidiary is a company that is controlled by the Group. When the Group is exposed, or has rights, to variable returns from its involvement with the company and has the current ability to affect those returns through its power over the company, the Group considers that it controls the company.

The financial statements of a subsidiary are included in the consolidated financial statements from the date the Group gains control until the date when it ceases to control the subsidiary.

If accounting policies adopted by a subsidiary differ from that adopted by the Group, appropriate adjustments are made to the financial statements of the subsidiary, as necessary.

Intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the Group and profits or losses resulting from intragroup transactions that are recognized in assets, are eliminated in full in preparing the consolidated financial statements.

The comprehensive income of subsidiaries is attributed to owners of parent and non-controlling interests, even if the balance of non-controlling interests is negative.

When the Group has disposed of part of the ownership interests in the subsidiary; and it still continues to control a subsidiary, such transaction is accounted for as an equity transaction. Differences between the adjustment of non-controlling interests and the fair value of the consideration are recognized directly in equity as equity attributable to owners of parent.

If the Group loses control of a subsidiary, the gain or loss associated with the loss of control is recognized in profit or loss.

When the end of the reporting period of a subsidiary is different from that of the Company, the subsidiary’s additional financial information as of the same date of that of the Company, which is prepared for consolidation purposes, is used for the consolidation.



## 2) Associates

An associate is a company over which the Group has significant influence. When the Group has the power to participate in the financial and operating policy decisions of an investee but it is not control or joint control of those policies, the Group considers that it has significant influence over the company. Investment in an associate is accounted for using the equity method from the date the Group comes to have significant influence until the date when it loses significant influence.

When applying the equity method, if an associate uses accounting policies other than those adopted in the consolidated financial statements, appropriate adjustments are made to the associate's financial statements in preparing the consolidated financial statements to ensure conformity with the accounting policies of the Group.

The consolidated financial statements include investments in associates whose end of the reporting period is different from that of the Company since it is impracticable to unify their reporting periods with that of the Company due to reasons such as their relationships with other shareholders. Adjustments are made for the effects of significant transactions or events that occur during the period resulting from the difference in the reporting period. The date of the end of the reporting period of these associates accounted for using the equity method is December 31.

Profits resulting from transactions with an associate accounted for using the equity method that are recognized in assets, are deducted from investment in associates to the extent of the Group's ownership interests in the associate. Losses resulting from transactions with an associate that are recognized in assets are deducted from investment in associates in the same manner unless the losses indicate an impairment that requires recognition in the consolidated financial statements.

### (2) Business combinations

The Group accounts for each business combination by applying the acquisition method.

The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities assumed and the equity instruments issued by the Group in exchange for control of the acquiree. If the consideration transferred exceeds the net of the amounts of the identifiable assets acquired and the liabilities assumed measured at their acquisition-date fair values, the Group recognizes the excess as goodwill in the consolidated statement of financial position. Conversely, if the consideration is less than the net of the fair values, the difference is immediately recognized as income in the consolidated statement of profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, provisional amounts are used for the accounting, and the provisional amounts recognized are adjusted during a measurement period of within one year from the acquisition date.

Acquisition-related costs incurred are recognized as expenses.

The additional acquisition of non-controlling interests after control of an acquiree is obtained is accounted for as an equity transaction and no goodwill is recognized from such transaction.

The identifiable assets and liabilities of the acquiree are measured at their acquisition-date fair values, except for the following:

- Deferred tax assets and liabilities as well as assets and liabilities related to employee benefit agreements
- Compensation agreements based on shares of the acquiree
- Assets or disposal groups classified as held for sale in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations"

If a business combination is achieved in stages, the interest in the acquiree previously held by the Group is subsequently measured at the acquisition-date fair values, and any gain or loss arising from remeasurements is recognized as profit or loss.

### (3) Foreign currency translation

The consolidated financial statements of the Group are presented in Japanese yen, which is the functional currency of the Company. Each company in the Group determines its own functional currency, and the transactions of each company are measured in its functional currency.

Foreign currency transactions are translated into the functional currency at the average exchange rate during the period unless the exchange rate fluctuates significantly during such period. Foreign currency monetary assets and liabilities are translated using the closing rate as of each reporting period. Exchange differences arising from such translations and settlements are recognized in profit or loss. However, exchange differences arising from financial assets measured at fair value through other comprehensive income and cash flow hedges are recognized in other comprehensive income.

For foreign operations, assets and liabilities are translated into Japanese yen at the closing rate at the end of each reporting period, and income and expenses are translated into Japanese yen at the average exchange rate during the period unless the exchange rate fluctuates significantly during such period. All resulting exchange differences are recognized in other comprehensive income. On the disposal of a foreign operation, the cumulative amount of the exchange differences related to such foreign operation are reclassified from equity to profit or loss in the period of the disposal.

### (4) Financial instruments

#### 1) Financial assets

##### (i) Initial recognition and measurement

The Group classifies financial assets as fair value through profit or loss, fair value through other comprehensive income, or measured at amortized cost. This classification is determined at initial recognition of the assets. The Group recognizes a financial asset at the date when the Group becomes party to the contract of the financial instruments.

A financial asset is classified as financial assets measured at amortized cost if both of the following conditions are met; otherwise, it is classified as financial assets measured at fair value:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

With regard to equity instruments measured at fair value, with the exception of equity instruments held for trading which must be measured at fair value through profit or loss, each equity instrument is designated to be measured at fair value through profit or loss, or to be measured at fair value through other comprehensive income, and such designation is applied on a continuous basis.

All financial assets, unless classified as measured at fair value through profit or loss, are measured at their fair value plus transaction costs that are directly attributable to the financial assets.

##### (ii) Classification and subsequent measurement

After initial recognition, financial assets are measured based on their classification as follows:

#### (a) Financial assets measured at amortized cost

Financial assets measured at amortized cost are measured at amortized cost using the effective interest method.

#### (b) Other financial assets

Financial assets other than those measured at amortized cost are measured at fair value.

Subsequent changes in the fair value of financial assets measured at fair value are recognized as profit or loss.

However, for investments in equity instruments that are designated to be measured at fair value through other comprehensive income, subsequent changes in their fair value are recognized in other comprehensive income, and if they are derecognized or their fair value has declined significantly, the amount previously recognized in other comprehensive income is reclassified to retained earnings. Dividends from that investment are recognized in profit or loss.

### (iii) Derecognition

A financial asset is derecognized when the rights to receive benefits from the financial asset expire or the financial asset is transferred or substantially all of the risks and rewards of ownership of the financial asset are transferred.

### 2) Impairment of financial assets

Under IFRS 9 “Financial Instruments” (hereinafter “IFRS 9”), the Group estimates expected credit losses for financial assets that are subject to the impairment requirements of IFRS 9 at each reporting date and recognizes an allowance for doubtful accounts for such expected credit losses.

After initial recognition, expected credit losses are measured at the reporting date for each category of financial assets as follows:

- Stage 1 Financial assets for which credit risk has not increased significantly since initial recognition:  
12-month expected credit losses
- Stage 2 Financial assets for which credit risk has increased significantly since initial recognition but no credit impairment has been identified:  
Lifetime expected credit losses
- Stage 3 Credit-impaired financial assets:  
Lifetime expected credit losses

The Group directly reduces the carrying amount of a financial asset when its future recovery cannot be realistically expected and all collateral on the financial asset is enforced or transferred to the Group.

The Group determines whether the credit risk on a financial asset has increased significantly since initial recognition, primarily based on information regarding past due dates. In addition, the Group determines that a financial asset is credit-impaired if at least one of the following events occurs:

- Significant financial difficulty for the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payment;
- The creditor, for economic or legal reasons relating to the debtor’s financial difficulty, granting to the debtor a concession that the creditor would not otherwise consider;
- It has become probable that the debtor will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Substantial discounts on a purchased or originated financial asset that reflects the incurred credit losses.

The Group evaluates stage 1 financial instruments on a collective basis and stage 2 and 3 financial instruments on an individual basis.

12-month and lifetime expected credit losses are measured using reasonable and supportable information about past events, current conditions and forecasts of future economic conditions that is available without undue cost or effort at the end of the reporting period.

When an event that has an adverse impact on the estimated future cash flows of credit-impaired financial assets that were purchased or originated has occurred, that is, there is evidence that their credit is impaired, at initial recognition, for such purchased or originated credit-impaired financial assets, the cumulative changes in expected credit losses over their remaining life subsequent to initial recognition are recognized as an allowance for doubtful accounts at the reporting date.

3) Financial liabilities  
(i) Initial recognition and measurement

The Group classifies financial liabilities as fair value through profit or loss or measured at amortized cost. This classification is determined at initial recognition of the financial liabilities. All financial liabilities are initially measured at fair value, while financial liabilities measured at amortized cost are measured at their fair value minus transaction costs that are directly attributable to the financial liabilities.

(ii) Classification and subsequent measurement

After initial recognition, financial liabilities are measured based on their classification as follows:

- (a) Financial liabilities measured at fair value through profit or loss  
Financial liabilities measured at fair value through profit or loss are subsequently measured at fair value after initial recognition, and any gain or loss arising from remeasurements is recognized as profit or loss.
- (b) Financial liabilities measured at amortized cost  
Financial liabilities measured at amortized cost are measured at amortized cost using the effective interest method after initial recognition. Amortization using the effective interest method and any gain or loss on derecognition are recognized as profit or loss in the consolidated statement of profit or loss.

(iii) Derecognition

A financial liability is derecognized when the obligation is discharged or cancelled or expires.

4) Offsetting financial instruments

A financial asset and a financial liability are offset and the net amounts are presented in the consolidated statement of financial position only when the Group currently has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

5) Derivatives and hedge accounting

The Group uses derivatives, such as foreign exchange contracts and currency swap contracts, to hedge currency risks and interest rate risks. Derivatives are classified into financial assets measured at fair value through profit or loss and financial liabilities measured at fair value through profit or loss. Derivatives that meet the requirements for hedge accounting are designated as hedging instruments and hedge accounting is applied.

For the adoption of hedge accounting, the Group formally designates and documents the hedging relationship and the risk management objectives and strategies at the inception of the hedge. The documentation includes the details of the hedging instruments, the hedged items, the nature of the risks being hedged and the method of assessing hedge effectiveness. The Group assesses the hedging relationship on an ongoing basis with respect to whether the hedging relationship will be effective in the future.

The Group applies cash flow hedges to interest rate-related derivative transactions that meet the requirements for hedge accounting.

The portion of the changes in fair value of hedging instruments of cash flow hedges that is determined to be an effective hedge is recognized in other comprehensive income, and is accumulated as other components of equity until the hedged transaction is executed and recognized in profit or loss. The ineffective portion is recognized as profit or loss.

The amount that has been accumulated in other components of equity related to hedging instruments is reclassified to profit or loss when a hedged transaction affects profit or loss.

If a hedged transaction results in the recognition of non-financial assets or liabilities, the amounts that have been accumulated in other components of equity are accounted for as an adjustment to the initial cost of the non-financial assets or liabilities.

When forecast transactions are no longer expected to occur, hedge accounting is discontinued, and any cumulative gains and losses that have been accumulated in other components of equity are reclassified to profit or loss. Even if hedge accounting is discontinued, when hedged future cash flows are expected to occur, the amount that has been accumulated as other components of equity by the time of discontinuation of hedge accounting continues to be recognized in other components of equity until such future cash flows occur.

The Group does not apply fair value hedges or hedges of net investments in foreign operations.

#### 6) Fair value of financial instruments

For fair value of financial instruments that are traded in active markets as of each fiscal year-end, quoted market prices or dealer prices are referred to.

Fair value of financial instruments for which there is no active market is calculated using appropriate valuation techniques.

#### (5) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits withdrawable at any time and short-term, highly liquid investments with a maturity of three months or less from the acquisition date that are readily convertible to cash and which are subject to an insignificant risk of change in value.

#### (6) Inventories

The cost of inventories includes all costs of purchase, costs of conversion and all other costs incurred in bringing the inventories to their present location and condition.

Inventories are measured at the lower of cost and net realizable value. The cost is principally assigned by using the moving average method. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to sell.

#### (7) Property, plant and equipment

The cost model is applied to property, plant and equipment and they are measured at cost less accumulated depreciation and accumulated impairment losses.

The cost includes any costs directly attributable to the acquisition of the asset, as well as costs of dismantling, removal, and restoration.

Except for assets that are not subject to depreciation, such as land, each asset is depreciated over its estimated useful life using the straight-line method (however, some assets, such as equipment for research and development, are depreciated using the diminishing balance method).

The estimated useful lives of major asset items are as follows:

- Buildings and structures: 2 – 60 years;
- Machinery, equipment and vehicles: 2 – 15 years

Estimated useful lives and depreciation methods, etc., are reviewed at each fiscal year-end, and if any changes occur, they are amended prospectively as changes in accounting estimates.

## (8) Goodwill and intangible assets

### 1) Goodwill

The Group measures goodwill as the amount of the consideration transferred that is measured at the acquisition-date fair value, including the recognized amount of non-controlling interests in an acquiree, less the net of the acquisition-date amounts (usually fair value) of identifiable assets acquired and liabilities assumed.

Goodwill is not amortized. Goodwill is allocated to cash-generating units identified based on the region in which the business is conducted and the type of business and is tested for impairment annually or whenever there is any indication of impairment.

Impairment losses on goodwill are recognized in the consolidated statement of profit or loss, and they are not reversed in subsequent periods.

Goodwill is presented at the amount of acquisition cost less accumulated impairment losses.

### 2) Intangible assets

The cost model is applied to intangible assets, and such assets are measured at cost less accumulated amortization and accumulated impairment losses.

A separately acquired intangible asset is measured initially at cost. The cost of an intangible asset acquired in a business combination is measured at fair value at the acquisition date.

Expenditure on internally generated intangible assets, with the exception of an intangible asset arising from development that meets the recognition criteria, is recognized as expense when it is incurred.

An intangible asset with finite useful life is amortized over its estimated useful life using the straight-line method.

Estimated useful lives and amortization methods for intangible assets with finite useful lives are reviewed at each fiscal year-end, and if any changes occur, they are amended prospectively as changes in accounting estimates.

The estimated useful lives of major intangible assets with finite useful lives are as follows:

- Software: 5 years;
- Customer-related assets: 3 – 21 years

An intangible asset with indefinite useful life and an intangible asset not yet available for use are not amortized and are instead tested for impairment annually or whenever there is any indication of impairment for each individual asset or each cash-generating unit.

## (9) Leases

For lease transactions as a lessee, at the commencement date of the lease, the Group measures a right-of-use asset at cost and a lease liability at the present value of the lease payments that are not paid at that date.

A right-of-use asset is depreciated over the shorter of its useful life or its lease term using the straight-line method.

The Group determines the lease term as the non-cancellable period of the lease, together with periods covered by an extension option that is reasonably certain to be exercised or a cancellation option that is reasonably certain not to be exercised.

Lease payments are apportioned to finance costs and repayments of lease liabilities using the effective interest method, and finance costs are recognized in the consolidated statement of profit or loss.

However, for short-term leases with a lease term of 12 months or less and leases for which the underlying assets are of low value, right-of-use assets and lease liabilities are not recognized, and the total lease payments are recognized as an expense on either a straight-line basis over the lease term or another systematic basis.

#### (10) Impairment of non-financial assets

The Group assesses at the end of each reporting period whether there is any indication of impairment for each asset. If there is any indication that an asset may be impaired or if the asset is required to test for impairment at least annually, the Group estimates the recoverable amount of the asset. If it is not possible to estimate the recoverable amount of the individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount of an asset or cash-generating unit is measured at the higher of its fair value less costs of disposal or its value in use. When the carrying amount of the asset or cash-generating unit exceeds its recoverable amount, impairment losses for the asset are recognized and the carrying amount is reduced to its recoverable amount.

Value in use is determined as estimated future cash flows that are discounted to the present value, using a pre-tax discount rate that reflects the current market assessments of the time value of money, the risks specific to the asset and other factors. In calculating fair value less costs of disposal, an appropriate valuation model is used, supported by available indicators of fair value.

For an asset other than goodwill, the Group assesses whether there is any indication that an impairment loss recognized in the prior periods for the asset may no longer exist or may have decreased, such as any changes in the assumptions used to calculate the recoverable amount of the asset. If any such indication exists, the Group estimates the recoverable amount of the asset or cash-generating unit. When the recoverable amount exceeds the carrying amount of the asset or cash-generating unit, impairment losses are reversed up to the lower of the calculated recoverable amount and the carrying amount less depreciation and amortization, in the case where no impairment losses have been recognized in the prior periods.

#### (11) Employee benefits

##### 1) Post-employment benefits

The Group implements defined benefit plans and defined contribution plans as its employees' post-employment benefit program.

The Group determines the present value of its defined benefit obligations and the related current service cost and prior service cost using the projected unit credit method.

The discount rate is determined by reference to market yields at the end of the reporting period on high-quality corporate bonds corresponding to the discount period, which is determined based on the period up to the expected benefit payment date in each future reporting period.

Remeasurements of defined benefit liability (asset) are recognized collectively as other comprehensive income in the period of their occurrence, and are immediately reclassified from other components of equity to retained earnings.

Prior service cost is amortized over the average period until benefits are vested using the straight-line method, while if the benefit has already been vested immediately after the introduction or change of the defined benefit plan, the prior service cost is recognized as profit or loss in the period in which it was incurred.

Contributions for retirement benefits under defined contribution plans are recognized as expenses at the time of contribution.

##### 2) Short-term employee benefits

The Group recognizes the undiscounted amount of short-term employee benefits as an expense when an employee has rendered related service.

For bonus plans and paid absences, the Group recognizes the amount estimated to be paid under the applicable plan as liabilities when the Group has legal or constructive obligations to make such payments and reliable estimates of the obligations can be made.

## (12) Share-based payment

The Group has introduced a non-performance-linked stock compensation program, a performance-linked stock compensation program and a performance and share price-linked monetary compensation program.

The consideration for services received under the performance-linked stock compensation program is measured by reference to the fair value of the Company's shares on the grant date or is measured at the fair value of the incurred liabilities, and is recognized as an expense over the corresponding period, while the same amount is recognized as an increase in capital surplus or liabilities.

The consideration for services received under the performance and share price-linked monetary compensation program is measured by reference to the fair value of the Company's shares at the end of the reporting period, and is recognized as an expense over the corresponding period, while the same amount is recognized as an increase in liabilities. Fair value of the relevant liabilities is remeasured at the end of the reporting period and the settlement date, and any changes in fair value are recognized as profit or loss.

The details of the programs are provided in (Overview of non-performance-linked stock compensation program, performance-linked stock compensation program and performance and share price-linked monetary compensation program) in Note 33. "Share-based payments."

## (13) Provisions

The Group recognizes a provision when the Group has a present obligation (legal or constructive) as a result of a past event, it is highly probable that the Group will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the effect of the time value of money is material, the provision is measured at the present value of the expenditures expected to be required to settle the obligation. For calculation of the present value, a pre-tax discount rate that reflects the current market assessment of the time value of money and risks specific to the liability is used.

## (14) Revenue

### 1) Revenue from contracts with customers

For revenue from contracts with customers, the Group identifies the contract with a customer, identifies the performance obligations in the contract at contract inception, determines the transaction price, allocates the transaction price to the performance obligations in the contract, and recognizes the revenue when the Group satisfies a performance obligation.

A performance obligation is satisfied when control of the goods or services associated with an identified performance obligation is transferred to the customer.

Revenue from contracts with customers is classified into the following:

- Revenue from sales of products and construction contracting

For product sales contracts with customers, revenue is recognized when the product is delivered to the customer.

The consideration under the product sales contract is collected within a reasonable period after the time of delivery of the product to the customer and includes no significant financial component.

For construction contracts, control of assets is transferred to the customer over a certain period of time since the Company's performance does not create an asset with an alternative use and the Company has an enforceable right to payment for performance completed to date. Therefore, sales are recognized over the period of the construction contract, based on the degree of progress toward satisfaction of performance obligations as measured at the end of each reporting date. To measure progress, the input method is applied, using the ratio of the incurred cost against the estimated total cost for each contract.



Consumption taxes, value-added taxes, etc., are deducted from the transaction price when the Group is found to act as an agent of the taxation authority in the transaction, taking into comprehensive consideration the laws and regulations as well as the actual situation regarding transactions in each country. An amount substantially equivalent to the discount from the sales price under the contract with a customer is deducted from transaction price.

The Group has no significant obligations to return goods or to refund.

- Technology revenue

Technology revenue is recognized on an accrual basis in accordance with the substance of the relevant contractual arrangements. The Group earns revenue under the contracts that allow third parties to manufacture and sell its products and use its technologies.

## 2) Interest revenue

Interest revenue is calculated by using the effective interest method.  
For the financial assets described in (4) Financial instruments 2) Impairment of financial assets, interest revenue is recognized by using the effective interest method as follows, for each category of financial assets:

Stage 1 and stage 2 financial assets:

Carrying amount before deducting allowance for doubtful accounts × effective interest rate

Stage 3 financial assets:

Carrying amount after deducting allowance for doubtful accounts × effective interest rate

Purchased or originated credit-impaired financial assets:

Carrying amount after deducting allowance for doubtful accounts × credit-adjusted effective interest rate

## 3) Dividends

Dividends are recognized when the shareholders' rights to receive payment are established.

## (15) Government grants

Government grants are recognized at fair value when there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expense the related costs for which the grants are intended to compensate.

Government grants related to assets are deducted from the carrying value of the assets.

## (16) Income taxes

Income tax expense in the consolidated statement of profit or loss is presented as the aggregate amount of current tax and deferred tax.

Income taxes are recognized as profit or loss, except for the tax arising from items that are recognized in other comprehensive income or directly in equity, and the tax arising from business combinations.

Current taxes are measured at the amount expected to be paid to or recovered from the taxation authorities.

The amount of these taxes is calculated using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred taxes are recognized related to the temporary differences between the carrying amount of an asset and a liability at the end of the period for accounting purposes and its tax base.

A deferred tax asset is recognized for deductible temporary differences, unused tax credits and unused tax losses to the extent that it is probable that taxable profits will be available against which they can be utilized. A deferred tax liability is recognized, in principle, for all taxable temporary differences.

However, deferred tax assets or liabilities are not recognized for the following temporary differences deferred taxes arises from:

- The initial recognition of goodwill;
- The initial recognition of an asset or liability in a transaction which: is not a business combination; at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss); and at the time of the transaction, does not give rise to equal taxable and deductible temporary differences;
- For deductible temporary differences arising from investments in subsidiaries and associates and interests in joint arrangements when it is probable that the temporary differences will not reverse in the foreseeable future or it is not probable that taxable profits will be available against which the temporary differences can be utilized; or
- For taxable temporary differences associated with investments in subsidiaries and associates and interests in joint arrangements when the timing of the reversal of temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

At the end of each reporting period, the Group reassesses unrecognized deferred tax assets and recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset only if the Group has a legally enforceable right to set off current tax assets against current tax liabilities and related income taxes are levied by the same taxation authority on the same taxable entity.

The income tax expense for each quarter is calculated based on an estimated yearly effective tax rate.

#### (17) Equity

##### 1) Ordinary shares

For ordinary shares issued by the Company, the total issue price of the shares is recorded in share capital and capital surplus, and transaction costs, net of related tax effects, are deducted from capital surplus.

##### 2) Treasury shares

Treasury shares are measured at cost and deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale or cancellation of treasury shares. The difference between the carrying amount and the consideration received from the sale is recognized in equity.

#### (18) Earnings per share

Basic earnings per share are calculated by dividing profit or loss attributable to common shareholders of the parent by the weighted average number of common shares outstanding, after adjusting for treasury shares, during the period.

#### **4. Significant accounting estimates and judgments**

In preparing the consolidated financial statements of the Group, management is required to make judgments, estimates and assumptions that affect the application of accounting policies and the disclosure of reported amounts of income, expenses, assets and liabilities. However, actual results may differ from these estimates.

The estimates and their underlying assumptions are reviewed on a continuous basis. The impact of these reviews on estimates and assumptions are recognized in the period in which the estimates or assumptions are reviewed, the reporting period, and subsequent reporting periods.

In the application of the accounting policies, estimates and judgments that may have a particularly significant effect on the amounts recognized in the consolidated financial statements of the Group are as follows:

- Valuation of goodwill  
(Note 3. “Material accounting policy information (8) Goodwill and intangible assets”)  
Careful judgments are made with external experts for estimates of future cash flows based on the business plan, growth rates and discount rates to be used in the impairment test for goodwill. However, these judgments are subject to future uncertainties.  
In the event of an increase in the discount rate or a decrease in the growth rate, an impairment loss may be incurred.
- Estimates of the total cost of transactions that recognize revenue over a certain period of time  
(Note 3. “Material accounting policy information (14) Revenue”)  
The Group uses estimated total costs to measure the degree of the construction’s progress, which is used for recognizing revenues over a certain period of time. However, these estimates are subject to future uncertainties due to technical or physical factors and changes in the environment surrounding the contracts.

In addition, other estimates and judgments that are considered important are as follows:

- Estimates of fair value of intangible assets acquired in a business combination  
(Note 3. “Material accounting policy information (2) Business combinations”)
- Impairment of non-financial assets  
(Note 3. “Material accounting policy information (10) Impairment of non-financial assets”)
- Useful lives of intangible assets  
(Note 3. “Material accounting policy information (8) Goodwill and intangible assets”)
- Recoverability of deferred tax assets  
(Note 3. “Material accounting policy information (16) Income taxes”)
- Estimates of the extension option and cancellation option in lease agreements  
(Note 3. “Material accounting policy information (9) Leases”)
- Provisions  
(Note 3. “Material accounting policy information (13) Provisions”)
- Measurement of defined benefit obligations  
(Note 3. “Material accounting policy information (11) Employee benefits”)
- Fair value of financial instruments  
(Note 3. “Material accounting policy information (4) Financial instruments”)

#### **5. New standards not yet applied**

With respect to the standards or interpretations newly issued or amended by the date of the approval of the consolidated financial statements, the Group has not applied them early as of March 31, 2024.

The impact of the application is not stated herein, due to its immateriality.

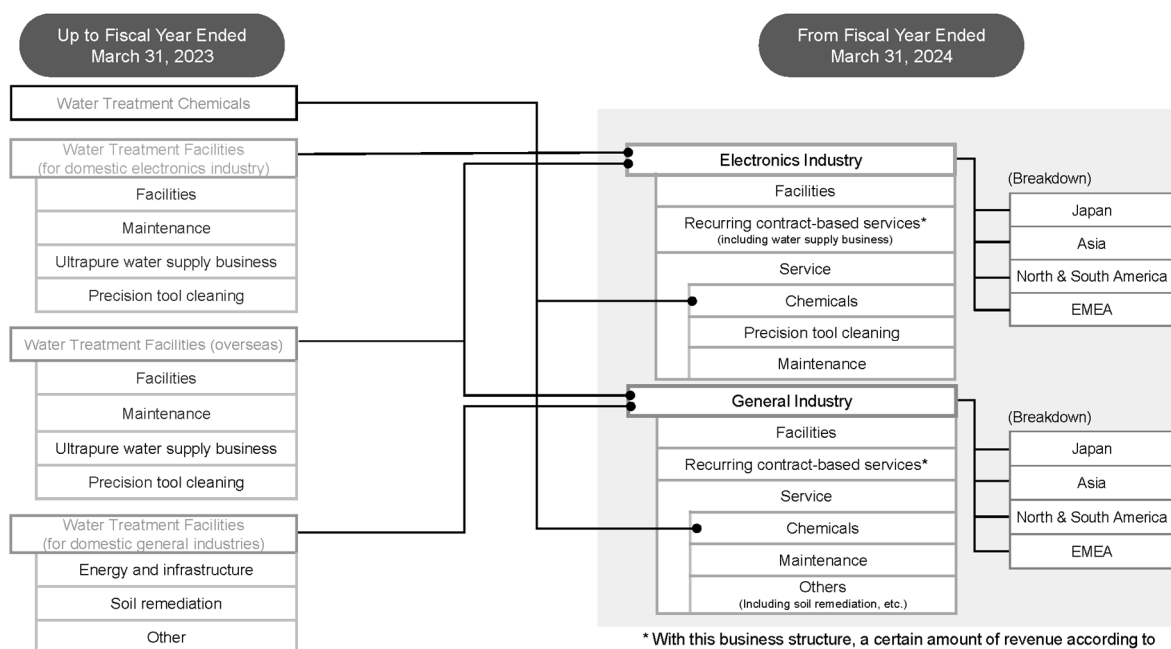
## 6. Segment information

### (1) Overview of reportable segments

The Company's reportable segments are components of the Group about which separate financial information is available. These segments are subject to periodic review to enable the Company's Board of Directors to decide how to allocate resources and assess performance.

Previously, the Group's reportable segments were the Water Treatment Chemicals segment and the Water Treatment Facilities segment, from the viewpoint of the products and services provided; however, starting from the fiscal year under review, which is the first fiscal year of the new Medium-term Management Plan PSV-27, the Group has Electronics Industry and General Industry as the two reportable segments in its segment information, in order to formulate strategies based on an in-depth examination of the characteristics of each market and to expand solutions by combining diverse products and services, from the viewpoint of providing value to society and customers.

The segment information for the fiscal year ended March 31, 2023 has also been restated to reflect this change.



\* With this business structure, a certain amount of revenue according to the value of services provided is consistently secured.

(2) Information on reportable segments

The accounting policies for reportable segments are the same as the accounting policies for the Group, which are provided in Note 3. "Material accounting policy information." Intersegment sales are based on prevailing market prices.

Fiscal year ended March 31, 2023

2023	Reportable segments		Total	Adjustments (Notes)	Consolidated
	Electronics Industry	General Industry			
Net sales					
Sales to external customers	¥149,275	¥195,332	¥344,608	¥—	¥344,608
Intersegment sales	—	—	—	—	—
Total	149,275	195,332	344,608	—	344,608
Segment profit	20,890	8,243	29,134	(75)	29,058
Finance income					1,990
Finance costs					(1,077)
Share of profit (loss) of investments accounted for using equity method					179
Profit before tax					¥30,151
Segment assets	¥235,718	¥211,377	¥447,096	¥54,441	¥501,538
Other items					
Depreciation and amortization	¥19,807	¥9,807	¥29,614	¥—	¥29,614
Impairment losses	—	7,660	7,660	—	7,660
Investments accounted for using equity method	—	1,234	1,234	49	1,283
Capital expenditures	38,263	9,978	48,241	—	48,241

- Notes
1. Adjustments to segment profit include the elimination of intersegment transactions, etc.
  2. Segment profit presents the amount of operating profit.
  3. Adjustments to segment assets include the elimination of intersegment transactions, etc., and consist mainly of corporate assets unallocated to reportable segments.
  4. Capital expenditures include an increase in right-of-use assets.
  5. Impairment losses consist mainly of impairment losses on goodwill of ¥7,646 million. Details are provided in Note 13. "Goodwill and intangible assets."
  6. Net sales include the amount of revenue recorded for transactions in which revenue is recognized over a certain period of time by the Company of ¥59,098 million.

Fiscal year ended March 31, 2024

2024	Millions of yen				
	Reportable segments		Total	Adjustments (Notes)	Consolidated
	Electronics Industry	General Industry			
Net sales					
Sales to external customers	¥172,698	¥212,127	¥384,825	¥ —	¥384,825
Intersegment sales	—	—	—	—	—
Total	172,698	212,127	384,825	—	384,825
Segment profit	20,202	21,030	41,233	(0)	41,232
Finance income					1,439
Finance costs					(1,127)
Share of profit (loss) of investments accounted for using equity method					141
Profit before tax					¥41,686
Segment assets	¥261,694	¥234,018	¥495,713	¥61,693	¥557,407
Other items					
Depreciation and amortization	¥21,697	¥10,939	¥32,637	¥ —	¥32,637
Impairment losses	—	—	—	—	—
Investments accounted for using equity method	—	1,368	1,368	53	1,422
Capital expenditures	33,107	8,916	42,023	—	42,023

2024	Thousands of U.S. dollars				
	Reportable segments		Total	Adjustments (Notes)	Consolidated
	Electronics Industry	General Industry			
Net sales					
Sales to external customers	\$1,143,695	\$1,404,814	\$2,548,509	\$ —	\$2,548,509
Intersegment sales	—	—	—	—	—
Total	1,143,695	1,404,814	2,548,509	—	2,548,509
Segment profit	133,788	139,271	273,066	(0)	273,059
Finance income					9,529
Finance costs					(7,463)
Share of profit (loss) of investments accounted for using equity method					933
Profit before tax					\$276,066
Segment assets	\$1,733,072	\$1,549,788	\$3,282,867	\$408,562	\$3,691,437
Other items					
Depreciation and amortization	\$143,688	\$72,443	\$216,139	\$ —	\$216,139
Impairment losses	—	—	—	—	—
Investments accounted for using equity method	—	9,059	9,059	350	9,417
Capital expenditures	219,251	59,046	278,298	—	278,298

- Notes
1. Adjustments to segment profit include the elimination of intersegment transactions, etc.
  2. Segment profit presents the amount of operating profit.
  3. Adjustments to segment assets include the elimination of intersegment transactions, etc., and consist mainly of corporate assets unallocated to reportable segments.
  4. Capital expenditures include an increase in right-of-use assets.
  5. Capital expenditures do not include assets acquired through corporate acquisitions.
  6. Net sales include the amount of revenue recorded for transactions in which revenue is recognized over a certain period of time by the Company of ¥79,755 million (\$528,178 thousand).

### (3) Information about products and services

Net sales to external customers by major products and services are as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Electronics Industry			
Facilities (facilities, plants)	¥50,072	¥70,315	\$465,662
Recurring contract-based services	42,127	46,564	308,370
Chemicals	10,705	10,440	69,139
Precision tool cleaning	27,597	25,027	165,741
Maintenance	18,771	20,349	134,761
Subtotal	¥149,275	¥172,698	\$1,143,695
General Industry			
Facilities (facilities, plants)	¥20,018	¥29,842	\$197,629
Recurring contract-based services	6,503	10,217	67,662
Chemicals	119,005	116,607	772,231
Maintenance	41,532	45,776	303,152
Others	8,272	9,682	64,119
Subtotal	¥195,332	¥212,127	\$1,404,814
Total	¥344,608	¥384,825	\$2,548,509

### (4) Information about geographical areas

Non-current assets and net sales to external customers by geographical areas are as follows:

#### 1) Non-current assets

	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Japan	¥175,610	¥183,684	\$1,216,450
Asia	20,330	20,806	137,788
North & South America	60,749	69,364	459,364
EMEA	21,679	28,724	190,225
Total	¥278,370	¥302,580	\$2,003,841

Note Non-current assets are allocated based on the location of assets, and financial instruments or deferred tax assets are not included. EMEA refers to the European, Middle Eastern and African regions.

#### 2) Net sales

	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Japan	¥178,488	¥198,367	\$1,313,688
Asia	76,669	85,927	569,052
North & South America	59,931	63,577	421,039
EMEA	29,517	36,954	244,728
Total	¥344,608	¥384,825	\$2,548,509

- Notes
- Net sales were previously broken down into countries or regions based on customer location. From the fiscal year ended March 31, 2024, the method has been changed to break down the net sales into countries or regions based on the location of the country or region of the Company or its consolidated subsidiaries. In line with this change, figures for the fiscal year ended March 31, 2023 have been re-aggregated. EMEA refers to the European, Middle Eastern and African regions.
  - Net sales in the United States included in the North & South America amounted to ¥51,795 million for the fiscal year ended March 31, 2023.
  - Net sales in the United States included in the North & South America amounted to ¥54,263 million (\$359,357 thousand) for the fiscal year ended March 31, 2024.

### (5) Information about major customers

This information is omitted since there is no single external customer that accounts for 10% or more of the net sales in the consolidated statement of profit or loss.

## 7. Business combinations and Acquisition of non-controlling interests

Fiscal year ended March 31, 2023

Not applicable.

Fiscal year ended March 31, 2024

(Acquisitions of shares in Arcade Engineering GmbH, Arcade Industrie SAS, Arcade Engineering AG (changed the company name to Kurita Switzerland AG on December 18, 2023), and Arcade Engineering (Asia) Pte. Ltd.)

On July 3, 2023, the Company acquired, through Kurita Europe GmbH, its consolidated subsidiary, all the shares outstanding of Arcade Engineering GmbH (hereinafter "Arcade Germany"), Arcade Industrie SAS (hereinafter "Arcade France"), and Kurita Switzerland AG (hereinafter "Kurita Switzerland"), which are manufacturing and sales companies of water treatment facilities in Europe. In addition, through the acquisition of shares in Arcade Germany and Kurita Switzerland, the Company also acquired shares of Arcade Engineering (Asia) Pte. Ltd. (hereinafter "Arcade Singapore"), a subsidiary of the two companies.

To expand business globally in the electronics industry, a key market, the Group acquired, through these acquisitions, local manufacturing bases and a supply chain for its water treatment facilities business, targeting the electronics industry in Europe. The Group will build a business foundation for responding promptly to the growth in demand for water treatment facilities in the electronics industry, which partly reflects the European Chips Act, thus driving business expansion to the electronics industry in Europe. Further, the Group will combine its products, technologies, and business models, including Kurita Europe GmbH and Kurita (Singapore) Pte. Ltd., a consolidated subsidiary of the Company, with the solution capabilities of Arcade Germany, Arcade France, Kurita Switzerland, and Arcade Singapore, in its efforts to enhance solutions that contribute greatly to saving water, cutting GHG emissions, and recycling waste.

Information that summarizes these acquisitions are as follows:

### (1) Assets acquired and liabilities assumed

The fair values of the consideration paid, identifiable assets acquired, and liabilities assumed as of the acquisition date are as follows:

2024	Millions of yen	Thousands of U.S. dollars
Fair value of consideration paid (cash)	¥3,792	\$25,112
Fair value of assets acquired and liabilities assumed		
Cash and cash equivalents	722	4,781
Trade receivables	1,221	8,086
Other current assets	449	2,973
Non-current assets	648	4,291
Trade and other payables	(1,538)	(10,185)
Non-current liabilities	(445)	(2,947)
Fair value of assets acquired and liabilities assumed (net)	1,057	7,000
Goodwill	¥2,734	\$18,105

In the fourth quarter of the fiscal year ended March 31, 2024, the provisional accounting process was finalized, and the amount of goodwill as of the acquisition date increased by ¥356 million (\$2,357 thousand). This was mainly attributable to an increase of ¥288 million (\$1,907 thousand) in non-current assets, despite a decrease of ¥402 million (\$2,662 thousand) in trade receivables and an increase of ¥314 million (\$2,079 thousand) in trade and other payables.

The amount of goodwill that occurred was ¥2,734 million (\$18,105 thousand), which reflects expected excess earning power.

The Group expects the amount related to recognized goodwill to be deductible for tax purposes.



Net sales and profit of Arcade Germany, Arcade France, Kurita Switzerland, and Arcade Singapore, which are included in the consolidated statement of profit or loss for the fiscal year ended March 31, 2024, are insignificant.

Pro-forma information assuming that the business combinations were carried out at the beginning of the fiscal year ended March 31, 2024 is omitted since the impact on the consolidated statement of profit or loss is immaterial.

(2) Transactions that are accounted for separately from business combination

Acquisition-related costs were ¥169 million (\$1,119 thousand). The entire amount is recorded in “Other expenses” in the consolidated statement of profit or loss.

## 8. Cash and cash equivalents

The breakdown of cash and cash equivalents is as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Cash and deposits	¥48,322	¥53,947	\$357,264
Short-term investments	2,145	61	403
<b>Total</b>	<b>¥50,468</b>	<b>¥54,009</b>	<b>\$357,675</b>

The balance of cash and cash equivalents in the consolidated statement of financial position matches that in the consolidated statement of cash flows.

## 9. Trade and other receivables

The breakdown of trade and other receivables is as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Notes and accounts receivable - trade	¥78,585	¥90,102	\$596,701
Accounts receivable - other	714	754	4,993
Contract asset	40,356	47,853	316,907
Lease receivables	1,064	1,215	8,046
Allowance for doubtful accounts	(421)	(461)	(3,052)
<b>Total</b>	<b>¥120,299</b>	<b>¥139,464</b>	<b>\$923,602</b>

- Notes
1. In the consolidated statement of financial position, trade and other receivables are presented in the amount after deduction of allowance for doubtful accounts.
  2. With the exception of lease receivables, trade and other receivables are classified as financial assets measured at amortized cost.

## 10. Other financial assets

### (1) Breakdown of other financial assets

The breakdown of other financial assets is as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Shares	¥8,872	¥9,696	\$64,211
Insurance funds	2,814	2,311	15,304
Leasehold deposits	1,756	1,852	12,264
Time deposits	2,838	5,945	39,370
Investments in capital	1,166	1,899	12,576
Other	1,343	1,657	10,973
<b>Total</b>	<b>¥18,791</b>	<b>¥23,362</b>	<b>\$154,715</b>
Current assets	¥3,357	¥6,367	\$42,165
Non-current assets	15,433	16,994	112,543

- Notes
1. In the consolidated statement of financial position, other financial assets are presented in the amount after deduction of allowance for doubtful accounts.
  2. Insurance funds are classified as financial assets measured at fair value through profit or loss. Shares are classified as financial assets measured at fair value through other comprehensive income. Time deposits and leasehold deposits are classified as financial assets measured at amortized cost. Investments in capital consist primarily of financial assets measured at fair value through profit or loss. Other consists primarily of financial assets measured at amortized cost.
  3. "Investments in capital," which were included in "Other" under "Other financial assets" for the fiscal year ended March 31, 2023, are presented separately, since they have become material in terms of amount. To reflect this change in presentation, the notes for the fiscal year ended March 31, 2023 have been reclassified. As a result, "Other" of ¥2,509 million under "Other financial assets" in the note for the fiscal year ended March 31, 2023 is reclassified as "Investments in capital" of ¥1,166 million and "Other" of ¥1,343 million.

### (2) Financial assets measured at fair value through other comprehensive income

Major equity instruments and their fair values, of financial assets measured at fair value through other comprehensive income, are as follows:

Name of shares	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Shin-Etsu Chemical Co., Ltd.	¥3,821	¥5,886	\$38,980
Otsuka Holdings Co., Ltd.	840	1,262	8,357
NIPPON SHOKUBAI CO.,LTD.	985	1,094	7,245
ONO PHARMACEUTICAL CO., LTD.	1,905	—	—

Note Shares are held primarily for business relationship purposes, and are therefore designated as financial assets measured at fair value through other comprehensive income.

The Group sells (derecognizes) financial assets measured at fair value through other comprehensive income in order to ensure the efficient and effective use of the assets it holds.

Fair values at the time of sales and cumulative gain or loss on disposal recognized as other comprehensive income in equity are as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Fair value	¥8,856	¥1,904	\$12,609
Cumulative gain or loss on disposal recognized as other comprehensive income in equity	7,138	900	5,960

Note Cumulative gain or loss on disposal recognized as other comprehensive income in equity are reclassified to retained earnings when the assets are sold or when their fair value declines significantly.

## 11. Inventories

The breakdown of inventories is as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Finished goods	¥8,132	¥8,279	\$54,827
Work in process	1,598	1,663	11,013
Raw materials and supplies	7,116	11,127	73,688
<b>Total</b>	<b>¥16,847</b>	<b>¥21,069</b>	<b>\$139,529</b>

## 12. Property, plant and equipment

Changes in carrying amount, acquisition cost, accumulated depreciation and impairment losses of property, plant and equipment are as follows:

### 1) Carrying amount

	Millions of yen					
	Buildings and structures	Machinery and vehicles	Land	Construction in progress	Other	Total
Balance as of April 1, 2022	¥43,298	¥69,817	¥6,849	¥34,581	¥6,488	¥161,034
Individual acquisition	278	1,193	18	36,649	811	38,951
Acquisition through business combination	—	—	—	—	—	—
Depreciation (Note)	(3,821)	(15,663)	—	—	(2,045)	(21,530)
Impairment losses	(9)	(2)	—	—	(0)	(12)
Sale or disposal	(138)	(162)	(143)	(5)	(69)	(519)
Reclassification to other account	8,578	35,911	—	(45,947)	1,394	(63)
Exchange differences on translation of foreign operations	225	433	18	87	81	847
Other	6	(0)	24	(0)	0	30
Balance as of March 31, 2023	¥48,417	¥91,526	¥6,766	¥25,366	¥6,660	¥178,737
Individual acquisition	554	1,122	1	31,888	938	34,505
Acquisition through business combination	2	17	—	10	91	122
Depreciation (Note)	(3,872)	(17,712)	—	—	(2,265)	(23,850)
Impairment losses	—	—	—	—	—	—
Sale or disposal	(100)	(128)	(24)	(29)	(40)	(324)
Reclassification to other account	2,181	6,385	—	(10,474)	1,342	(565)
Exchange differences on translation of foreign operations	603	995	73	369	213	2,256
Other	(5)	(1)	99	0	(0)	91
Balance as of March 31, 2024	¥47,781	¥82,205	¥6,916	¥47,130	¥6,939	¥190,973

	Thousands of U.S. dollars					
	Buildings and structures	Machinery and vehicles	Land	Construction in progress	Other	Total
Balance as of March 31, 2023	\$320,642	\$606,132	\$44,807	\$167,986	\$44,105	\$1,183,688
Individual acquisition	3,668	7,430	6	211,178	6,211	228,509
Acquisition through business combination	13	112	—	66	602	807
Depreciation (Note)	(25,642)	(117,298)	—	—	(15,000)	(157,947)
Impairment losses	—	—	—	—	—	—
Sale or disposal	(662)	(847)	(158)	(192)	(264)	(2,145)
Reclassification to other account	14,443	42,284	—	(69,364)	8,887	(3,741)
Exchange differences on translation of foreign operations	3,993	6,589	483	2,443	1,410	14,940
Other	(33)	(6)	655	0	(0)	602
Balance as of March 31, 2024	\$316,430	\$544,403	\$45,801	\$312,119	\$45,953	\$1,264,721

Note Depreciation of property, plant and equipment is included in cost of sales and selling, general and administrative expenses in the consolidated statement of profit or loss.

2) Acquisition cost

	Millions of yen					
	Buildings and structures	Machinery and vehicles	Land	Construction in progress	Other	Total
Balance as of April 1, 2022	¥74,439	¥198,432	¥7,678	¥34,581	¥21,089	¥336,221
Balance as of March 31, 2023	¥81,697	¥234,576	¥7,081	¥25,366	¥22,419	¥371,140
Balance as of March 31, 2024	¥84,806	¥242,524	¥7,223	¥47,130	¥24,819	¥406,504

	Thousands of U.S. dollars					
	Buildings and structures	Machinery and vehicles	Land	Construction in progress	Other	Total
Balance as of March 31, 2024	\$561,629	\$1,606,119	\$47,834	\$312,119	\$164,364	\$2,692,079

3) Accumulated depreciation and impairment losses

	Millions of yen					
	Buildings and structures	Machinery and vehicles	Land	Construction in progress	Other	Total
Balance as of April 1, 2022	¥31,141	¥128,615	¥829	¥—	¥14,601	¥175,187
Balance as of March 31, 2023	¥33,279	¥143,049	¥314	¥—	¥15,758	¥192,402
Balance as of March 31, 2024	¥37,024	¥160,319	¥307	¥—	¥17,879	¥215,530

	Thousands of U.S. dollars					
	Buildings and structures	Machinery and vehicles	Land	Construction in progress	Other	Total
Balance as of March 31, 2024	\$245,192	\$1,061,715	\$2,033	\$—	\$118,403	\$1,427,350

### 13. Goodwill and intangible assets

#### (1) Table of changes

Changes in carrying amount, acquisition cost, accumulated amortization and impairment losses of goodwill and intangible fixed assets are as follows:

##### 1) Carrying amount

	Millions of yen				
	Goodwill	Software	Customer-related assets	Other	Total
Balance as of April 1, 2022	¥62,992	¥5,454	¥9,142	¥3,494	¥81,084
Individual acquisition	—	1,810	—	4	1,814
Acquisition through business combination	—	—	—	—	—
Amortization (Note)	—	(1,671)	(1,199)	(934)	(3,805)
Impairment losses	(7,646)	(0)	—	—	(7,647)
Sale or disposal	—	(21)	—	—	(21)
Exchange differences on translation of foreign operations	5,067	20	712	206	6,007
Other changes	—	52	(7)	41	87
Balance as of March 31, 2023	¥60,413	¥5,644	¥8,647	¥2,812	¥77,517
Individual acquisition	—	3,032	—	63	3,096
Acquisition through business combination	2,734	1	273	—	3,009
Amortization (Note)	—	(1,857)	(1,502)	(985)	(4,345)
Impairment losses	—	—	—	—	—
Sale or disposal	—	(6)	(26)	—	(32)
Exchange differences on translation of foreign operations	7,853	43	1,097	227	9,221
Other changes	—	(190)	13	196	19
Balance as of March 31, 2024	¥71,001	¥6,666	¥8,503	¥2,314	¥88,486

	Thousands of U.S. dollars				
	Goodwill	Software	Customer-related assets	Other	Total
Balance as of March 31, 2023	\$400,086	\$37,377	\$57,264	\$18,622	\$513,357
Individual acquisition	—	20,079	—	417	20,503
Acquisition through business combination	18,105	6	1,807	—	19,927
Amortization (Note)	—	(12,298)	(9,947)	(6,523)	(28,774)
Impairment losses	—	—	—	—	—
Sale or disposal	—	(39)	(172)	—	(211)
Exchange differences on translation of foreign operations	52,006	284	7,264	1,503	61,066
Other changes	—	(1,258)	86	1,298	125
Balance as of March 31, 2024	\$470,205	\$44,145	\$56,311	\$15,324	\$586,000

Note Amortization of intangible assets is included in cost of sales and selling, general and administrative expenses in the consolidated statement of profit or loss.

2) Acquisition cost

	Millions of yen				
	Goodwill	Software	Customer-related assets	Other	Total
Balance as of April 1, 2022	¥65,467	¥17,741	¥14,272	¥7,263	¥104,744
Balance as of March 31, 2023	¥70,425	¥19,340	¥15,136	¥7,610	¥112,513
Balance as of March 31, 2024	¥82,023	¥22,232	¥17,117	¥8,313	¥129,687

	Thousands of U.S. dollars				
	Goodwill	Software	Customer-related assets	Other	Total
Balance as of March 31, 2024	\$543,198	\$147,231	\$113,357	\$55,052	\$858,854

3) Accumulated amortization and impairment losses

	Millions of yen				
	Goodwill	Software	Customer-related assets	Other	Total
Balance as of April 1, 2022	¥2,475	¥12,286	¥5,129	¥3,768	¥23,660
Balance as of March 31, 2023	¥10,012	¥13,696	¥6,488	¥4,797	¥34,995
Balance as of March 31, 2024	¥11,022	¥15,566	¥8,613	¥5,998	¥41,200

	Thousands of U.S. dollars				
	Goodwill	Software	Customer-related assets	Other	Total
Balance as of March 31, 2024	\$72,993	\$103,086	\$57,039	\$39,721	\$272,847

(2) Impairment tests for goodwill

The carrying amount of the goodwill allocated to each cash-generating unit is as follows:

Reportable segments	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Electronics Industry	¥14,601	¥16,343	\$108,231
Hansu Co., Ltd.	4,996	5,451	36,099
Pentagon Technologies Group, Inc.	9,605	10,891	72,125
General Industry	¥45,811	¥54,657	\$361,966
Kurita Europe GmbH	15,237	17,145	113,543
Arcade Engineering GmbH	—	2,844	18,834
Avista Technologies, Inc.	5,294	6,004	39,761
Kurita America, Inc. Water Treatment Chemicals	16,830	19,025	125,993
Kurita America, Inc. Water Treatment Facilities	6,259	7,156	47,390
Kurita Fracta Holdings, Inc.	2,188	2,481	16,430
Total	¥60,413	¥71,001	\$470,205

Impairment tests for major goodwill are performed as follows:

1) Hansu Co., Ltd. (Electronics Industry)

The recoverable amount is measured at value in use.

The value in use is calculated by discounting future cash flows at 14.7%, and the discount rate used is determined with reference to the weighted average cost of capital for the cash-generating unit.

The forecast period of future cash flows is five years, based on a business plan that was created reflecting past experience and external information and approved by management.

For periods after five years, a growth rate of 0.0% is used, which was determined by taking into account the conditions of the market in which the cash-generating unit is operating.

Accordingly, the recoverable amount exceeds the carrying amount, and therefore, no impairment loss was recognized for the fiscal year ended March 31, 2024.

For the fiscal year ended March 31, 2023, the forecast period of future cash flows was five years, and the discount rate and the growth rate used were 13.5% and 0.0%, respectively.

The Group considers that, even if key assumptions used in the impairment test change within a reasonably foreseeable range, a significant impairment is unlikely to occur in the cash-generating unit.

2) Pentagon Technologies Group, Inc. (Electronics Industry)

The recoverable amount is measured at value in use.

The value in use is calculated by discounting future cash flows at 11.1%, and the discount rate used is determined with reference to the weighted average cost of capital for the cash-generating unit.

The forecast period of future cash flows is five years, based on a business plan that was created reflecting past experience and external information and approved by management.

For periods after five years, a growth rate of 2.1% is used, which was determined by taking into account the conditions of the market in which the cash-generating unit is operating.

Accordingly, the recoverable amount exceeds the carrying amount, and therefore, no impairment loss was recognized for the fiscal year ended March 31, 2024.

For the fiscal year ended March 31, 2023, the forecast period of future cash flows was five years, and the discount rate and the growth rate used were 10.3% and 2.0%, respectively.

The Group considers that, even if key assumptions used in the impairment test change within a reasonably foreseeable range, a significant impairment is unlikely to occur in the cash-generating unit.

3) Kurita Europe GmbH (General Industry)

The recoverable amount is measured at value in use.

The value in use is calculated by discounting future cash flows at 16.5%, and the discount rate used is determined with reference to the weighted average cost of capital for the cash-generating unit.

The forecast period of future cash flows is five years, based on a business plan that was created reflecting past experience and external information and approved by management.

For periods after five years, a growth rate of 1.0% is used, which was determined by taking into account the conditions of the market in which the cash-generating unit is operating.

Accordingly, the recoverable amount exceeds the carrying amount, and therefore, no impairment loss was recognized for the fiscal year ended March 31, 2024.

For the fiscal year ended March 31, 2023, the forecast period of future cash flows was five years, and the discount rate and the growth rate used were 10.1% and 1.0%, respectively.

The Group considers that, even if key assumptions used in the impairment test change within a reasonably foreseeable range, a significant impairment is unlikely to occur in the cash-generating unit.

4) Arcade Engineering GmbH (General Industry)

The recoverable amount is measured at value in use.

The value in use is calculated by discounting future cash flows at 8.9%, and the discount rate used is determined with reference to the weighted average cost of capital for the cash-generating unit.

The forecast period of future cash flows is five years, based on a business plan that was created reflecting past experience and external information and approved by management.

For periods after five years, a growth rate of 1.0% is used, which was determined by taking into account the conditions of the market in which the cash-generating unit is operating.

Accordingly, the recoverable amount exceeds the carrying amount, and therefore, no impairment loss was recognized for the fiscal year ended March 31, 2024.

5) Avista Technologies, Inc. (General Industry)

The recoverable amount is measured at value in use.

The value in use is calculated by discounting future cash flows at 11.5%, and the discount rate used is determined with reference to the weighted average cost of capital for the cash-generating unit.

The forecast period of future cash flows is five years, based on a business plan that was created reflecting past experience and external information and approved by management.

For periods after five years, a growth rate of 2.1% is used, which was determined by taking into account the conditions of the market in which the cash-generating unit is operating.

Accordingly, the recoverable amount exceeds the carrying amount, and therefore, no impairment loss was recognized for the fiscal year ended March 31, 2024.

For the fiscal year ended March 31, 2023, the forecast period of future cash flows was five years, and the discount rate and the growth rate used were 10.8% and 2.0%, respectively.

The Group considers that, even if key assumptions used in the impairment test change within a reasonably foreseeable range, a significant impairment is unlikely to occur in the cash-generating unit.

6) Kurita America, Inc. (General Industry, Water Treatment Chemicals business and Water Treatment Facilities business)

The recoverable amount is measured at value in use.

The value in use is calculated by discounting future cash flows at 11.5%, and the discount rate used is determined with reference to the weighted average cost of capital for the cash-generating unit.

The forecast period of future cash flows is five years, based on a business plan that was created reflecting past experience and external information and approved by management.

For periods after five years, a growth rate of 2.1% is used, which was determined by taking into account the conditions of the market in which the cash-generating unit is operating.

In the fiscal year ended March 31, 2023, the recoverable amount was lower than the carrying amount due to the impact of fluctuations in the water treatment chemicals market after the spread of COVID-19, logistics disruptions, price hikes, along with an increase in the discount rate used for calculating the recoverable amount in line with the U.S. policy rate hike. As a result, impairment losses of ¥7,646 million (Water Treatment Chemicals business) were recorded.

In the Water Treatment Chemicals business, business results for the fiscal year ended March 31, 2024 achieved the business plan formulated in the fiscal year ended March 31, 2023, attributable to factors including the favorable economic trend in the United States, growth of sales in high-value-added products and services that create common value with society, including the CSV business, and review of focus markets to improve profitability. Based on such circumstances, the Group has formulated a business plan at the end of the fiscal year ended March 31, 2024.

For the fiscal year ended March 31, 2023, the forecast period of future cash flows was five years, and the discount rate and the growth rate used were 10.8% and 2.0%, respectively.

The Group considers that, even if key assumptions used in the impairment test change within a reasonably foreseeable range, a significant impairment is unlikely to occur in the cash-generating unit.



## 7) Kurita Fracta Holdings, Inc. (General Industry)

The recoverable amount is measured at value in use.

The value in use is calculated by discounting future cash flows at 17.9%, and the discount rate used is determined with reference to the weighted average cost of capital for the cash-generating unit.

The forecast period of future cash flows is five years, based on a business plan that was created reflecting past experience and external information and approved by management.

For periods after five years, a growth rate of 2.5% is used, which was determined by taking into account the conditions of the market in which the cash-generating unit is operating.

Accordingly, the recoverable amounts exceed the carrying amounts, and therefore, no impairment loss was recognized for the fiscal year ended March 31, 2024.

For the fiscal year ended March 31, 2023, the forecast period of future cash flows was five years, and the discount rate and the growth rate used were 19.1% and 2.5%, respectively.

The Group considers that, even if key assumptions used in the impairment test change within a reasonably foreseeable range, a significant impairment is unlikely to occur in the cash-generating unit.

## 14. Impairment losses for non-financial assets

Business assets are grouped mainly by segment and idle assets are grouped by individual property.

Fiscal year ended March 31, 2023

For the fiscal year ended March 31, 2023, impairment losses of ¥7,646 million were recognized mainly on goodwill. Details are provided in Note 13. "Goodwill and intangible assets."

Fiscal year ended March 31, 2024

For the fiscal year ended March 31, 2024, this information is omitted due to the absence of significant matters.

## 15. Investments accounted for using equity method

### (1) Material associates

Not applicable.

### (2) Individually immaterial associates

(i) The carrying amount of investments in individually immaterial associates is as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Total carrying amount	¥1,283	¥1,422	\$9,417

(ii) The aggregate amount of the Group's share of profit and comprehensive income of individually immaterial associates is as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Share of:			
Profit	¥179	¥141	\$933
Other comprehensive income	2	67	443
Comprehensive income	¥181	¥209	\$1,384

## 16. Income taxes

### (1) Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities, classified by primary cause, are as follows:

Fiscal year ended March 31, 2023

2023	Millions of yen				March 31, 2023
	April 1, 2022	Recognized through profit or loss	Recognized in other comprehensive income	Other	
Deferred tax assets					
Depreciation	¥2,972	¥1,083	¥ —	¥ —	¥4,055
Net defined benefit liability	5,196	245	(332)	—	5,109
Accrued bonuses to employees	873	13	—	—	886
Accrued paid absences	740	(21)	—	—	719
The carryforward of unused tax losses	1,036	1,395	—	—	2,432
Unrealized gain on the sale of fixed assets	302	(6)	—	—	296
Other	3,708	810	(79)	—	4,439
<b>Total deferred tax assets</b>	<b>14,831</b>	<b>3,520</b>	<b>(412)</b>	<b>—</b>	<b>17,939</b>
Deferred tax liabilities					
Financial assets measured at fair value through other comprehensive income	3,822	—	(1,938)	—	1,883
Tax effects related to retained earnings of foreign subsidiaries	2,701	412	—	—	3,113
Other	4,883	220	—	217	5,320
<b>Total deferred tax liabilities</b>	<b>11,406</b>	<b>632</b>	<b>(1,938)</b>	<b>217</b>	<b>10,317</b>
<b>Net</b>	<b>¥3,425</b>	<b>¥2,888</b>	<b>¥1,526</b>	<b>¥(217)</b>	<b>¥7,621</b>

Fiscal year ended March 31, 2024

2024	Millions of yen				March 31, 2024
	April 1, 2023	Recognized through profit or loss	Recognized in other comprehensive income	Other	
Deferred tax assets					
Depreciation	¥4,055	¥750	¥ —	¥ —	¥4,806
Net defined benefit liability	5,109	(233)	(136)	—	4,740
Accrued bonuses to employees	886	238	—	—	1,124
Accrued paid absences	719	35	—	—	755
The carryforward of unused tax losses	2,432	(151)	—	—	2,281
Unrealized gain on the sale of fixed assets	296	(0)	—	—	295
Other	4,439	1,660	39	—	6,139
<b>Total deferred tax assets</b>	<b>17,939</b>	<b>2,299</b>	<b>(97)</b>	<b>—</b>	<b>20,142</b>
Deferred tax liabilities					
Financial assets measured at fair value through other comprehensive income	1,883	—	384	—	2,267
Tax effects related to retained earnings of foreign subsidiaries	3,113	916	—	—	4,030
Other	5,320	1,153	—	658	7,132
<b>Total deferred tax liabilities</b>	<b>10,317</b>	<b>2,070</b>	<b>384</b>	<b>658</b>	<b>13,430</b>
<b>Net</b>	<b>¥7,621</b>	<b>¥229</b>	<b>¥(481)</b>	<b>¥(658)</b>	<b>¥6,712</b>

Thousands of U.S. dollars					
2024	April 1, 2023	Recognized through profit or loss	Recognized in other comprehensive income	Other	March 31, 2024
Deferred tax assets					
Depreciation	\$26,854	\$4,966	\$—	\$—	\$31,827
Net defined benefit liability	33,834	(1,543)	(900)	—	31,390
Accrued bonuses to employees	5,867	1,576	—	—	7,443
Accrued paid absences	4,761	231	—	—	5,000
The carryforward of unused tax losses	16,105	(1,000)	—	—	15,105
Unrealized gain on the sale of fixed assets	1,960	(0)	—	—	1,953
Other	29,397	10,993	258	—	40,655
Total deferred tax assets	118,801	15,225	(642)	—	133,390
Deferred tax liabilities					
Financial assets measured at fair value through other comprehensive income	12,470	—	2,543	—	15,013
Tax effects related to retained earnings of foreign subsidiaries	20,615	6,066	—	—	26,688
Other	35,231	7,635	—	4,357	47,231
Total deferred tax liabilities	68,324	13,708	2,543	4,357	88,940
Net	\$50,470	\$1,516	\$(3,185)	\$(4,357)	\$44,450

### (2) Unrecognized deferred tax assets

The following are deductible temporary differences, the carryforward of unused tax losses (breakdown by expiration) and unused tax credits (breakdown by expiration) for which no deferred tax assets are recognized in the consolidated statement of financial position. Amounts hereunder are presented on a tax amount basis.

	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Deductible temporary differences	¥13,085	¥11,537	\$76,403
The carryforward of unused tax losses			
Less than 1 year	¥29	¥5	\$33
1 year or more and less than 5 years	62	315	2,086
5 years or more	1,313	920	6,092
Total	¥1,405	¥1,241	\$8,218
The carryforward of unused tax credits			
Less than 1 year	¥—	¥—	\$—
1 year or more and less than 5 years	—	—	—
5 years or more	—	—	—
Total	¥—	¥—	\$—

### (3) Unrecognized deferred tax liabilities

The total amount of temporary differences related to investments in subsidiaries, etc., that are not recognized as deferred tax liabilities as of March 31, 2023 and 2024 are ¥43,549 million and ¥63,853 million (\$422,867 thousand), respectively. When the Group is capable of controlling the timing of the reversal of temporary differences and the temporary differences will not reverse within the foreseeable future, no deferred tax liability related to such temporary differences is recognized.

#### (4) Income taxes recognized through profit or loss

The breakdown of income taxes recognized through profit or loss is as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Current tax expense	¥12,361	¥11,870	\$78,609
Deferred tax expense			
Origination and reversal of temporary differences	(2,895)	62	410
Changes in unrecognized deferred tax assets	—	9	59
Other	7	157	1,039
Total deferred tax expense	(2,888)	229	1,516
Total	¥9,473	¥12,099	\$80,125

#### (5) Reconciliation of the effective tax rate

Below is a breakdown of the principal items that caused a difference between the statutory effective tax rate and the average effective tax rate. The Company is primarily subject to corporate tax, inhabitants' tax and enterprise tax. The statutory effective tax rate calculated based on these taxes is 30.6%. Foreign subsidiaries are subject to income taxes, etc., in their respective countries of domicile.

	2023	2024
Domestic statutory effective tax rate	30.6%	30.6%
Items permanently not tax deductible, such as entertainment expenses	8.8%	0.7%
Items permanently not taxable, such as dividend income	(0.0%)	(0.1%)
Increase (decrease) in unrecognized deferred tax assets	(6.7%)	(0.1%)
Tax credits	(3.1%)	(2.5%)
Difference in tax rates applied to foreign subsidiaries	(2.5%)	(2.4%)
Other	4.3%	2.8%
Average effective tax rate	31.4%	29.0%

#### (6) Global Minimum Tax

Under the 2023 tax reform in Japan, a new corporate tax corresponding to the Global Minimum Tax was established, and a Tax Reform Act ("Act on Partial Revision of the Income Tax Act, etc." (Act No. 3 of 2023) (hereinafter the "Amended Corporate Tax Act"), which included related provisions, was enacted on March 28, 2023. The Amended Corporate Tax Act introduces the Income Inclusion Rule (IIR) of the Global Minimum Tax Rules developed on BEPS. Effective from the fiscal year beginning on or after April 1, 2024, a parent company located in Japan is subject to additional taxation to the extent that the tax burden of subsidiaries and others of the parent company located in Japan meets the minimum tax rate (15%).

In collaboration with tax experts, the Group is currently examining the impact of the Global Minimum Tax System on the Company's consolidated financial statements. At this point, we expect no significant effect on them.

## 17. Trade and other payables

The breakdown of trade and other payables is as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Notes and accounts payable - trade	¥30,346	¥36,534	\$241,947
Accounts payable - other	11,267	17,913	118,629
Contract liabilities	9,850	13,954	92,410
Total	¥51,465	¥68,403	\$453,000

Note Trade and other payables are classified as financial liabilities measured at amortized cost.

## 18. Bonds and borrowings

The breakdown of bonds and borrowings is as follows:

	Millions of yen		Thousands of U.S. dollars	Average interest rate	Due date
	2023	2024	2024		
Short-term borrowings	¥10,666	¥1,799	\$11,913	3.20%	
Current portion of long-term borrowings	2,331	2,298	15,218	1.00%	
Commercial papers	16,000	15,000	99,337	0.12%	
Long-term borrowings	8,859	18,782	124,384	0.61%	2025-2028
Bonds	39,899	39,931	264,443	0.18%	2025, 2027
<b>Total</b>	<b>¥77,756</b>	<b>¥77,812</b>	<b>\$515,311</b>		
Current liabilities	¥28,998	¥19,097	\$126,470		
Non-current liabilities	48,758	58,714	388,834		
<b>Total</b>	<b>¥77,756</b>	<b>¥77,812</b>	<b>\$515,311</b>		

- Notes
1. The average interest rate is calculated using interest rates and balances as of March 31, 2024.
  2. Bonds and borrowings are classified as financial liabilities measured at amortized cost.
  3. The borrowings have no financial covenants that have a significant effect on the financial activities of the Group.
  4. For the fiscal year ended March 31, 2024, the total amount of borrowings of ¥12,000 million (\$79,470 thousand) was arranged (due date: December 8, 2028 and December 22, 2028, in lump-sum payment).

The terms and conditions of the issuance of bonds are summarized as follows:

Name	Issue	Issue date	Millions of yen		Thousands of U.S. dollars	Interest rate	Collateral	Redemption period
			2023	2024	2024			
The Company	First series of unsecured bonds	December 10, 2020	¥30,000	¥30,000	\$198,675	0.15%	None	December 10, 2025
The Company	Second series of unsecured bonds	May 26, 2022	¥10,000	¥10,000	\$66,225	0.29%	None	May 26, 2027

## 19. Other financial liabilities

The breakdown of other financial liabilities is as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Long-term guarantee deposits	¥815	¥932	\$6,172
Contingent consideration	651	747	4,947
Derivative liabilities	203	658	4,357
<b>Total</b>	<b>¥1,670</b>	<b>¥2,338</b>	<b>\$15,483</b>
Current liabilities	¥3	¥—	\$—
Non-current liabilities	1,666	2,338	15,483
<b>Total</b>	<b>¥1,670</b>	<b>¥2,338</b>	<b>\$15,483</b>

- Notes
1. Long-term guarantee deposits are classified as financial liabilities measured at amortized cost.
  2. Contingent consideration and derivative liabilities are classified as financial liabilities measured at fair value through profit or loss.
  3. Presentation of the account "Other" used previously was changed to "Derivative liabilities" in the fiscal year ended March 31, 2024, from the perspective of ensuring clarity.

## 20. Leases

### Lease as lessee

The Group mainly leases buildings and structures, machinery, equipment and vehicles and land. Lease terms mainly range from one year to 30 years, while the average interest rate that is applied to lease liabilities is 2.3%. There are no significant purchase options, escalation clauses, or restrictions imposed under lease agreements (including restrictions on dividends, additional borrowings and additional leases). In domestic businesses in particular, lease agreements for buildings mostly allow the lessee to repeatedly exercise an extension option and also include an early cancellation option only if cancellation is noticed in writing to the counterparty no later than six months in advance. Only those lease payments corresponding to the period during which the exercise of such options was reasonably expected with certainty are included in the measurement of lease liabilities.

#### 1) Right-of-use assets

	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Buildings and structures	¥11,418	¥12,543	\$83,066
Machinery and vehicles	1,723	1,847	12,231
Land	8,218	7,917	52,430
Other	567	589	3,900
<b>Total</b>	<b>¥21,928</b>	<b>¥22,898</b>	<b>\$151,642</b>

Note The increases in right-of-use assets for the fiscal years ended March 31, 2023 and 2024 were ¥7,687 million and ¥4,497 million (\$29,781 thousand), respectively.

#### 2) Expenses from lease

	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Depreciation of right-of-use assets			
Buildings and structures	¥2,916	¥2,959	\$19,596
Machinery and vehicles	708	837	5,543
Land	418	422	2,794
Other	235	202	1,337
<b>Total depreciation of right-of-use assets</b>	<b>4,278</b>	<b>4,421</b>	<b>29,278</b>
Interest expenses on lease liabilities	372	510	3,377
Short-term lease expense	1,021	1,913	12,668
Lease expense of low-value assets	229	223	1,476
<b>Total expenses</b>	<b>¥5,901</b>	<b>¥7,068</b>	<b>\$46,807</b>

#### 3) Maturity analysis of lease liabilities

The maturity analysis of lease liabilities is described in Note 34. "Financial instruments (3) Liquidity risk."

#### 4) Total cash outflow for leases

The total amount of lease-related cash outflows for the fiscal years ended March 31, 2023 and 2024 was ¥5,797 million and ¥6,110 million (\$40,463 thousand), respectively.

## 21. Employee benefits

### (1) Overview of the retirement benefit plan adopted by the Group

The Company and certain consolidated subsidiaries adopt funded and unfunded defined benefit plans and defined contribution plans in order to provide retirement benefits to employees. Nearly all employees are covered by these plans.

While these retirement benefit plans are exposed to risks, including general investment risks, interest rate risks and inflation risks, none are considered to be material.

The funded defined benefit plan is operated by pension funds that are legally separate from the Group. The board of directors of the pension funds and the organization entrusted with management of the pension funds are required by law to act in the best interests of the plan members, while bearing the responsibility for managing plan assets in accordance with given policies.

### (2) Defined benefit plan

#### 1) Reconciliation of defined benefit obligations and plan assets

The relationship between defined benefit obligations and plan assets and net defined benefit liability (asset) presented in the consolidated statement of financial position is as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Present value of funded defined benefit obligations	¥669	¥783	\$5,185
Fair value of plan assets	(714)	(834)	(5,523)
Sub-total	(45)	(50)	(331)
Present value of unfunded defined benefit obligations	17,318	17,527	116,072
Net defined benefit liability (asset)	¥17,273	¥17,476	\$115,735
Amount presented in the consolidated statement of financial position			
Retirement benefit liabilities	¥17,321	¥17,527	\$116,072
Retirement benefit assets	(48)	(50)	(331)
Net defined benefit liability (asset)	¥17,273	¥17,476	\$115,735

2) Reconciliation of the present value of defined benefit obligations

Changes in present value of defined benefit obligations are as follows:

	Millions of yen		
	In Japan	Outside Japan	Total
Balance as of April 1, 2022	¥15,873	¥2,917	¥18,790
Current service cost	1,009	139	1,148
Interest expense	71	71	143
Benefits paid	(851)	(160)	(1,012)
Remeasurements			
Actuarial gains and losses arising from changes in demographic assumptions	21	(8)	13
Actuarial gains and losses arising from changes in financial assumptions	(720)	(384)	(1,105)
Exchange differences on translation of foreign operations	—	155	155
Other changes	(34)	(111)	(145)
Balance as of March 31, 2023	¥15,368	¥2,618	¥17,987
Current service cost	967	186	1,154
Interest expense	124	98	222
Benefits paid	(709)	(149)	(859)
Remeasurements			
Actuarial gains and losses arising from changes in demographic assumptions	(211)	(8)	(219)
Actuarial gains and losses arising from changes in financial assumptions	(428)	245	(182)
Past service cost and gain or loss on settlement	—	10	10
Exchange differences on translation of foreign operations	—	294	294
Other changes	(21)	(75)	(97)
Balance as of March 31, 2024	¥15,090	¥3,219	¥18,310

	Thousands of U.S. dollars		
	In Japan	Outside Japan	Total
Balance as of March 31, 2023	\$101,774	\$17,337	\$119,119
Current service cost	6,403	1,231	7,642
Interest expense	821	649	1,470
Benefits paid	(4,695)	(986)	(5,688)
Remeasurements			
Actuarial gains and losses arising from changes in demographic assumptions	(1,397)	(52)	(1,450)
Actuarial gains and losses arising from changes in financial assumptions	(2,834)	1,622	(1,205)
Past service cost and gain or loss on settlement	—	66	66
Exchange differences on translation of foreign operations	—	1,947	1,947
Other changes	(139)	(496)	(642)
Balance as of March 31, 2024	\$99,933	\$21,317	\$121,258

The weighted average duration of defined benefit obligations of the Company and principal consolidated subsidiaries was 11 years in Japan and 19 years overseas in the fiscal year ended March 31, 2023, and 10 years in Japan and 19 years overseas in the fiscal year ended March 31, 2024.



### 3) Reconciliation of the fair value of plan assets

Changes in fair value of plan assets are as follows:

	Millions of yen Outside Japan
Balance as of April 1, 2022	¥646
Interest income	21
Benefits paid	(45)
Contributions to the plan by the employer	88
Remeasurements	
Return on plan assets	65
Exchange differences on translation of foreign operations	11
Other changes	(73)
Balance as of March 31, 2023	¥714
Interest income	33
Benefits paid	(76)
Contributions to the plan by the employer	99
Remeasurements	
Return on plan assets	75
Exchange differences on translation of foreign operations	65
Other changes	(78)
Balance as of March 31, 2024	¥834

	Thousands of U.S. dollars Outside Japan
Balance as of March 31, 2023	\$4,728
Interest income	218
Benefits paid	(503)
Contributions to the plan by the employer	655
Remeasurements	
Return on plan assets	496
Exchange differences on translation of foreign operations	430
Other changes	(516)
Balance as of March 31, 2024	\$5,523

Information of changes in plan assets in Japan is omitted, as there is nothing applicable.

For the defined contribution plans, in the fiscal year ending March 31, 2025, the Group is scheduled to contribute ¥78 million (\$516 thousand).

### 4) Fair values of plan assets by asset category

Fair values of plan assets by principal asset category are as follows:

	Market price in an active market		
	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Cash and cash equivalents	¥714	¥834	\$5,523
Total	¥714	¥834	\$5,523

## 5) Actuarial assumptions

The significant actuarial assumptions used to calculate the present value of defined benefit obligations of the Company and its main domestic consolidated subsidiaries are as follows:

	2023	2024
Discount rate	0.90%	1.10%

A sensitivity analysis (effects on defined benefit obligations) of significant actuarial assumptions of the Company and its main domestic consolidated subsidiaries is as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Discount rate			
0.5% increase	¥(702)	¥(693)	\$(4,589)
0.5% decrease	764	753	4,986

## (3) Employee benefits expense

The employee benefits expense included in cost of sales and selling, general and administrative expenses in the consolidated statement of profit or loss is as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Wages, salaries, bonuses, etc.	¥60,245	¥65,162	\$431,536
Retirement benefit expenses	3,079	3,266	21,629
Other employee benefits expenses	11,092	12,234	81,019
Total	¥74,417	¥80,663	\$534,192

The amounts recognized as expense for the defined contribution plan were ¥1,728 million and ¥1,877 million (\$12,430 thousand) in the fiscal years ended March 31, 2023 and 2024, respectively.

## 22. Provisions

An explanation for each provision is as follows:

### 1) Provision for loss on construction contracts

The Group recognizes a provision for losses that are expected to occur in or after the following fiscal year, with respect to contracted constructions for which a loss is expected to occur and the amount of such loss can be reasonably estimated. Related expenses are expected to be incurred prior to completion of the construction, and additional expenses may arise in the case of an increase in estimated costs.

### 2) Provision for product warranties

To provide for warranty expenses that are expected to occur during the Company's warranty period for some delivered products or services, the Group recognizes a provision based on the actual amount of warranty expenses paid in past fiscal years, taking into account the prospect of future warranty expenses.

### 3) Asset retirement obligations

To provide for the Group's obligation to restore offices, buildings, etc., rented by the Group, the Group recognizes asset retirement obligations. Related expenses are expected to be paid after the usage period has elapsed, and will be affected by future business plans, etc.

### 4) Provision for business restructuring

The Group recognizes a provision for losses that are expected to occur in the future, due to partial closures and relocations, etc., of the Group's overseas bases. While these expenses are expected to be paid in the fiscal year ending March 31, 2025, additional expenses may be incurred if there is an increase in the estimated cost.

The breakdown of and changes in the provisions are as follows:

Fiscal year ended March 31, 2024

	Millions of yen					
	Provision for loss on construction contracts	Provision for product warranties	Asset retirement obligations	Provision for business restructuring	Other	Total
Balance as of April 1, 2023	¥780	¥1,063	¥2,581	¥—	¥489	¥4,915
Increase during the period	519	986	161	589	73	2,331
Decrease during the period (due to intended use)	(780)	(752)	(0)	—	(502)	(2,035)
(reversal)	—	(87)	(1)	—	(6)	(94)
Other	1	50	61	—	36	148
Balance as of March 31, 2024	¥520	¥1,260	¥2,802	¥589	¥90	¥5,264
Current liabilities	¥520	¥1,260	¥—	¥589	¥27	¥2,399
Non-current liabilities	—	—	2,802	—	62	2,865

	Thousands of U.S. dollars					
	Provision for loss on construction contracts	Provision for product warranties	Asset retirement obligations	Provision for business restructuring	Other	Total
Balance as of April 1, 2023	\$5,165	\$7,039	\$17,092	\$—	\$3,238	\$32,549
Increase during the period	3,437	6,529	1,066	3,900	483	15,437
Decrease during the period (due to intended use)	(5,165)	(4,980)	(0)	—	(3,324)	(13,476)
(reversal)	—	(576)	(6)	—	(39)	(622)
Other	6	331	403	—	238	980
Balance as of March 31, 2024	\$3,443	\$8,344	\$18,556	\$3,900	\$596	\$34,860
Current liabilities	\$3,443	\$8,344	\$—	\$3,900	\$178	\$15,887
Non-current liabilities	—	—	18,556	—	410	18,973

## 23. Share capital and other equity items

### (1) Share capital and capital surplus

The Japanese Companies Act (hereinafter the “Companies Act”) provides that 50% or more of the amount paid or granted for share issue can be incorporated into share capital, while the remaining amount can be incorporated into capital reserves, which is included in capital surplus. The Companies Act also provides that capital reserves can be incorporated into share capital by a resolution of a general meeting of shareholders.

#### 1) Number of authorized shares

The total number of authorized shares as of March 31, 2023 and 2024 remained at 531,000 thousand shares of common stock.

#### 2) Number of shares outstanding

	Thousand shares
	Number of common shares
April 1, 2022	116,200
Increase (decrease)	—
March 31, 2023	116,200
Increase (decrease)	—
March 31, 2024	116,200

Note All of the shares issued by the Company are no-par common stock without any limitation on the rights of the shares, and the outstanding shares have been paid in full.

#### (2) Retained earnings

The Companies Act provides that 10% of the amount to be paid as dividends from surplus shall be accumulated as capital reserves or retained earnings reserves until the total amount of capital reserves and retained earnings reserves reaches 25% of capital stock. The accumulated retained earnings reserves can be used to eliminate losses carried forward. In addition, the retained earnings reserves can be reversed by a resolution of a general meeting of shareholders.

#### (3) Treasury shares

	Thousand shares	Millions of yen	Thousands of U.S. dollars
	Number of shares	Amount	
April 1, 2022	3,819	¥10,694	
Increase (decrease)	(20)	(55)	
March 31, 2023	3,799	¥10,638	\$70,450
Increase (decrease)	22	231	1,529
March 31, 2024	3,822	¥10,869	\$71,980

## 24. Dividends

### (1) Amount of dividends paid

Fiscal year ended March 31, 2023

Resolution	Type of shares	Millions of yen	Yen	Record date	Effective date
		Total amount of dividend	Dividend per share		
June 29, 2022 Ordinary General Meeting of Shareholders	Common share	¥4,054	¥36	March 31, 2022	June 30, 2022
October 31, 2022 Board of Directors' meeting	Common share	¥4,393	¥39	September 30, 2022	November 28, 2022

Note The total amount of dividends determined by a resolution of the Ordinary General Meeting of Shareholders held on June 29, 2022 includes dividends of ¥8 million paid for 244 thousand shares of the Company (entrusted for performance-linked stock compensation for Directors) held by the trust account of Custody Bank of Japan, Ltd. The total amount of dividends determined by a resolution of the Board of Directors meeting held on October 31, 2022 includes dividends of ¥9 million paid for 244 thousand shares of the Company (entrusted for performance-linked stock compensation for Directors) held by the trust account of Custody Bank of Japan, Ltd.

Fiscal year ended March 31, 2024

Resolution	Type of shares	Millions of yen	Yen	Record date	Effective date
		Total amount of dividend	Dividend per share		
June 29, 2023 Ordinary General Meeting of Shareholders	Common share	¥4,393	¥39	March 31, 2023	June 30, 2023
November 7, 2023 Board of Directors' meeting	Common share	¥4,731	¥42	September 30, 2023	November 29, 2023

Resolution	Type of shares	Thousands of U.S. dollars	U.S. dollar	Record date	Effective date
		Total amount of dividend	Dividend per share		
June 29, 2023 Ordinary General Meeting of Shareholders	Common share	\$29,092	\$0.26	March 31, 2023	June 30, 2023
November 7, 2023 Board of Directors' meeting	Common share	\$31,331	\$0.28	September 30, 2023	November 29, 2023

Note The total amount of dividends determined by a resolution of the Ordinary General Meeting of Shareholders held on June 29, 2023 includes dividends of ¥9 million (\$59 thousand) paid for 244 thousand shares of the Company (stock compensation program for Directors and Officers, etc., of the Company and certain directors, etc. of the Group's major domestic subsidiaries) held by the trust account of Custody Bank of Japan, Ltd. The total amount of dividends determined by a resolution of the Board of Directors meeting held on November 7, 2023 includes dividends of ¥9 million (\$59 thousand) paid for 220 thousand shares of the Company (stock compensation program for Directors and Officers, etc., of the Company and certain directors, etc. of the Group's major domestic subsidiaries) held by the trust account of Custody Bank of Japan, Ltd.

(2) Dividends whose effective date falls in the fiscal year ending March 31, 2024

Resolution	Type of shares	Millions of yen	Yen	Record date	Effective date
		Total amount of dividend	Dividend per share		
June 27, 2024 Ordinary General Meeting of Shareholders	Common share	¥4,731	¥42	March 31, 2024	June 28, 2024

Resolution	Type of shares	Thousands of U.S. dollars	U.S. dollar	Record date	Effective date
		Total amount of dividend	Dividend per share		
June 27, 2024 Ordinary General Meeting of Shareholders	Common share	\$31,331	\$0.28	March 31, 2024	June 28, 2024

Note The total amount of dividends determined by a resolution of the Ordinary General Meeting of Shareholders held on June 27, 2024 includes dividends of ¥11 million (\$72 thousand) paid for 274 thousand shares of the Company (stock compensation program for Directors and Officers, etc., of the Company and certain directors, etc., of the Group's major domestic subsidiaries) held by the trust account of Custody Bank of Japan, Ltd.

## 25. Net sales

(1) Breakdown of net sales recognized from contracts with customers

Fiscal year ended March 31, 2023

	Millions of yen		
	Reportable segments		
	Electronics Industry	General Industry	Consolidated
2023			
Japan	¥78,799	¥99,689	¥178,488
Asia	52,072	24,597	76,669
North & South America	18,403	41,527	59,931
EMEA	—	29,517	29,517
Total	¥149,275	¥195,332	¥344,608

- Notes
- The above amounts are presented after deduction of intersegment transactions.
  - Net sales were previously broken down into countries or regions based on customer location. From the fiscal year ended March 31, 2024, the method has been changed to break down the net sales into countries or regions based on the location of the country or region of the Company or its consolidated subsidiaries. In line with this change, figures for the fiscal year ended March 31, 2023 have been re-aggregated. EMEA refers to the European, Middle Eastern and African regions.
  - Net sales in the United States included in the North & South America amounted to ¥51,795 million. The breakdown is Electronics Industry of ¥17,104 million and General Industry of ¥34,691 million.

Fiscal year ended March 31, 2024

	Millions of yen		
	Reportable segments		
	Electronics Industry	General Industry	Consolidated
2024			
Japan	¥91,555	¥106,811	¥198,367
Asia	63,396	22,530	85,927
North & South America	17,746	45,830	63,577
EMEA	—	36,954	36,954
Total	¥172,698	¥212,127	¥384,825

2024	Thousands of U.S. dollars		
	Reportable segments		Consolidated
	Electronics Industry	General Industry	
Japan	\$606,324	\$707,357	\$1,313,688
Asia	419,841	149,205	569,052
North & South America	117,523	303,509	421,039
EMEA	—	244,728	244,728
Total	\$1,143,695	\$1,404,814	\$2,548,509

- Notes
- The above amounts are presented after deduction of intersegment transactions.
  - Net sales are broken down into countries or regions based on the location of the country or region of the Company or its consolidated subsidiaries.  
EMEA refers to the European, Middle Eastern and African regions.
  - Net sales in the United States included in the North & South America amounted to ¥54,263 million (\$359,357 thousand). The breakdown is Electronics Industry of ¥16,735 million (\$110,827 thousand) and General Industry of ¥37,527 million (\$248,523 thousand).

## (2) Contract balances

The balance of receivables from contracts with customers, contract assets and contract liabilities is as follows:

Fiscal year ended March 31, 2023

2023	Millions of yen	
	2022	2023
Receivables from contracts with customers	¥75,290	¥78,585
Contract assets	31,900	40,356
Contract liabilities	6,320	9,850

Fiscal year ended March 31, 2024

2024	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Receivables from contracts with customers	¥78,585	¥90,102	\$596,701
Contract assets	40,356	47,853	316,907
Contract liabilities	9,850	13,954	92,410

In the consolidated statement of financial position, receivables from contracts with customers and contract assets are included in trade and other receivables, while contract liabilities are included in trade and other payables.

Revenues that were included in the balance of contract liabilities at the beginning of the fiscal years ended March 31, 2023 and 2024 were ¥6,320 million and ¥9,850 million (\$65,231 thousand), respectively. Among the revenue for the fiscal years ended March 31, 2023 and 2024, the amount of revenue from performance obligations satisfied in past fiscal years is immaterial.

Significant changes in the balances of contract assets and contract liabilities are as follows:

	Millions of yen				Thousands of U.S. dollars	
	2023		2024		2024	
	Contract assets	Contract liabilities	Contract assets	Contract liabilities	Contract assets	Contract liabilities
Increase due to recognition of net sales	¥109,804	¥—	¥155,110	¥—	\$1,027,218	\$—
Decrease due to transfer to receivables	(100,816)	—	(150,991)	—	(999,940)	—
Increase due to receipt of cash	—	18,654	—	24,591	—	162,854
Decrease due to recognition of net sales	—	(15,148)	—	(21,588)	—	(142,966)

### (3) Performance obligations

For sales of products, when products have been delivered, the Company determines that performance obligations have been satisfied and recognizes their sales.

For construction contracting, sales are recognized over the period of the construction contract, as performance obligations are satisfied according to the construction's progress. To measure progress, the input method is applied, using the ratio of the incurred cost against the estimated total cost for each contract.

Considerations are received within a reasonable period from the time of satisfaction of performance obligations. For these contracts, the expedient provided for in IFRS 15 "Revenue from Contracts with Customers" is applied, and no adjustments related to financing components are performed. Sales are measured at the consideration promised in the contract.

There are no significant contracts with customers regarding a return of products.

Furthermore, in connection with construction contracts, etc., the Company provides product warranty, such as the free repair of defects identified within a certain period of time. Such warranty intends to provide customers with a warranty to ensure that the products, etc., of the Company function as intended, in accordance with the specifications agreed upon with the customers. Future expenditures are estimated by taking into account actual product warranty expenses in the past, and are recognized as a provision for product warranties.

The total amount of transaction price allocated to remaining performance obligations was ¥118,762 million at March 31, 2023, while the total amount of transaction price allocated to remaining performance obligations at March 31, 2024 was ¥123,914 million (\$820,622 thousand). For these transactions, revenue will be recognized on a step-by-step basis within approximately three years to come, commensurate with the progress in the contract performance.

## 26. Selling, general and administrative expenses

The breakdown of selling, general and administrative expenses is as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Research and development expenses	¥6,344	¥7,412	\$49,086
Employee benefits expense	43,177	47,192	312,529
Depreciation and amortization	8,184	8,667	57,397
Other	23,401	26,513	175,582
Total	¥81,106	¥89,786	\$594,609

## 27. Other income

The breakdown of the items and amounts included in other income is as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Gain on sale of fixed assets	¥36	¥60	\$397
Other	1,527	1,908	12,635
Total	¥1,564	¥1,968	\$13,033



## 28. Other expenses

The breakdown of the items and amounts included in other expenses is as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Loss on sales and retirement of property, plant and equipment	¥383	¥176	\$1,165
Impairment losses	7,660	—	—
Other	3,051	2,615	17,317
<b>Total</b>	<b>¥11,095</b>	<b>¥2,791</b>	<b>\$18,483</b>

Notes 1. Among the impairment losses for the fiscal year ended March 31, 2023, ¥7,646 million is from an impairment of goodwill related to Kurita America, Inc. (Water Treatment Chemicals business). Details are provided in Note 13. "Goodwill and intangible assets."

## 29. Finance income and Finance costs

### (1) Finance income

The breakdown of finance income is as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Dividend income			
Dividend income from financial assets held at end of period	¥249	¥178	\$1,178
Dividend income from financial assets derecognized during the period	104	56	370
Interest income	298	519	3,437
Other	1,339	684	4,529
<b>Total</b>	<b>¥1,990</b>	<b>¥1,439</b>	<b>\$9,529</b>

Notes 1. Dividend income relates to financial assets measured at fair value through other comprehensive income.  
2. Interest income relates to financial assets measured at amortized cost.  
3. Among other for the fiscal year ended March 31, 2023, ¥1,090 million is from revenue from foreign exchange contracts which were arranged after the Company decided to underwrite the capital increase of Kurita America Holdings, Inc.

### (2) Finance costs

The breakdown of finance costs is as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Interest expense	¥427	¥406	\$2,688
Loss on valuation and realization of fair value	13	128	847
Foreign exchange loss	80	32	211
Other	555	560	3,708
<b>Total</b>	<b>¥1,077</b>	<b>¥1,127</b>	<b>\$7,463</b>

Notes 1. Interest expense mainly relates to financial liabilities measured at amortized cost.  
2. Other consists mainly of interest expenses on lease liabilities, which amounted to ¥372 million and ¥510 million (\$3,377 thousand) for the fiscal year ended March 31, 2023 and 2024, respectively.

### 30. Other comprehensive income

The amount arising during the period, reclassification adjustments to profit or loss and the impact of tax effects for each item of other comprehensive income are as follows:

Fiscal year ended March 31, 2023

2023	Millions of yen				
	Amount arising during the period	Reclassification adjustments	Before tax effects	Tax effects	Net of tax effects
Items that will not be reclassified to profit or loss					
Net change in fair value of financial assets measured at fair value through other comprehensive income	¥(1,264)	¥ —	¥(1,264)	¥1,939	¥674
Remeasurements of defined benefit plans	1,163	—	1,163	(332)	830
Total of items that will not be reclassified to profit or loss	(101)	—	(101)	1,606	1,505
Items that may be reclassified to profit or loss					
Exchange differences on translation of foreign operations	5,245	—	5,245	—	5,245
Cash flow hedges	41	221	262	(80)	182
Share of other comprehensive income of investments accounted for using equity method	2	—	2	—	2
Total of items that may be reclassified to profit or loss	5,289	221	5,510	(80)	5,429
Total	¥5,187	¥221	¥5,408	¥1,526	¥6,935

Fiscal year ended March 31, 2024

2024	Millions of yen				
	Amount arising during the period	Reclassification adjustments	Before tax effects	Tax effects	Net of tax effects
Items that will not be reclassified to profit or loss					
Net change in fair value of financial assets measured at fair value through other comprehensive income	¥1,998	¥ —	¥1,998	¥(384)	¥1,614
Remeasurements of defined benefit plans	328	—	328	(136)	192
Total of items that will not be reclassified to profit or loss	2,327	—	2,327	(520)	1,807
Items that may be reclassified to profit or loss					
Exchange differences on translation of foreign operations	15,413	—	15,413	—	15,413
Cash flow hedges	(189)	62	(127)	39	(88)
Share of other comprehensive income of investments accounted for using equity method	67	—	67	—	67
Total of items that may be reclassified to profit or loss	15,292	62	15,354	39	15,393
Total	¥17,620	¥62	¥17,682	¥(481)	¥17,200

2024	Thousands of U.S. dollars				
	Amount arising during the period	Reclassification adjustments	Before tax effects	Tax effects	Net of tax effects
Items that will not be reclassified to profit or loss					
Net change in fair value of financial assets measured at fair value through other comprehensive income	\$13,231	\$ —	\$13,231	\$(2,543)	\$10,688
Remeasurements of defined benefit plans	2,172	—	2,172	(900)	1,271
Total of items that will not be reclassified to profit or loss	15,410	—	15,410	(3,443)	11,966
Items that may be reclassified to profit or loss					
Exchange differences on translation of foreign operations	102,072	—	102,072	—	102,072
Cash flow hedges	(1,251)	410	(841)	258	(582)
Share of other comprehensive income of investments accounted for using equity method	443	—	443	—	443
Total of items that may be reclassified to profit or loss	101,271	410	101,682	258	101,940
Total	\$116,688	\$410	\$117,099	\$(3,185)	\$113,907

### 31. Earnings per share

The calculation bases for basic earnings per share are as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Profit attributable to owners of parent	¥20,134	¥29,189	\$193,304
Profit not attributable to ordinary shareholders of parent	—	—	—
Profit used for calculation of basic earnings per share	¥20,134	¥29,189	\$193,304
Average number of common shares during the period (shares)	112,394,378	112,396,307	112,396,307

- Notes
1. Diluted earnings per share are not stated because there are no dilutive shares.
  2. The Company's own shares posted as treasury shares remaining in trust are included in the treasury shares that are deducted in the calculation of the average number of shares outstanding for calculation for basic net income per share. The numbers of average shares of the treasury shares that are deducted for the fiscal years ended March 31, 2023 and 2024 are 244 thousand shares and 254 thousand shares, respectively.

## 32. Cash flow information

### (1) Changes in liabilities arising from financing activities

The changes in liabilities arising from financing activities are as follows:

	Millions of yen			
	Bonds and long-term borrowings	Short-term borrowings and commercial papers	Lease liabilities	Total
Balance as of April 1, 2022	¥31,394	¥7,739	¥19,546	¥58,680
Changes arising from cash flows	19,445	18,722	(5,170)	32,997
Non-cash changes				
Obtaining or losing control of subsidiaries	—	—	—	—
New lease agreements	—	—	5,081	5,081
Exchange differences	218	204	392	816
Other	31	—	2,459	2,491
Balance as of March 31, 2023	¥51,090	¥26,666	¥22,310	¥100,067
Changes arising from cash flows	9,637	(10,196)	(5,310)	(5,869)
Non-cash changes				
Obtaining or losing control of subsidiaries	94	—	201	296
New lease agreements	—	—	5,017	5,017
Exchange differences	153	329	955	1,438
Other	37	—	202	239
Balance as of March 31, 2024	¥61,013	¥16,799	¥23,377	¥101,190

	Thousands of U.S. dollars			
	Bonds and long-term borrowings	Short-term borrowings and commercial papers	Lease liabilities	Total
Balance as of March 31, 2023	\$338,344	\$176,596	\$147,748	\$662,695
Changes arising from cash flows	63,821	(67,523)	(35,165)	(38,867)
Non-cash changes				
Obtaining or losing control of subsidiaries	622	—	1,331	1,960
New lease agreements	—	—	33,225	33,225
Exchange differences	1,013	2,178	6,324	9,523
Other	245	—	1,337	1,582
Balance as of March 31, 2024	\$404,059	\$111,251	\$154,814	\$670,132

### (2) Payments for acquisition of subsidiaries

The relationship between the consideration paid for the acquisition of subsidiaries and the income and expenditure for it is as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Consideration paid in cash	¥ —	¥3,807	\$25,211
Cash and cash equivalents included in the assets of the acquiree at the time of acquiring control	—	(726)	(4,807)
Payments for acquisition of subsidiaries	¥ —	¥3,080	\$20,397

### 33. Share-based payments

(Overview of non-performance-linked stock compensation program, performance-linked stock compensation program, and performance and share price-linked monetary compensation program)

The Company has introduced a non-performance-linked stock compensation program that covers Directors (excluding External Directors and Directors who are Audit Committee Members; hereinafter the same shall apply in the description), a performance-linked stock compensation program that covers Executive Officers, Corporate Officers and certain full-time directors of domestic subsidiaries and associates, and a performance and share price-linked monetary compensation program that covers certain officers of overseas subsidiaries and associates.

1. Non-performance-linked stock compensation program for Directors as well as performance-linked stock compensation program for Executive Officers, Corporate Officers and certain full-time directors of domestic subsidiaries and associates

(1) Overview of the program

- 1) For Directors

Under the non-performance-linked stock compensation program for Directors, points are granted to eligible individuals based on their position, and the Company's restricted shares are delivered at a number equivalent to their points granted each year. An RS trust (hereinafter the "Trust") system for directors and officers has been applied, which is established through the monetary contributions of the Company.

- 2) For Executive Officers, Corporate Officers and certain full-time directors of domestic subsidiaries and associates

Under the performance-linked stock compensation program for Executive Officers, Corporate Officers and certain full-time directors of domestic subsidiaries and associates, points are granted to eligible individuals based on their position and performance, and the Company's restricted shares are delivered at a number equivalent to their points granted each year. In the same manner as for Directors, the Trust system shall be applied for the program.

- (2) Scope of persons entitled to acquire beneficiary and other rights under the program

Directors, Executive Officers, Corporate Officers and certain full-time directors of domestic subsidiaries and associates

2. Performance and share price-linked monetary compensation program for certain officers of overseas subsidiaries and associates

(1) Overview of the program

Under the performance and share price-linked monetary compensation program for certain officers of overseas subsidiaries and associates, points are granted to eligible individuals based on their performance, and three years after the end of the period subject to performance evaluation, money is delivered at an amount equivalent to the conversion amount of the number of the Company's shares equivalent to the number of points granted into cash.

- (2) Scope of persons entitled to acquire beneficiary and other rights under the program

Certain officers of overseas subsidiaries and associates

(Total amount of expenses under the non-performance-linked stock compensation program, the performance-linked stock compensation program and the performance and share price-linked monetary compensation program)

The part involving delivery of shares is accounted for as an equity-settled share-based payment transaction, while the part involving payment of cash is accounted for as a cash-settled share-based payment transaction.

For the fiscal years ended March 31, 2023 and 2024, the expenses recorded in connection with this program were ¥629 million and ¥406 million (\$2,688 thousand), respectively.

(Liabilities arising from the performance-linked stock compensation program and the performance and share price-linked monetary compensation program)

Liabilities arising from the part associated with the cash-settled share-based payment transaction are recognized as liabilities arising from stock compensation, under other non-current liabilities. The carrying amount of the liabilities arising from the program was ¥486 million and ¥375 million (\$2,483 thousand) as of March 31, 2023 and 2024, respectively.

(Changes in number of points and their weighted average fair value)

Changes in the number of points and their weighted average fair value for the fiscal years ended March 31, 2023 and 2024 are as follows:

As the fair value as of the grant date of points is deemed to approximate the price of the Company's shares, it is measured mainly using the price of the Company's shares as of the grant date. No adjustments are made in consideration of prospective dividends.

	2023		2024	
Beginning balance of unexercised points	162,058	point	169,580	point
Increase due to grant of points	57,484	point	59,237	point
Decrease due to exercise of points	(49,962)	point	(61,126)	point
Ending balance of unexercised points	169,580	point	167,691	point
Ending balance of exercisable points	169,580	point	167,691	point

	Yen		U.S. dollars
	2023	2024	2024
Weighted average fair value as of the grant dates	¥4,760	¥5,910	\$39

## 34. Financial instruments

### (1) Capital management

The Group's basic policy is to secure the liquidity needed for business operations and maintain a stable financing structure.

Short-term working capital, capital investment and other investments in growth fields depend chiefly on the Group's own funds, but the Group procures funds in the bond market and through bank loans as required.

Temporary surplus funds are invested in highly safe financial assets, while derivatives are used only to avoid the risks described below. In addition, it is our policy not to engage in speculative transactions.

	2023	2024
Ratio of equity attributable to owners of parent	58.6%	59.4%

### (2) Credit risk management

#### 1) Content and management of risk

Notes and accounts receivable-trade, which are trade receivables of the Group, are exposed to customer's credit risk.

Regarding such risk, in accordance with internal regulations, the Group conducts credit investigations of its principal business partners, and manages the due dates and outstanding balances of each business partner. In addition, efforts are made to quickly identify and mitigate any concerns regarding collection that are mainly due to worsening financial positions.

Furthermore, regarding the use of derivatives, the Group only deals with financial institutions with high credit standing, in order to reduce credit risk.

The carrying amount of financial assets presented in the consolidated statement of financial position is the maximum exposure to credit risk of the Group's financial assets.

For trade and other receivables, the Group always measures the allowance for doubtful accounts at the same amount as the lifetime expected credit losses (simplified approach).

For financial assets measured at amortized cost other than the above, in order to recognize and measure the allowance for doubtful accounts, financial assets are categorized into the following stages based on the existence of a significant increase in credit risk and the existence of a credit impairment (general approach).

Stage 1: Financial assets for which credit risk has not increased significantly since initial recognition

Stage 2: Financial assets for which credit risk has increased significantly since initial recognition but no credit impairment has been identified

Stage 3: Credit-impaired financial assets

2) Quantitative and qualitative information on allowance for doubtful accounts and financial assets covered

Changes in the total carrying amount of held financial assets are as follows:

Millions of yen					
	Financial assets under a general approach				Total
	Stage 1	Stage 2	Stage 3		
	Financial assets recognized at the same amount as the 12-month expected credit losses	Financial assets with a significant increase in credit risk since initial recognition	Credit-impaired financial assets		
Financial assets under a simplified approach					
Balance as of March 31, 2023	¥120,720	¥5,926	¥296	¥158	¥127,101
Balance as of March 31, 2024	¥139,925	¥9,449	¥168	¥182	¥149,726

Thousands of U.S. dollars					
	Financial assets under a general approach				Total
	Stage 1	Stage 2	Stage 3		
	Financial assets recognized at the same amount as the 12-month expected credit losses	Financial assets with a significant increase in credit risk since initial recognition	Credit-impaired financial assets		
Financial assets under a simplified approach					
Balance as of March 31, 2024	\$926,655	\$62,576	\$1,112	\$1,205	\$991,562



Changes in the allowance for doubtful accounts are as follows:

	Millions of yen				
	Financial assets under a general approach				
	Stage 1	Stage 2	Stage 3	Credit-impaired financial assets	Total
	Financial assets under a simplified approach	Financial assets recognized at the same amount as the 12-month expected credit losses	Financial assets with a significant increase in credit risk since initial recognition		
Balance as of April 1, 2022	¥338	¥ —	¥386	¥107	¥832
Increase during the period	93	—	42	49	185
Decrease during the period	(10)	—	(132)	—	(142)
Balance as of March 31, 2023	¥421	¥ —	¥296	¥157	¥875
Increase during the period	116	—	20	27	164
Decrease during the period	(76)	—	(155)	(1)	(233)
Balance as of March 31, 2024	¥461	¥ —	¥161	¥183	¥806

	Thousands of U.S. dollars				
	Financial assets under a general approach				
	Stage 1	Stage 2	Stage 3	Credit-impaired financial assets	Total
	Financial assets under a simplified approach	Financial assets recognized at the same amount as the 12-month expected credit losses	Financial assets with a significant increase in credit risk since initial recognition		
Balance as of March 31, 2023	\$2,788	\$ —	\$1,960	\$1,039	\$5,794
Increase during the period	768	—	132	178	1,086
Decrease during the period	(503)	—	(1,026)	(6)	(1,543)
Balance as of March 31, 2024	\$3,052	\$ —	\$1,066	\$1,211	\$5,337

Aging analyses for the financial assets as of fiscal years ended March 31, 2023 and 2024 are as follows:  
The amounts expected to be recovered by insurance coverage and collateral obtained are included.

Fiscal year ended March 31, 2023

	Millions of yen			
	Total	Past due amount		
		Up to 2 months (including not past due)	Over 2 months and up to 1 year	Over 1 year
2023				
Trade and other receivables	¥120,720	¥116,130	¥3,218	¥1,371
Other financial assets	6,380	5,938	17	424

Fiscal year ended March 31, 2024

	Millions of yen			
	Total	Past due amount		
		Up to 2 months (including not past due)	Over 2 months and up to 1 year	Over 1 year
2024				
Trade and other receivables	¥139,925	¥136,405	¥2,610	¥910
Other financial assets	9,800	9,404	23	372

	Thousands of U.S. dollars			
	Total	Past due amount		
		Up to 2 months (including not past due)	Over 2 months and up to 1 year	Over 1 year
2024				
Trade and other receivables	\$926,655	\$903,344	\$17,284	\$6,026
Other financial assets	64,900	62,278	152	2,463

### (3) Liquidity risk

Liquidity risk refers to a risk that the Group is unable to repay financial liabilities, such as bonds and borrowing, on the due date.

The Group procures necessary funds mainly in the bond market and through bank loans. However, financial liabilities, such as bonds and borrowing, are exposed to liquidity risk. Such liquidity risk is primarily managed by having the Finance Division formulate and update a cash flow management plan in a timely manner, based on reports from each department, concluding a commitment line agreement with a financial institution and taking other measures.

The balance of financial liabilities by due date is as follows:

Fiscal year ended March 31, 2023

2023	Millions of yen							
	Book balance	Contractual cash flows	Up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 3 years	Over 3 years and up to 4 years	Over 4 years and up to 5 years	Over 5 years
Non-derivative financial liabilities								
Trade and other payables	¥51,465	¥51,465	¥51,465	¥—	¥—	¥—	¥—	¥—
Commercial papers	16,000	16,000	16,000	—	—	—	—	—
Bonds	39,899	40,268	74	74	30,074	29	10,014	—
Short-term borrowings	10,666	10,760	10,760	—	—	—	—	—
Long-term borrowings	11,190	11,446	2,427	2,336	2,314	2,292	2,009	65
Lease liabilities	22,310	25,480	4,718	3,623	2,716	2,355	1,546	10,519
Liabilities under contingent consideration agreements	651	728	—	—	728	—	—	—
<b>Total</b>	<b>¥152,184</b>	<b>¥156,148</b>	<b>¥85,445</b>	<b>¥6,034</b>	<b>¥35,835</b>	<b>¥4,677</b>	<b>¥13,570</b>	<b>¥10,585</b>

2023	Millions of yen							
	Book balance	Contractual cash flows	Up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 3 years	Over 3 years and up to 4 years	Over 4 years and up to 5 years	Over 5 years
Derivative liabilities								
Currency swaps	¥199	¥199	¥67	¥66	¥0	¥65	¥—	¥—
Foreign exchange contracts	3	3	3	—	—	—	—	—
<b>Total</b>	<b>¥203</b>	<b>¥203</b>	<b>¥70</b>	<b>¥66</b>	<b>¥0</b>	<b>¥65</b>	<b>¥—</b>	<b>¥—</b>

Fiscal year ended March 31, 2024

2024	Millions of yen							
	Book balance	Contractual cash flows	Up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 3 years	Over 3 years and up to 4 years	Over 4 years and up to 5 years	Over 5 years
Non-derivative financial liabilities								
Trade and other payables	¥68,403	¥68,403	¥68,403	¥—	¥—	¥—	¥—	¥—
Commercial papers	15,000	15,000	15,000	—	—	—	—	—
Bonds	39,931	40,193	74	30,074	29	10,014	—	—
Short-term borrowings	1,799	1,805	1,805	—	—	—	—	—
Long-term borrowings	21,081	21,520	2,425	2,534	2,378	2,059	12,047	74
Lease liabilities	23,377	27,598	4,982	3,858	3,017	2,134	1,109	12,495
Liabilities under contingent consideration agreements	747	757	—	757	—	—	—	—
<b>Total</b>	<b>¥170,341</b>	<b>¥175,278</b>	<b>¥92,691</b>	<b>¥37,224</b>	<b>¥5,425</b>	<b>¥14,208</b>	<b>¥13,157</b>	<b>¥12,570</b>

2024	Millions of yen							
	Book balance	Contractual cash flows	Up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 3 years	Over 3 years and up to 4 years	Over 4 years and up to 5 years	Over 5 years
Derivative liabilities								
Currency swaps	¥658	¥658	¥265	¥4	¥389	¥—	¥—	¥—
Foreign exchange contracts	—	—	—	—	—	—	—	—
<b>Total</b>	<b>¥658</b>	<b>¥658</b>	<b>¥265</b>	<b>¥4</b>	<b>¥389</b>	<b>¥—</b>	<b>¥—</b>	<b>¥—</b>

2024	Thousands of U.S. dollars							
	Book balance	Contractual cash flows	Up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 3 years	Over 3 years and up to 4 years	Over 4 years and up to 5 years	Over 5 years
Non-derivative financial liabilities								
Trade and other payables	\$453,000	\$453,000	\$453,000	\$ —	\$ —	\$ —	\$ —	\$ —
Commercial papers	99,337	99,337	99,337	—	—	—	—	—
Bonds	264,443	266,178	490	199,165	192	66,317	—	—
Short-term borrowings	11,913	11,953	11,953	—	—	—	—	—
Long-term borrowings	139,609	142,516	16,059	16,781	15,748	13,635	79,781	490
Lease liabilities	154,814	182,768	32,993	25,549	19,980	14,132	7,344	82,748
Liabilities under contingent consideration agreements	4,947	5,013	—	5,013	—	—	—	—
<b>Total</b>	<b>\$1,128,086</b>	<b>\$1,160,781</b>	<b>\$613,847</b>	<b>\$246,516</b>	<b>\$35,927</b>	<b>\$94,092</b>	<b>\$87,132</b>	<b>\$83,245</b>

2024	Thousands of U.S. dollars							
	Book balance	Contractual cash flows	Up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 3 years	Over 3 years and up to 4 years	Over 4 years and up to 5 years	Over 5 years
Derivative liabilities								
Currency swaps	\$4,357	\$4,357	\$1,754	\$26	\$2,576	\$ —	\$ —	\$ —
Foreign exchange contracts	—	—	—	—	—	—	—	—
<b>Total</b>	<b>\$4,357</b>	<b>\$4,357</b>	<b>\$1,754</b>	<b>\$26</b>	<b>\$2,576</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>

The cash flows included in this maturity analysis are not expected to be generated significantly earlier or at significantly different amounts.

The total amount of overdraft and commitment line and the balance of executed loans are as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Total amount of overdraft and commitment line	¥69,558	¥70,340	\$465,827
Balance of executed loans	8,846	1,908	12,635
Balance of unexecuted loans	¥60,712	¥68,432	\$453,192

(4) Market risk  
1) Foreign exchange risk

The Group operates its business globally, and its financial assets and financial liabilities arising from transactions denominated in currencies other than the functional currency are exposed to fluctuation risks of exchange rates. The Group uses forward foreign exchange contracts and currency swap transactions to reduce the exchange rate fluctuation risks.

Sensitivity analysis of exchange rate fluctuation risks

With regard to the financial instruments held by the Group at the end of the fiscal year, the effect of the U.S. dollar and the renminbi becoming stronger against the yen by 1 yen, on profit before tax in the consolidated statement of profit or loss is as follows. This analysis assumes that all other variables remain constant.

	Millions of yen		Thousands of
	2023	2024	U.S. dollars
U.S. dollar	¥(29)	¥(31)	\$(205)
Renminbi	(1)	(31)	(205)

2) Market price risk

The Group holds equity instruments with quoted market prices for policy investment aims, such as the smooth implementation of business alliances. With regard to equity instruments with quoted market prices, since their market prices are determined based on market principles, the value of such financial instruments may decline depending on trends in the market economy. For such equity instruments with quoted market prices, their quoted market prices, the financial conditions of the issuers (business partner companies) and other relevant factors are regularly monitored, and the holding status of those instruments is also continuously reviewed, taking into account relationships with business partner companies.

Sensitivity analysis of quoted market prices

With regard to the equity instruments with quoted market prices held by the Group at the end of the fiscal year, the effect of a 1% decline in the quoted market prices at the end of the fiscal year on other comprehensive income (before tax effects) in the consolidated statement of comprehensive income is as follows. In this analysis, the amount of the effect is calculated by multiplying the values of the equity instruments at the end of the fiscal year by 1%.

	Millions of yen		Thousands of
	2023	2024	U.S. dollars
Other comprehensive income (before tax effects)	¥(83)	¥(91)	\$(602)

(5) Fair value  
1) Fair value of financial instruments

The fair values of financial liabilities measured at amortized cost and their carrying amounts in the consolidated statement of financial position are as follows:

Financial instruments whose carrying amounts are reasonable approximations of fair values and immaterial financial instruments are not included in the table below.

	Millions of yen				Thousands of U.S. dollars	
	2023		2024		2024	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities						
Borrowings	¥11,124	¥11,154	¥20,883	¥20,856	\$138,298	\$138,119
Bonds	39,899	39,842	39,931	39,749	264,443	263,238

2) Fair value measurement method

The fair values of financial assets and financial liabilities are calculated as follows:

(Derivatives)

Derivatives include foreign exchange contracts and currency swaps. Foreign exchange contracts and currency swaps, whose fair values are calculated based on forward exchange rate or quoted prices obtained from financial institutions and other available information, are categorized within Level 2.

(Insurance funds)

Insurance funds are measured at surrender value, given no significant contractual restriction arising from refunding, and are categorized within Level 3.

(Other (financial assets))

Fair values of other (financial assets), which include investments in capital of unlisted companies, are evaluated at the amount calculated by the net asset value method, etc. using unobservable inputs, and are categorized within Level 3.

(Shares, etc.)

Shares, etc., include shares for which an active market exists, investment trusts and unlisted shares. Shares with active markets are evaluated by prices quoted at the stock exchange, and are categorized within Level 1. Investment trusts are evaluated by prices quoted at the stock exchange or prices provided by correspondent financial institutions, etc., and are categorized within Level 1. Unlisted shares, whose fair values are calculated by valuation techniques, such as the comparable peer company multiples method, using unobservable inputs, such as valuation multiples, are categorized within Level 3.

(Borrowings)

Since short-term borrowings are settled in a short period of time, their fair values approximate their carrying amounts.

Long-term borrowings, whose fair values are calculated by discounting the sum of the principal and interest using the interest rate that would be applied if new borrowings were made with similar terms, are categorized within Level 2.

However, since floating interest rate long-term borrowings reflect market interest rates in a short period of time and credit standings after execution do not vary significantly, their fair values approximate their carrying amounts.

(Bonds)

Bonds, whose fair values are calculated by discounting the sum of the principal and interest using the interest rate that takes into account the remaining period and credit risk of the relevant bonds, are categorized within Level 2.

(Other (financial liabilities))

Fair values of other (financial liabilities) are evaluated at the amount calculated by the discounted cash flow method using unobservable inputs, and are therefore categorized within Level 3.

(Financial instruments other than the above mentioned)

Since financial instruments other than the above mentioned are mainly settled in a short period of time, their fair values approximate their carrying amounts.

3) Fair value hierarchy

The following is an analysis of financial instruments recorded at fair value by valuation methods. Based on the inputs used to measure fair values, the fair value levels are classified as follows:

Level 1: Fair value measured using (unadjusted) quoted market prices in active markets for identical assets or liabilities.

Level 2: Fair value measured using directly or indirectly observable inputs other than Level 1 inputs.

Level 3: Fair value measured using significant unobservable inputs.

Transfers between levels of the fair value hierarchy are recognized on the date of occurrence of the event or change in circumstances that causes the transfer. No transfer was made between levels for the fiscal years ended March 31, 2023 and 2024.



Financial instruments measured at fair value

Fiscal year ended March 31, 2023

2023	Millions of yen			
	Level 1	Level 2	Level 3	Total
Derivative assets	¥ —	¥ —	¥ —	¥ —
Financial assets measured at fair value through profit or loss:				
Insurance fund	—	—	2,814	2,814
Other (financial assets)	—	—	—	—
Financial assets measured at fair value through other comprehensive income:				
Shares, etc.	8,375	—	1,722	10,097
Derivative liabilities	—	203	—	203
Other (financial liabilities)	—	—	651	651

Fiscal year ended March 31, 2024

2024	Millions of yen			
	Level 1	Level 2	Level 3	Total
Derivative assets	¥ —	¥3	¥ —	¥3
Financial assets measured at fair value through profit or loss:				
Insurance fund	—	—	2,311	2,311
Other (financial assets)	—	—	1,876	1,876
Financial assets measured at fair value through other comprehensive income:				
Shares, etc.	9,169	—	611	9,781
Derivative liabilities	—	658	—	658
Other (financial liabilities)	—	—	747	747

2024	Thousands of U.S. dollars			
	Level 1	Level 2	Level 3	Total
Derivative assets	\$ —	\$19	\$ —	\$19
Financial assets measured at fair value through profit or loss:				
Insurance fund	—	—	15,304	15,304
Other (financial assets)	—	—	12,423	12,423
Financial assets measured at fair value through other comprehensive income:				
Shares, etc.	60,721	—	4,046	64,774
Derivative liabilities	—	4,357	—	4,357
Other (financial liabilities)	—	—	4,947	4,947

For financial instruments categorized within Level 3, external evaluation specialists or appropriate persons in charge of evaluation conduct an evaluation and analysis of the results in accordance with the evaluation policy and procedures approved by the Manager of the Corporate Planning and Control Division. The evaluation results have been reviewed and approved by the Manager of the Corporate Planning and Control Division.

Fair values of unlisted shares categorized within Level 3 are measured by the comparable peer company multiples method and net asset-based valuation model, etc. Since this valuation model employs unobservable inputs, such as the price book-value ratio, unlisted shares are categorized within Level 3.

Reconciliation from the beginning balance to the ending balance of financial instruments categorized within Level 3

	Millions of yen				Thousands of U.S. dollars	
	2023		2024		2024	
	Financial assets	Financial liabilities	Financial assets	Financial liabilities	Financial assets	Financial liabilities
Beginning balance	¥4,059	¥781	¥4,537	¥651	\$30,046	\$4,311
Total gains and losses	(119)	(231)	111	(29)	735	(192)
Profit or loss	(87)	(231)	613	(29)	4,059	(192)
Other comprehensive income	(32)	—	(501)	—	(3,317)	—
Purchase	569	—	839	—	5,556	—
Issuance	—	—	—	—	—	—
Sale	(18)	—	(650)	—	(4,304)	—
Other	46	101	(38)	125	(251)	827
Ending balance	¥4,537	¥651	¥4,799	¥747	\$31,781	\$4,947
Changes in unrealized gains and losses for the period recognized in profit or loss for assets and liabilities held at the end of the reporting period	¥(9)	¥(231)	¥616	¥(29)	\$4,079	\$(192)

The gains and losses included in profit or loss are for financial assets and financial liabilities measured at fair value through profit or loss as of the fiscal year-end. Such profit or loss is included in finance income and finance costs in the consolidated statement of profit or loss.

The gains and losses included in other comprehensive income are for financial assets measured at fair value through other comprehensive income as of the fiscal year-end. Such gains and losses are included in net change in the fair value of financial assets measured at fair value through other comprehensive income in the consolidated statement of comprehensive income.

(6) Derivatives and hedging activities

Derivative transactions consist of forward foreign exchange contracts for the purpose of hedging exchange rate fluctuation risks related to foreign currency-denominated trade receivables and payables and currency swap transactions for the purpose of hedging exchange rate fluctuation risks related to foreign currency-denominated loans.

In applying hedge accounting, in order to ensure that there is an economic relationship in which changes in fair value or cash flows of the hedged item caused by the risk being hedged are offset by changes in fair value or cash flows of the hedging instrument, the existence of such economic relationship between the hedged item and hedging instrument is confirmed. This confirmation is achieved through a qualitative assessment of whether the significant terms and conditions of the hedged item match or closely conform to those of the hedging instrument and through a quantitative assessment of whether changes in the values of the hedged item and hedging instrument offset each other due to the same risk. In addition, an appropriate hedge ratio has been set in light of the economic relationship between the hedged item and hedging instrument and the risk management strategy.

Any hedge ineffectiveness is recognized in profit or loss. The amount recognized in profit or loss for the hedge ineffectiveness and the portion excluded from the assessment of hedge effectiveness in the previous fiscal year and this fiscal year is immaterial. Since forecasted transactions are no longer expected to occur in the previous and this fiscal year, the amount reclassified from other components of equity in the consolidated statement of financial position to profit or loss is immaterial.

The notional principal and average price of main hedging instruments are as follows:

Fiscal year ended March 31, 2023

2023	Notional principal and average price	Millions of yen		
		Up to 1 year	Over 1 year	Total
Cash flow hedges				
Currency swaps	Notional principal	¥1,376	¥3,273	¥4,649
(Receive Yen, Pay Euros)	Forward rate (Yen)	134.29	129.63	—
Total		¥1,376	¥3,273	¥4,649

Fiscal year ended March 31, 2024

2024	Notional principal and average price	Millions of yen		
		Up to 1 year	Over 1 year	Total
Cash flow hedges				
Currency swaps	Notional principal	¥1,376	¥1,896	¥3,273
(Receive Yen, Pay Euros)	Forward rate (Yen)	134.29	126.45	—
Total		¥1,376	¥1,896	¥3,273

2024	Notional principal and average price	Thousands of U.S. dollars		
		Up to 1 year	Over 1 year	Total
Cash flow hedges				
Currency swaps	Notional principal	\$9,112	\$12,556	\$21,675
(Receive Yen, Pay Euros)	Forward rate (U.S. dollars)	0.89	0.84	—
Total		\$9,112	\$12,556	\$21,675

The carrying amounts of hedging instruments to which hedge accounting is applied by type of hedge are as follows:

	Millions of yen				Thousands of U.S. dollars		Account in consolidated statement of financial position and in consolidated statement of profit or loss of transfer adjustments
	2023		2024		2024		
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	
Cash flow hedges							
Foreign exchange risk	¥ —	¥ 199	¥3	¥658	\$19	\$4,357	Note

Note Other financial assets in current and non-current assets, other financial liabilities in current and non-current liabilities, finance income and finance costs.

The balance of cash flow hedge reserve related to cash flow hedges is as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Cash flow hedges			
Foreign exchange risk	¥222	¥134	\$887

### 35. Subsidiaries and associates

The Group's consolidated subsidiaries as of March 31, 2024 are as follows:

Company name	Location	Main business	Ownership ratio of voting rights
Kurita Europe GmbH	Mannheim, Germany	General Industry	100.0%
Kurita Water Industries (Dalian) Co., Ltd.	Liaoning, China	General Industry	90.1%
Kurita Water Industries (Suzhou) Ltd.	Jiangsu, China	Electronics Industry	100.0%
Hansu Technical Service Ltd.	Gyeonggi-do, Korea	Electronics Industry	100.0%
Hansu Co., Ltd.	Seoul, Korea	Electronics Industry	100.0%
Pentagon Technologies Group, Inc.	California, U.S.A.	Electronics Industry	100.0% (100.0%)
Kurita America, Inc.	Minnesota, U.S.A.	General Industry	100.0% (100.0%)
Kuritaz Co., Ltd.	Toshima-ku, Tokyo	General Industry	100.0%
Kuritec Service Co., Ltd.	Chuo-ku, Osaka	Electronics Industry	100.0%
Kurita Chemical Manufacturing Ltd.	Gokamachi, Sashima-gun, Ibaraki	General Industry	100.0%
62 other companies			

The Group's associates accounted for using the equity method as of March 31, 2024 are as follows:

Company name	Location	Main business	Ownership ratio of voting rights
Angang Kurita (Anshan) Water Treatment Co., Ltd.	Liaoning, China	General Industry	40.0% (40.0%)

- Notes
1. The main business column refers to segment names.
  2. Kurita Europe GmbH, Hansu Technical Service Ltd. and Kurita Chemical Manufacturing Ltd. are the specified subsidiary companies.
  3. Figures in parentheses in the ownership ratio of voting rights are the indirect ownership ratio included in the total ownership ratio of voting rights.
  4. Hansu Technical Service Ltd. merged with Hansu Co., Ltd. as of April 1, 2024, and changed the company name to KURITA HANSU Water Industries Ltd.

## 36. Related parties

### (1) Transactions with related parties

For the fiscal years ended March 31, 2023 and 2024, information on transactions with related parties has been omitted due to the absence of significant transactions.

### (2) Compensation for key management personnel

	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Fixed remuneration, etc., and short-term incentive remuneration (monetary compensation)	¥380	¥516	\$3,417
Long-term incentive remuneration (stock compensation)	137	110	728

- Notes
1. Compensation for key management personnel for the fiscal years ended March 31, 2023 is compensation for Directors (including External Directors) and Audit & Supervisory Board Members (including external members of the Audit & Supervisory Board) of the Company.
  2. In accordance with the resolution of the 87th Ordinary General Meeting of Shareholders held on June 29, 2023, the Company made the transition from a company with an Audit & Supervisory Board to a company with a nominating committee, etc., as of the same date.
  3. Compensation for key management personnel for the fiscal year ended March 31, 2024 includes the compensation for Directors (including External Directors) and Executive Officers of the Company after the transition to a company with a nominating committee, etc., and the compensation for Directors (including External Directors) and Audit & Supervisory Board Members (including external members of the Audit & Supervisory Board) of the Company who were in office before the transition to a company with a nominating committee, etc.

## 37. Commitments

The total contract amount regarding commitments for asset purchases, etc., is as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Acquisition of property, plant and equipment	¥12,310	¥12,689	\$84,033

Note Commitments as of March 31, 2024 consist primarily of those associated with the acquisition of certain facilities in the ultrapure water supply business.

## 38. Subsequent events

(Business combinations of entities or businesses under common control)

(KURITA HANSU Water Industries Ltd.)

On April 1, 2024, Hansu Co., Ltd., which primarily engages in manufacturing and sales of water treatment chemicals in South Korea, was absorbed into Hansu Technical Service Ltd., which primarily engages in manufacturing and sales of water treatment facilities and maintenance services in South Korea. Following the merger, Hansu Technical Services Ltd. was renamed KURITA HANSU Water Industries Ltd.

(1) Outline of the transaction

1) Company names and businesses at the time of business combination

(i) Surviving company

Name: Hansu Technical Service Ltd.

Business: Manufacturing and sales of water treatment facilities, maintenance services

(ii) Merged company

Name: Hansu Co., Ltd.

Business: Manufacturing and sales of water treatment chemicals

2) Date of business combination

April 1, 2024

3) Legal form of business combination

An absorption-type merger in which Hansu Technical Service Ltd. is the surviving company. Hansu Co., Ltd. has been dissolved.

4) Name of the company after business combination

KURITA HANSU Water Industries Ltd.

5) Main reason of integration

In its medium-term management plan, Pioneering Shared Value 2027 (PSV-27), the Group has determined priority measures including the upgrade of service businesses such as ultra-pure water supply to the electronics industry which requires advanced water treatment technologies, and the expansion of the CSV business, which seeks to create shared value with society through business targeting diverse industries.

The announced merger will integrate the technologies that the two companies have long cultivate and their abundance of knowledge accumulated at points of contact with sites. It will thus reinforce the foundation for quickly providing solutions for the diverse needs and issues of customers in South Korea. In particular, the Group will increase its ability to propose and provide services, etc., for the electronics industry and accelerate the creation and provision of solutions that will create shared value together with society in the CSV business for a wide variety of industries and in other businesses.

(2) Outline of accounting

The business combination under common control is a business combination in which all companies or businesses involved are ultimately controlled by the same company before and after the business combination. The control is not temporary. The Group continues to perform accounting treatment for all business combination transactions under common control based on carrying amount.

(Kurita East Japan Co., Ltd. and Kurita West Japan Co., Ltd.)

On April 1, 2024, the Company reorganized eleven domestic sales companies etc. which primarily sell water treatment chemicals and provide maintenance services for water treatment facilities in Japan. Two of the 11 domestic sales companies Kurita Kanto Ltd. and Kurita Kansai Ltd. will implement absorption-type mergers in which they are the surviving companies and the other nine companies are dissolved. Following the mergers, Kurita Kanto Ltd. and Kurita Kansai Ltd. were renamed Kurita East Japan Co., Ltd. and Kurita West Japan Co., Ltd., respectively.

(1) Outline of the transaction

1) Company names, businesses at the time of business combination and company names after business combination

Surviving company	Kurita Kanto Ltd.	Kurita Kansai Ltd.
Merged companies	Kurita BMS Co., Ltd.	Kurita Tokai Ltd.
	Kurita Hokkaido Ltd.	Kurita Hokuriku Ltd.
	Kurita Kitakantou Co., Ltd.	Kurita Meiki Ltd.
	Kurita Buil-Tech Co., Ltd.	Kurita Sanyo Ltd.
		Kurita Kyushu Ltd.
Business description	Sale of water treatment chemicals and maintenance services for facilities	Sale of water treatment chemicals and maintenance services for facilities
Company names after business combination	Kurita East Japan Co., Ltd.	Kurita West Japan Co., Ltd.

2) Date of business combination

April 1, 2024

3) Legal form of business combination

Absorption-type mergers in which Kurita Kanto Ltd. and Kurita Kansai Ltd. are surviving companies. Kurita BMS Co., Ltd., Kurita Hokkaido Ltd., Kurita Kitakantou Co., Ltd., Kurita Buil-Tech Co., Ltd., Kurita Tokai Ltd., Kurita Hokuriku Ltd., Kurita Meiki Ltd., Kurita Sanyo Ltd., and Kurita Kyushu Ltd. have been dissolved.

4) Main reason of integration

Under the medium-term management plan, Pioneering Shared Value 2027 (PSV-27), the Group aims to strengthen the creation of shared value with society through business targeting diverse industries, and global expansion of CSV business is positioned as a priority measure. This reorganization is intended to speed up implementation of this measure and aims to achieve further expansion of CSV business in Japan's general water treatment market by seeking to strengthen contact points with customer sites through the provision of water treatment chemicals and maintenance services on a one-stop basis and by breaking down boundaries between domestic sales companies and building a framework for quickly and efficiently sharing successful models. Partnering closely with its customers to solve their business challenges, the Group contributes to saving water, reducing GHG emissions, recycling waste and reducing resource inputs and aims to realize a sustainable society through the creation and provision of solutions including CSV business.

(2) Outline of accounting

The business combination under common control is a business combination in which all companies or businesses involved are ultimately controlled by the same company before and after the business combination. The control is not temporary. The Group continues to perform accounting treatment for all business combination transactions under common control based on carrying amount.

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# Independent Auditor's Report



## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Kurita Water Industries Ltd.

### Report on the Audit of the Consolidated Financial Statements

#### Opinion

We have audited the consolidated financial statements of Kurita Water Industries Ltd. ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at March 31, 2024, and the consolidated statement of profit or loss, comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2024, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

#### Convenience Translation

The United States dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2024, are presented solely for the convenience. Our audit also included the translation of Japanese yen amounts into United States dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the consolidated financial statements.

#### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we



have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

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

Valuation of goodwill	
Description of Key Audit Matter	Auditor's Response
<p>The Group recorded goodwill of ¥71,001 million (13% of total assets) in the consolidated statement of financial position for the current fiscal year.</p> <p>Goodwill is required to be tested for impairment in each year and as described in Note 13. Goodwill and intangible assets, (2) Impairment tests for goodwill, all of which relates to foreign subsidiaries, and the assumptions used in the impairment test are disclosed.</p> <p>In performing the impairment test, the Group calculates the recoverable amount of cash-generating units (CGUs), including goodwill, based on value in use. If the recoverable amount falls below the carrying amount as a result of the impairment test, an impairment loss is recorded and the carrying amount is written down to</p>	<p>In reviewing the valuation for goodwill, we evaluated the design and operation of internal controls over the development of the business plan underlying the impairment test, the calculation of value in use and the measurement of impairment losses.</p> <p>The adequacy of the impairment test for significant goodwill was assessed based on whether sufficient and appropriate audit evidence was obtained primarily through the following procedures. The procedures were either conducted directly by our audit firm or by instructing the auditors of each foreign subsidiary to perform some or all of the audit procedures, and by receiving reports on the results of these procedures, depending on the circumstances.</p> <ul style="list-style-type: none"> <li>• If necessary, valuation experts of</li> </ul>

<p>the recoverable amount.</p> <p>Value in use is calculated as the present value of expected future cash flows from CGUs, including goodwill, discounted at a discount rate. Future cash flows are based on a five-year business plan based on a medium-term management plan approved by management. The growth potential of the business in subsequent periods is estimated and determined based on the long-term average growth rate of the market to which the CGUs belong.</p> <p>Key assumptions in estimating the value in use of each CGU are the sales growth rate in the business plan, as well as the long-term average growth rate for periods in excess of the business plan and the discount rate.</p> <p>The sales growth rate in the business plan includes management's forecasts of future conditions, such as sales forecasts that take into account past results and the current status of orders. Management's judgment with respect to these forward-looking statements has a significant impact on the expected future cash flows to be generated by the CGUs, including goodwill.</p> <p>In addition, the selection of the underlying data for estimating the discount rate and long-term average growth rate used to calculate value in use requires expert knowledge on</p>	<p>our network firm were engaged to verify valuation methods in the calculation of value in use.</p> <ul style="list-style-type: none"> <li>• By comparing the business plan and the actual results in the past years, we evaluated the accuracy of the estimation of the business plan which is the basis of future cash flows.</li> <li>• The sales growth rate used in estimating the business plan was discussed with management and business managers. Additionally,</li> <li>• when necessary, trends in the performance of each CGU were analyzed, and compared with external data such as available market forecasts, as well as similar companies, to assess the reasonableness.</li> <li>• Regarding future cash flows, we examined the consistency between the underlying business plan and the medium-term management plan approved by management and the budget for the following fiscal year.</li> <li>• For the discount rate and long-term average growth rate used to determine value in use, we engaged valuation experts of our network firm to evaluate the results of review with external data, as necessary.</li> </ul>
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enterprise value assessment and requires management's judgment.

With regard to goodwill in Water Treatment Chemicals business of Kurita America, Inc. in the previous fiscal year, the recoverable amount was less than the carrying amount of the CGU including goodwill, and the book value was reduced to its recoverable amount. However, the Group has achieved the business plan formulated in the previous fiscal year due to factors such as steady economic growth in the U.S. and sales growth of high-value-added products and services that create shared value with the public, including CSV businesses, and a review of the focus markets to improve profitability. In the current fiscal year, the Group has formulated a business plan that takes these facts into account.

Due to the complexity of impairment test for goodwill and the need for management's judgment regarding estimates of future cash flows, long-term average growth rates and discount rates, we determined valuation of goodwill as a key audit matter.

Estimate of the total cost of transactions in Kurita Water Industries Ltd. that recognizes revenue over a certain period of time	
Description of Key Audit Matter	Auditor's Response
<p>As disclosed in Note 3. Material accounting policy information, (14) Revenue, the Group recognizes revenue over the term of the contract for construction contracts as performance obligations are satisfied as construction progresses, and applies the input method, which uses the ratio of costs incurred to estimated total costs on a contract-by-contract basis to measure progress.</p> <p>As described in Note 6. Segment information, (2) Information on reportable segments to the consolidated financial statements, the amount of revenue recorded for transactions in which revenue is recognized over a certain period of time by the Company is ¥79,755 million, which accounts for a significant percentage of consolidated net sales of ¥384,825 million.</p> <p>A significant assumption when recognizing revenue over a certain period of time is an estimate of the total cost. Estimates of the total cost may be affected by changes in the content of contracts that occur due to changes in the environment surrounding contracts with customers.</p> <p>The Company implements income/expenditure management,</p>	<p>In reviewing the adequacy of the estimates of the total cost of transactions in the Company that recognize revenue over a period of time, we primarily performed the following audit procedures:</p> <ul style="list-style-type: none"> <li>• We made inquiries of management regarding important matters in establishing internal controls related to estimating the total cost, including timely revisions of estimates, and evaluated the design and operation of such internal controls.</li> <li>• In order to verify whether the estimate of the total cost for the initial budget is properly made, we extracted new orders of construction according to a certain standard, inspected budget delivery documents of the orders and compared with other constructions on the initial cost ratio. Additionally, we conducted an interview with the persons in charge of managing the sales/expenditures of the construction and other related tasks.</li> <li>• In order to verify that the revisions of the estimate of the total cost is conducted in a timely and</li> </ul>

<p>progress management and other management for each construction unit. In order to properly estimate the total cost, the Company has established and operates internal controls for the allocation of the initial budget and the revision of the total cost. In particular, with respect to construction work involving design departments, the Company performs a business process review on a monthly basis to review the execution of the initial budget and revises its estimates of the total cost as necessary.</p> <p>The estimation of the total cost involves uncertainties due to technological or physical factors, as well as changes in the environment surrounding the contract, which can have a significant potential impact and require management's judgement. Therefore we determined estimate of the total cost of transactions in the Company that recognizes revenue over a certain period of time as a key audit matter.</p>	<p>appropriate manner, for the constructions extracted according to a certain criteria, by comparing the estimate of the total cost with the incurred cost, we reviewed the business process reviews, conducted an interview with the persons in charge of managing the sales/expenditures of the construction and other related tasks and compared the actual progress with the progress on the progress chart.</p> <p>We examined the estimates of the total cost at the end of the current fiscal year in comparison with the estimates at the end of the previous fiscal year and the reason for the change as well as verified the accuracy of the estimates of the total cost by a comparative review between the estimates and the actual results.</p>
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## Other Information

The other information comprises the information included in the Group's disclosure documents accompanying audited consolidated financial statements, but does not include the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Audit Committee is responsible for overseeing the Executive officers and Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's other information reporting process.

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 Committee for the Consolidated Financial Statements

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

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

The Audit Committee are responsible for overseeing the Executive officers and Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the

related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate whether the presentation and disclosures of the consolidated financial statements are in accordance with IFRSs, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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




## Fee-related Information

Fees paid or payable to our firm and to other firms within the same network as our firm for audit and non-audit services provided to the Company and its subsidiaries are disclosed in Management's Discussion and Analysis, 9. Details of Audit Fees, etc..

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

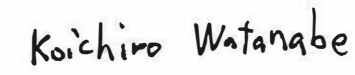
Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

  
Tetsuo Shibaya  
Designated Engagement Partner  
Certified Public Accountant



  
Makio Wada  
Designated Engagement Partner  
Certified Public Accountant



  
Koichiro Watanabe  
Designated Engagement Partner  
Certified Public Accountant



Grant Thornton Taiyo LLC  
Tokyo, Japan  
30, September, 2024