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Integrated Report 2023 (Financial Section)

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NEC Capital Solutions Limited

https://www.necap.co.jp/english/

CONTENTS

5-Year Summary
Consolidated Financial Data

	Millions of Yen					Thousands of U.S. Dollars
	2023	2022	2021	2020	2019	**2023**
For the year:						
Revenues	**¥258,107**	¥249,908	¥221,256	¥220,717	¥204,131	**$1,932,809**
Profit before income taxes	**12,444**	11,423	6,089	9,093	8,986	**93,184**
Profit attributable to owners of parent	**6,419**	6,940	4,119	5,118	6,391	**48,065**
At year-end:						
Total assets	**¥1,055,876**	¥1,030,617	¥1,057,654	¥997,511	¥895,683	**$7,906,811**
Total net assets	**128,815**	121,740	113,885	105,249	105,999	**964,619**

	Yen					U.S. Dollars
Per share data:						
Net assets	**¥5,085.69**	¥4,794.13	¥4,438.33	¥4,306.21	¥4,131.64	**$38.08**
Basic net income	**298.143**	322.37	191.29	237.66	296.81	**2.23**
Cash dividends	**110.00**	74.00	60.00	60.00	55.00	**0.82**

Key indicators:						
Dividend payout ratio (%)	**36.9**	23.0	31.4	25.2	18.5	-
Equity ratio (%)	**10.4**	10.0	9.0	9.3	9.9	-
Price earnings ratio (Times)	**8.47**	6.44	10.59	7.74	5.73	-
Return on equity (%)	**6.0**	7.0	4.4	5.6	7.4	-
Return on assets (%)	**1.2**	1.1	0.6	1.0	1.0	-
Number of employees	**866**	812	811	784	767	-

1. The U.S. dollar amounts represent translation of Japanese yen, for convenience only, at the rate of ¥133.54=U.S.$1.00 in effect on March 31, 2023.

Operating and Financial Review

1. Business Results

While the Japanese economy during the fiscal year ended March 31, 2023 was affected by COVID-19, it stepped forward in resuming economic activities toward the post COVID-19 world. On the other hand, the situation became more uncertain mainly due to the Russian invasion of Ukraine started in February 2022 seemingly being prolonged and causing a steep rise in commodity prices, such as crude oil and grain prices, as well as the world's central banks being pressed to pursue a tight monetary policy, including raising interest rates to combat inflation. In addition, in December 2022, there were moves in Japan that suggest modification of its easy monetary policy, such as the Bank of Japan widening the permitted fluctuation band of long-term interest rates to 0.5% under its yield curve control policy. Under these national and international environmental changes, closer attentions than ever to future prospects of economic activities are considered necessary.

The leasing industry, in which the NEC Capital Solutions Group (hereinafter, the "Group") operates, the total value of leasing contracts of the leasing industry for the fiscal year ended March 31, 2023 has been ¥4,310.6 billion, which represents an increase by 2.2% compared with the previous fiscal year (based on Lease Statistics published on May 29, 2023, by the Japan Leasing Association).

Under these circumstances, the contract execution volume decreased by 1.4% and contract volume increased by 8.7%, respectively compared with the previous fiscal year in the Leasing Business of NEC Capital Solutions Limited (hereafter, the "Company"). The contract execution volume decreased from the previous fiscal year primarily due to the impact of a large-scale project of the GIGA School Program recorded in the previous fiscal year, excluding which the contract execution volume would have exceeded the level of the previous fiscal year. The contract volume increased compared with the previous fiscal year due to an increase in demand of both government and private sector.

In the Finance Business, both the contract execution volume and contract volume exceeded the level of the previous fiscal year due to an increase in factoring and loans. The increase was due to the capturing the short-term financing needs in Japan and overseas.

In the Investment Business, while revenues increased mainly due to gain on sales of large-scale real estate for sale, gross profit and operating income decreased from the previous fiscal year mainly due to a decline of revenue on a venture fund exit in the previous fiscal year.

In Other Business, revenue and operating income both increased compared with the previous fiscal year mainly due to an increase in fee income from PFI and PPP, and revenue from solar power generation business.

As for the overall operating results, revenues and gross profit both increased compared with the previous fiscal year because the Finance Business, Investment Business and Other Business expanded while the Leasing Business, which recorded large-scale sales of leased assets in the previous fiscal year, remained almost unchanged. Operating income and ordinary income increased from the previous fiscal year due to a decrease in selling, general and administrative expenses as a result of the improvement of credit-related costs, whereas profit attributable to owners of parent decreased from the previous fiscal year as a result of an increase in profit attributable to non-controlling interests.

As a result of the Group's initiative, total revenues increased by 3.3% to ¥258,107 million ($1,932,807 thousand) on a consolidated basis for the year under review. Operating income increased by 12.1% to ¥11,715 million ($87,727 thousand), ordinary income increased by 8.9% to ¥12,440 million ($93,156 thousand) and profit attributable to owners of parent decreased by 7.5% to ¥6,418 million ($48,061 thousand).

Operating results by segment are as follows:

a. Leasing Business

Total revenue in this segment was ¥224,307 million ($1,679,699 thousand), almost the same level as the previous fiscal year, and operating income decreased by ¥751 million ($5,624 thousand) to ¥6,368 million ($47,686 thousand) mainly due in part to the posting of provision of allowance for doubtful accounts.

b. Finance Business

Total revenue in this segment increased by 25.9% from the previous fiscal year, to ¥6,569 million ($49,191 thousand) mainly due in part to an increase in interest income, and operating income increased by ¥2,809 million ($21,035 thousand) from the previous fiscal year, to ¥2,154 million ($16,130 thousand).

c. Investment Business

Total revenue in this segment increased by 39.4% from the previous fiscal year, to ¥22,813 million ($170,833 thousand) mainly due in part to a large-scale sale of real estate for sale in the current fiscal year, whereas operating income decreased by ¥983 million ($7,361 thousand) from the previous fiscal year, to ¥4,412 million ($33,039 thousand) mainly due in part to a decrease in gain on sale of operational investment securities.

d. Other Business

Total revenue in this segment increased by 6.8% from the previous fiscal year, to ¥4,462 million ($33,413 thousand) mainly due in part to a rental revenue from healthcare-related properties, and revenue from sales of solar power electricity, and operating income increased by ¥218 million ($1,632 thousand) from the previous fiscal year, to ¥493 million ($3,692 thousand).

2. Forecasts for Fiscal Year Ending March 31, 2024

The Japanese economy during the fiscal year ending March 31, 2024 is anticipated to continue moving toward normalization of economic activities with the risk of spread of COVID-19 being lower, as seen in the decision to downgrade COVID-19 to “Class 5,” a category under the Act on the Prevention of Infectious Diseases and Medical Care for Patients with Infectious Diseases. On the other hand, the Russian invasion of Ukraine started in February 2022 which seems to be prolonged and economic sanctions imposed by western countries have had a large impact on the world economy. Since the invasion, commodity prices such as crude oil and grain prices have been rising and limited the effect of tight monetary policies, including raising interest rates, adopted by the world’s central banks. In addition, there have been moves in Japan that suggest a shift of its monetary policy, such as the Bank of Japan widening the fluctuation band for yield curve control. Under these conditions, closer attentions than ever to future prospects of economic activities are necessary.

Under these circumstances, as the impact of COVID-19 has become smaller and smaller, sustainability is once again being discussed as a global topic. Although the necessity and importance of sustainability, including SDGs, have been much discussed, they did not directly approach to business management. However, the escalation of worldwide economic losses from recent abnormal weather reached a scale that cannot be ignored, which resulted in the establishment of international frameworks that directly prompted entrepreneurs to promote sustainability management. One of the representative frameworks is the Task Force on Climate-related Financial Disclosures (TCFD). Under the TCFD framework, listed companies on the Prime Market have been required to disclose their initiatives in line with the framework from the fiscal year ended March 31, 2023, along with the restructuring of the market segments of the Tokyo Stock Exchange. In light of these recent environmental changes, the Company has established its new group vision toward 2030, “Be a solution company leading the next-generation circular economy,” which also serves as a goal of SDGs to further promote CSV management it has aimed to realize. At the same time, the Company has also formulated “the Medium-term Plan 2025” as the first stage toward the achievement of “the next-generation circular economy”. Under “the Medium-term Plan 2025” that is a first step toward the achievement of the group vision, the Company will create circular services in our own way toward the achievement of the next-generation circular economy, as well as conducting CSV management and solving social issues with customers through its business for a three year term in which the Company will try to engage in innovation to fulfill its goal for 2030 and sustainable growth.

Based on the policies mentioned above, forecasts ordinary income of ¥12.5 billion and profit attributable to owners of parent of ¥7.5 billion on a consolidated basis in the fiscal year ending March 31, 2024, a 0.5% and 16.8% increase compared with the current fiscal year, respectively, resulting from sustainable growth of the Leasing Business and the Finance Business and an increase in revenue of the Investment Business. The forecast for annual dividends will increase ¥20 per share compared to the current fiscal year to ¥130 per share (including interim dividend of ¥65 yen per share), taking into consideration for the profit forecast, based on the Company’s dividend policy, which is maintaining stable dividends as the basic policy.

Meanwhile, unless otherwise specified, information concerning the future presented herein are forecasts based on our decisions, targets , certain premises, or assumptions as of the last day (March 31, 2023) of the consolidated fiscal year and may differ materially from the actual results for a number of reasons.

3. Assets, Liabilities, and Net Assets

Total assets at the end of this fiscal year under review increased by ¥25,258 million ($189,142 thousand) year on year, to ¥1,055,875 million ($7,906,807 thousand). This increase mainly reflected an increase of ¥14,357 million ($107,511 thousand) in loans, an increase of ¥12,816 million ($95,971 thousand) in investment securities, offsetting a decrease of ¥11,665 million ($87,352 thousand) in lease receivables and investment in leases.

Liabilities at the end of this fiscal year under review increased by ¥18,183 million ($136,161 thousand) year on year, to ¥927,060 million ($6,942,190 thousand). This increase mainly reflected an increase of ¥27,000 million ($202,187 thousand) in commercial papers, offsetting a decrease of ¥10,000 million ($74,884 thousand) in current portion of long-term bond.

Net assets at the end of this fiscal year under review increased by ¥7,074 million ($52,973 thousand) year on year, to ¥128,815 million ($964,617 thousand). This increase mainly reflected an increase of ¥4,717 million ($35,323 thousand) in profit attributable to owners of parent and an increase of ¥1,347 million ($10,087 thousand) in retained foreign currency translation adjustments and an increase of ¥798 million ($5,976 thousand) in non-controlling interests.

4. Cash Flow Status

Cash and cash equivalents at the end of this fiscal year under review were ¥35,557 million ($266,265 thousand).

The following is a description of cash flows and significant factors:

(Cash Flows from Operating Activities)

Net cash provided by operating activities was ¥29 million ($217 thousand), compared with net cash provided in operating activities of ¥46,815 million for the previous fiscal year. This was primarily attributable to profit before income taxes of ¥12,443 million ($93,178 thousand) and decrease in lease receivables and investment in leases of ¥12,839 million ($96,143 thousand) , offsetting increase in loans of ¥17,491 million ($130,979 thousand) and interest paid of ¥4,906 million ($36,738 thousand) and income taxes paid of ¥1,648 million ($12,341 thousand).

(Cash Flows from Investing Activities)

Net cash provided in investing activities was ¥9,581 million ($71,746 thousand), compared with net cash used in investing activities of ¥501 million for the previous fiscal year. This was primarily attributable to proceeds from and purchases of investment securities of ¥17,675 million ($132,357 thousand) and purchases of assets held for own use of ¥4,067 million ($30,455 thousand) , offsetting redemption of investment securities of ¥11,942 million ($89,426 thousand).

(Cash Flows from Financing Activities)

Net cash provided in financing activities was ¥7,875 million ($58,971 thousand), compared with net cash used by financing activities of ¥46,932 million for the previous fiscal year. This was primarily attributable to increase in long-term debt of ¥177,554 million ($1,329,594 thousand) and increase in short-term borrowings, of ¥27,000 million ($202,187 thousand) and increase in long-term bond of ¥20,000 million ($149,768 thousand), offsetting repayment of long-term debt of ¥180,511 million ($1,351,737 thousand) and repayment of long-term bond of ¥30,000 million ($224,652 thousand) and cash dividends paid to minority shareholders of ¥5,008 million ($37,502 thousand).

Consolidated Balance Sheets

NEC Capital Solutions Limited
March 31, 2023 and 2022

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
Assets	**2023**	2022	**2023**
Current assets:			
Cash and cash equivalents (Notes 13, 14)	**¥35,558**	¥37,467	**$266,271**
Time deposits	**—**	287	**—**
Lease receivables and investment in leases (Notes 12, 13, 14)	**517,945**	529,610	**3,878,577**
Accounts receivable:			
Installment sales (Note 14)	**38,828**	35,342	**290,763**
Loans (Notes 9, 14)	**231,612**	217,255	**1,734,401**
Leases (Note 14)	**22,035**	20,680	**165,003**
Purchased receivables (Note 14)	**12,420**	8,010	**93,004**
Allowance for doubtful accounts	**(9,840)**	(10,159)	**(73,684)**
Operational investment securities (Notes 7, 13, 14)	**22,875**	21,183	**171,298**
Real estate for sale (Note 13)	**23,828**	25,222	**178,431**
Other (Note 14)	**13,031**	14,088	**97,584**
Total current assets	**908,292**	898,985	**6,801,648**
Property and equipment, net:			
Leased assets (Note 6)	**55,819**	55,253	**417,996**
Other operating assets (Note 6)	**7,199**	5,503	**53,912**
Assets held for own use (Notes 6, 13)	**363**	461	**2,720**
Property and equipment, net	**63,381**	61,217	**474,628**
Intangible assets:			
Computer programs leased to customers	**1,437**	1,302	**10,763**
Goodwill	**1,560**	1,626	**11,682**
Software and other	**6,177**	2,940	**46,254**
Total intangible assets	**9,174**	5,868	**68,699**
Investments and other assets:			
Investment securities (Notes 7, 13, 14)	**61,737**	48,921	**462,314**
Net defined benefit asset (Note 11)	**340**	365	**2,545**
Deferred tax assets (Notes 10)	**9,045**	11,480	**67,735**
Other (Note 14)	**5,919**	5,591	**44,306**
Allowance for doubtful accounts	**(2,012)**	(1,810)	**(15,064)**
Total investments and other assets	**75,029**	64,547	**561,836**
Total assets	**¥1,055,876**	¥1,030,617	**$7,906,811**

The accompanying notes are an integral part of these statements.

Liabilities and net assets	Millions of Yen 2023	2022	Thousands of U.S. Dollars (Note 1) 2023
Current liabilities:			
Short-term borrowings (Notes 8, 9, 14)	**¥270,091**	¥240,581	**$2,022,545**
Current portion of long-term debt (Notes 8, 13, 14)	**170,773**	204,046	**1,278,813**
Notes and accounts payable – trade (Notes 14)	**15,796**	12,977	**118,285**
Accrued income taxes (Note 14)	**239**	267	**1,789**
Deposits received (Note 14)	**2,043**	2,203	**15,302**
Allowance for bonuses	**847**	948	**6,346**
Allowance for bonuses for directors	**33**	—	**248**
Other (Note 14)	**36,572**	36,902	**273,869**
Total current liabilities	**496,394**	497,924	**3,717,197**
Long-term liabilities:			
Long-term debt (Notes 8, 13, 14)	**418,485**	397,801	**3,133,783**
Net defined benefit liability (Note 11)	**2,035**	2,077	**15,237**
Other	**10,146**	11,075	**75,975**
Total long-term liabilities	**430,666**	410,953	**3,224,995**
Total liabilities	**927,060**	908,877	**6,942,192**
Net assets:			
Shareholders' equity			
Common stock Authorized:86,000,000 shares Issued:21,533,400 shares	**3,777**	3,777	**28,283**
Capital surplus (Note 18)	**4,646**	4,646	**34,792**
Retained earnings (Note 18)	**97,132**	92,414	**727,360**
Treasury stock, at cost 4,324 shares in 2023 and 4,156 shares in 2022	**(9)**	(9)	**(70)**
Total shareholders' equity	**105,546**	100,828	**790,365**
Accumulated other comprehensive income			
Net unrealized gains on marketable securities	**1,628**	1,383	**12,188**
Deferred losses on hedging derivatives	**91**	102	**683**
Foreign currency translation adjustments	**2,263**	915	**16,944**
Remeasurements of defined benefit plans	**(37)**	(14)	**(275)**
Total accumulated other comprehensive income	**3,945**	2,386	**29,540**
Non-controlling interests	**19,325**	18,526	**144,714**
Total net assets	**128,816**	121,740	**964,619**
Total liabilities and net assets	**¥1,055,876**	¥1,030,617	**$7,906,811**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income and Comprehensive Income

NEC Capital Solutions Limited
Years ended March 31, 2023 and 2022

Consolidated Statements of Income

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2023	2022	**2023**
Revenues:			
Leases	**¥210,968**	¥208,074	**$1,579,814**
Installment sales	**691**	609	**5,176**
Loans	**6,569**	5,220	**49,194**
Other	**39,879**	36,005	**298,625**
Total revenues	**258,107**	249,908	**1,932,809**
Costs:			
Leases	**195,183**	192,060	**1,461,603**
Interest expense	**5,053**	3,931	**37,840**
Other	**25,951**	22,215	**194,329**
Total costs	**226,187**	218,206	**1,693,772**
Gross profit	**31,920**	31,702	**239,037**
Selling, general, and administrative expenses	**20,205**	21,255	**151,303**
Operating income	**11,715**	10,447	**87,734**
Other income (expenses):			
Interest and dividend income	**121**	106	**904**
Interest expense	**(26)**	(22)	**(193)**
Equity in earnings (losses) of affiliates	**(34)**	(8)	**(258)**
Gain on investment in partnerships	**1,027**	524	**7,688**
Gain on sales of investment securities	**17**	0	**124**
Foreign exchange gain	**(459)**	270	**(3,440)**
Income from compensation for damage	**94**	103	**701**
Loss on disposal of property and equipment	**(5)**	(3)	**(36)**
Rent expenses	**(85)**	–	**(637)**
Loss on investment in partnerships	**(4)**	(29)	**(27)**
Gain on sales of shares of subsidiaries	**25**	–	**189**
Loss on revision of retirement benefit plan	**(22)**	–	**(165)**
Loss on sale of shares of subsidiaries	**(0)**	–	**(1)**
Loss on valuation of investment securities	**(17)**	(13)	**(130)**
Other, net	**97**	48	**731**
Profit before income taxes	**12,444**	11,423	**93,184**
Income taxes (Note 10):			
Current	**1,255**	3,988	**9,394**
Deferred	**1,830**	(1,680)	**13,705**
	3,085	2,308	**23,099**
Profit	**9,359**	9,115	**70,085**
Profit attributable to non-controlling interests	**2,940**	2,175	**22,020**
Profit attributable to owners of parent	**¥6,419**	¥6,940	**$48,065**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Comprehensive Income

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2023	2022	**2023**
Profit	**¥9,359**	¥9,115	**$70,085**
Other comprehensive income (loss):			
Net unrealized gains on marketable securities	**104**	493	**778**
Deferred (losses) gains on hedging derivatives	**(23)**	353	**(170)**
Foreign currency translation adjustments	**1,325**	950	**9,922**
Remeasurements of defined benefit plans	**(23)**	(147)	**(170)**
Share of other comprehensive income of associates accounted for using equity method	**173**	409	**1,291**
Total other comprehensive income (loss)	**¥1,556**	¥2,058	**$11,651**
Comprehensive income	**¥10,915**	¥11,173	**$81,736**
Comprehensive income attributable to:			
Owners of parent	**7,977**	8,990	**59,732**
Non-controlling interests	**2,938**	2,183	**22,004**

	Yen		U.S. Dollars (Note 1)
	2023	2022	**2023**
Amounts per share:			
Basic net income	**¥298.14**	¥322.37	**$2.23**
Cash dividends applicable to the year	**110.00**	74.00	**0.82**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Net Assets

NEC Capital Solutions Limited
Years ended March 31, 2023 and 2022

		Millions of Yen									
		Shareholders' Equity				Accumulated other comprehensive income					
	Number of shares issued (Thousands of shares)	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized gain (losses) on marketable securities	Deferred gain (losses) on hedging derivatives	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Non-controlling interests	Total net assets
Balance at March 31, 2021	21,533	¥3,777	¥4,646	¥86,811	¥(1)	¥518	¥(263)	¥(51)	¥133	¥18,315	¥113,885
Profit attributable to owners of parent				6,940							6,940
Cash dividends				(1,335)							(1,335)
Purchase of treasury stock					(60)						(60)
Disposal of treasury shares			1		42						43
Transfer-restricted stock-based compensation			(3)		10						7
Transfer from retained earnings to capital surplus			2	(2)							0
Other, net						865	365	966	(147)	211	2,260
Balance at March 31, 2022	21,533	3,777	4,646	92,414	(9)	1,383	102	915	(14)	18,526	121,740
Profit attributable to owners of parent				6,419							6,419
Cash dividends				(1,701)							(1,701)
Purchase of treasury stock					(9)						(9)
Disposal of treasury shares					9						9
Other, net						245	(11)	1,347	(23)	799	2,357
Balance at March 31, 2023	21,533	¥3,777	¥4,646	¥97,132	¥(9)	¥1,628	¥91	¥2,262	¥(37)	¥19,325	¥128,815

	Thousands of U.S. Dollars (Note 1)									
	Shareholders' Equity				Accumulated other comprehensive income					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized gain (losses) on marketable securities	Deferred gain (losses) on hedging derivatives	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Non-controlling interests	Total net assets
Balance at March 31, 2022	$28,283	$34,789	$692,033	$ (68)	$10, 358	$ 763	$ 6,854	$(104)	$138, 732	$911, 640
Profit attributable to owners of parent			48,065							48,065
Cash dividends			(12,738)							(12,738)
Purchase of treasury stock				(68)						(68)
Disposal of treasury shares		3		66						69
Other, net					1,830	(80)	10,090	(171)	5,982	17,651
Balance at March 31, 2023	$28, 283	$34,792	$727,360	$ (70)	$12,188	$683	$16,944	$ (275)	$144,714	$964,619

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

NEC Capital Solutions Limited
Years ended March 31, 2023 and 2023

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2023	2022	2023
Cash flows from operating activities:			
Profit before income taxes	**¥12,444**	¥11,423	**$93,184**
Depreciation and amortization	**18,732**	14,231	**140,270**
Amortization of goodwill	**201**	238	**1,502**
Increase (Decrease) in allowance for doubtful accounts	**(10)**	1,013	**(74)**
Increase (Decrease) in allowance for bonuses	**(101)**	331	**(756)**
Increase (Decrease) in allowance for directors' bonuses	**33**	—	**248**
Increase (Decrease) in net defined benefit liability	**(69)**	(26)	**(515)**
Interest and dividend income	**(121)**	(106)	**(904)**
Interest expense	**5,103**	3,949	**38,211**
Foreign exchange loss	**5,924**	4,785	**44,362**
Equity in (earnings) losses of affiliated companies	**34**	8	**258**
Gain on sales of investment securities	**(42)**	(101)	**(312)**
Loss on valuation of investment securities	**17**	43	**130**
Gain on redemption of investment securities	**(607)**	—	**(4,546)**
Increase (Decrease) in installment sales receivables	**(3,487)**	(4,213)	**(26,111)**
Increase (Decrease) in lease receivables and investment in leases	**12,839**	1,852	**96,144**
Increase (Decrease) in loans receivable	**(17,491)**	17,408	**(130,980)**
Increase (Decrease) in purchased receivables	**(4,409)**	(397)	**(33,019)**
Increase (Decrease) in operational investment securities	**(1,848)**	2,639	**(13,838)**
Increase (Decrease) in real estate for sale	**1,096**	(2,306)	**8,209**
Purchases of leased assets	**(19,045)**	(11,791)	**(142,619)**
Proceeds from sales of leased assets	**7,258**	8,849	**54,353**
Other, net	**(10,056)**	10,568	**(75,313)**
Subtotal	**6,395**	58,397	**47,884**
Interest and dividend income received	**190**	852	**1,422**
Interest paid	**(4,906)**	(3,937)	**(36,739)**
Income taxes paid	**(1,649)**	(8,497)	**(12,346)**
Net cash used in operating activities	**30**	46,815	**221**
Cash flows from investing activities:			
Purchases of assets held for own use	**(4,067)**	(1,138)	**(30,456)**
Purchases of investment securities	**(17,676)**	(12,450)	**(132,362)**
Proceeds from sales of investment securities	**11**	2,220	**84**
Proceeds from redemption of investment securities	**11,943**	10,875	**89,432**
Increase in time deposits	**(287)**	27	**(2,149)**
Payments for sales of investments in subsidiaries resulting in change in scope of consolidation	**(11)**	—	**(83)**
Other, net	**506**	(35)	**3,787**
Net cash used in investing activities	**(9,581)**	(501)	**(71,747)**
Cash flows from financing activities:			
Increase (Decrease) in short-term borrowings, net	**27,824**	(53,442)	**208,360**
Increase (Decrease) in long-term debt/bond	**197,555**	135,848	**1,479,366**
Repayment of long-term debt/bond	**(212,896)**	(125,842)	**(1,594,248)**
Cash dividends paid	**(1,772)**	(1,175)	**(13,271)**
Cash dividends paid to non-controlling interests	**(5,009)**	(4,279)	**(37,507)**
Proceeds from stock issuance to non-controlling interests	**2,182**	1,966	**16,342**
Other, net	**(9)**	(9)	**(68)**
Net cash provided by financing activities	**7,875**	(46,933)	**58,974**
Foreign currency translation adjustments on cash and cash equivalents	**(96)**	(438)	**(716)**

Net decrease in cash and cash equivalents	**(1,772)**	(1,057)	**(13,268)**
Cash and cash equivalents at beginning of year	**37,467**	38,828	**280,568**
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	**(137)**	(304)	**(1,029)**
Cash and cash equivalents at end of year	**¥35,558**	¥37,467	**$266,271**

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

NEC Capital Solutions Limited
Year ended March 31, 2023

1. Basis of Presentation

The Company maintains its books of account in accordance with the provisions set forth in the Corporation Law of Japan (the "Law"), and the Financial Instruments and Exchange Act of Japan and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards. The accompanying consolidated financial statements have been compiled from the consolidated financial statements that were filed with the Director of the Kanto Local Finance Bureau as required by the Financial Instruments and Exchange Act of Japan. In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a format that is more familiar to readers outside Japan. In addition, certain reclassifications of previously reported amounts have been made to conform to the current year presentation.

The translation of Japanese yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at ¥133.54 = U.S.$1.00, the approximate rate of exchange in effect on March 31, 2023. This translation should not be construed as a representation that Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollar amounts at this or any other rate.

2. Summary of Significant Accounting Policies

a) Consolidation

The consolidated financial statements include the accounts of the Company and its 59 consolidated subsidiaries for the fiscal year ended March 31, 2023, such as Reboot Technology Services and Capitech Limited, RISA Partners, Inc. (65 consolidated subsidiaries for the fiscal year ended March 31, 2022).

3 companies are newly included in consolidated subsidiaries since their establishment or acquisition in the fiscal year ended March 31, 2023.

Capital Solutions Consulting Ltd.and NEC Capital Solutions（Thailand) Ltd., a consolidated subsidiary of the Group in the previous fiscal year, has been excluded from the scope of consolidation starting from the current fiscal year from the perspective of materiality.

5 companies are excluded from the scope of consolidation because they are small in scale, and their total assets, net revenues, net income (the Company's interest share) and retained earnings (the Company's interest share), etc. are not material to the Company's consolidated financial statements.

Non-consolidated subsidiaries, to which the Company has majority voting shares are excluded from consolidation because it is considered obvious that our certain consolidated subsidiaries hold the shares as an operating transaction in order to invest, develop, and earn capital gains to and from these companies, and do not control decision-making organization of these companies and it meets the requirements of ASBJ Guidance No. 22.

3 companies have been accounted for by the equity method due to acquisition in the fiscal year ended March 31, 2023.

Affiliated companies, to which the Company has voting shares of more than 20% to 50% are excluded from affiliated companies because it is considered obvious that our certain consolidated subsidiaries hold the shares as an operating transaction in order to invest, develop and earn capital gains to and from these companies and do not have significant influence on these companies and it meets the requirements of ASBJ Guidance No. 22.

The Company does not apply the equity method to certain non-consolidated subsidiaries and affiliates because net income (the Company's interest share) and retained earnings (the Company's interest share) of these companies are not material to the Company's consolidated financial statements even though the equity method is not applied, and these companies are not material as a whole.

The financial statements of affiliated companies used by the Company in applying the equity method, whose fiscal year-ends are different from the Group's fiscal year-end, are those as of their respective fiscal year-ends.

The fiscal year-ends of 45 consolidated subsidiaries are different from the Group's fiscal year-end, and are December 31. 1 companies were consolidated by using their financial statements as of the Group's fiscal year-end, which are prepared solely for consolidation purposes. With regard to other consolidated subsidiaries, financial statements as of their respective fiscal year end are used for consolidation and necessary adjustments are made to the consolidated financial statements to reflect any significant transactions between their fiscal

year-ends and March 31.
All significant intercompany balances and transactions have been eliminated in consolidation.

b) Revenue recognition
Leases:
Revenues from finance lease contracts with customers and corresponding costs are recognized at the time the payments under the leases are due as stipulated in the lease contracts without regard to the actual collection of such payments.

Installment sales:
Installment sales and the related costs are recognized when the installment payments become due according to the installment sales contracts. Revenues from installment sales are reported net of installment sales and the related costs.

c) Allocation of interest expense
Interest expense on borrowings is allocated to operating expenses and other expenses based on the balances of the respective assets relating to operating and other activities. Interest expense classified as an operating expense is recorded net of the corresponding interest income from deposits.

d) Allowance for doubtful accounts
Allowance for doubtful accounts is recorded to provide for probable losses on bad debts based on historical experience for those receivables other than specific doubtful accounts, and based on an estimate of the uncollectible amounts after a review of the collectibility for the specific doubtful receivables.

e) Cash and cash equivalents
Cash and cash equivalents consist of cash on hand, callable cash deposits at banks and short-term investments with original maturities of three months or less which are readily convertible into cash with only an insignificant risk of any change in their value.

f) Investment securities
Available-for-sale securities
Marketable available-for-sale securities are reported at fair value, with any unrealized gain or loss, net of the applicable taxes, reported as a separate component of net assets. The cost of securities sold is determined by the moving-average method. Non-marketable available-for-sale securities are stated at cost determined by the moving-average method.

g) Investments in anonymous partnerships
Investments in anonymous partnerships are included in investment securities based on the portion of interest shares of anonymous partnerships' net assets. The gains and losses arising from anonymous partnerships are included in total revenues for anonymous partnerships held for business purposes, and in other income (expense) held for non-business purposes, with the corresponding adjustments made to investment securities in the same amount. Capital refunds from anonymous partnerships by their general partners were deducted from investment securities.

h) Real estate for sale
Real estate for sale is stated at cost determined by the identified method (carrying value is reduced if there is a decline in profitability of real estate).

i) Property and equipment
Property and equipment are stated at cost less accumulated depreciation.
Depreciation of assets held for own use;
The Company and its domestic consolidated subsidiaries adopted primarily the declining-balance method (however, the depreciation method for buildings (except for facilities attached to buildings) that were acquired on or after April 1, 1998, and facilities attached to buildings and structures that were acquired on or after April 1, 2016 are depreciated by the straight-line method) to assets held for own use, and overseas consolidated subsidiaries primarily adopted the straight-line method.
In addition, depreciation of machinery and equipment related to solar power generation facility is computed by the straight-line method.
The useful lives of buildings are from 3 to 18 years, furniture and fixtures are from 3 to 20 years.

Depreciation of property and equipment leased to customers;
Property and equipment leased to customers are depreciated over the term of the lease using the straight-line method to the residual value which is the amount to be realized at the time when the lease contract is terminated.

j) Computer software
Costs related to software purchased for internal use are amortized by the straight-line method over an estimated useful life of 3 to 5 years.

k) Accounting for derivatives
Derivatives are carried at fair value with any changes in unrealized gain or loss credited or charged to earnings, except for those that meet the criteria for deferral hedge accounting under which unrealized gain or loss is deferred as a separate component of net assets.

The Company utilizes derivative financial instruments principally in order to mitigate the risk of fluctuation in interest rates on borrowings. The Company has established entity level controls that include policies and procedures for risk assessment in accordance with the Company's rules for interest-rate swap transactions. Under these rules, the Company conducts transactions within a certain range and places limits on the applicable assets and liabilities based on the actual demand. In addition, the Company also assesses the effectiveness of the hedging and verifies the approval, reporting and monitoring of all transactions involving derivatives. The Company does not hold or issue derivative financial instruments for trading purposes.

The effectiveness of the hedge transactions is assessed by calculating the cumulative changes in cash flows of the hedging instruments and the cumulative changes in cash flows of the hedged items and then verifying that their ratio is within a fixed range.

Of the above hedging relationships, the Company has applied the exception set out in the "Practical Solution on the Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR "(PITF No.40, March 17, 2022) to all of those hedging relationships that are within the scope of the Practical Solution.

In cases where interest rate swap contracts are used as a hedge and meet certain hedging criteria, the interest rate swaps are not recorded at fair value, instead, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

l) Retirement benefit plans
Employees' retirement benefits:
The Company has a defined-benefit corporate pension plan, which is essentially a defined-benefit plan with guaranteed benefits and a defined-contribution pension plan, as well as a severance indemnity plan covering virtually all employees other than directors and corporate auditors. Under the terms of these plans, eligible employees upon retirement are entitled to lump-sum severance payments or annuity pension payments based on their level of compensation upon termination and their years of service with the Company. To provide a portion of the lump-sum benefits or annuity payments, the Company participates in the NEC corporate pension fund established for NEC Group companies in accordance with the Welfare Pension Insurance Law.

Accrued retirement benefits have been provided for employees' retirement benefits, based on an estimate of the projected benefit obligation and the pension plan assets at the end of the year.

m) Allowance for bonuses
Allowance for bonuses provided for the future bonus payments to employees, is maintained at the amount accrued at the end of the fiscal year, based on the estimated future payments.

n) Allowance for bonuses for directors
Allowance for bonuses for directors provided for the future bonus payments to directors, is maintained at the amount accrued at the end of the fiscal year, based on the estimated future payments.

o) Goodwill
Goodwill is amortized on a straight-line basis over a period within 20 years. However, if the amount is immaterial, it is recognized as expense in the fiscal year when incurred.

p) Income taxes
Income taxes are calculated based on taxable income and charged to income on an accrual basis. Deferred income tax assets and liabilities are recognized for the temporary differences between the financial reporting and the tax bases of the assets and liabilities that will result in taxable or deductible amounts in the future.

Calculations of deferred tax assets and liabilities are based on the enacted tax laws at the end of the year.

q) Per share data

Basic net income per share is calculated by dividing the net income available to shareholders of common stock by the weighted-average number of shares of common stock outstanding during the year.

Diluted net income per share has not been disclosed because no potentially dilutive shares were outstanding.

3. Significant Accounting Estimates

Allowance for doubtful accounts

(1) Amount recorded in the consolidated financial statements as of March 31, 2023
¥11,851 million ($88,745 thousand)
Previous consolidated fiscal year ¥11,968 million

(2) Information on the nature of the significant accounting estimates for identified items

The Company's operating receivables mainly consist of installment sales receivables, lease receivables and investments in leases, accounts receivable - leases, and accounts receivable - loans, and are exposed to credit risks caused by customers' non-fulfillment of a contracts. The Company determines borrower categories based on the degree of customers' credit risks and categorizes the receivables into general receivables, doubtful receivables, and receivables from companies in bankruptcy and reorganization in order to prepare for bad debt losses of operating receivables. Allowance for doubtful accounts is recorded for uncollectable amounts that are determined based on historical write-off ratio of bad debt losses for general receivables and based on the individual assessment of collectability considering each customer's financial position and operating results in addition to an estimate of collectable amounts through credit protection measures for doubtful receivables and receivables from companies in bankruptcy and reorganization.

The Company determines the borrower categories based on the predetermined criteria taking into consideration quantitative factor including customers' repayment status including delinquency in payment and other financial indicators, as well as qualitative factor including future outlook of business performance.

Although the Company recorded allowance for doubtful accounts based on the information available as of March 31, 2023, there is a possibility that additional allowance for doubtful accounts would be necessary during the next fiscal year in case of unforeseen events such as customers' delinquency in payment or bankruptcy due to deterioration of their operating results and financial position, affected by changes in economic and other conditions considering that the Company's operating receivable collection period tends to be of medium-term and long-term.

4. Change in Accounting Policies

The Company has applied the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31 of June 17, 2021; the "Guidance") starting from the beginning of the fiscal year ended March 31, 2023 and decided to apply the new accounting policy prescribed in the Guidance prospectively in accordance with the transitional measures set forth in Paragraph 27-2 of the Guidance. This change has an immaterial impact on the consolidated financial statements.

The notes on investment trusts for the matters regarding the breakdown by level of fair value of financial instruments and other matters specified in the note "Financial Instruments" do not present information for the fiscal year ended March 31, 2022 in accordance with Paragraph 27-3 of the Guidance.

5. Unapplied accounting standards

- "Accounting Standard for Current Income Taxes" (ASBJ Statement No. 27, October 28, 2022)
- "Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No. 25, October 28, 2022)

- "Guidance on Accounting Standard for Tax Effect Accounting" (ASBJ Guidance No. 28, October 28, 2022)

(1) Overview

The above standards and guidance define the accounting classification of income taxes, etc. when other comprehensive income is taxable, and the handling of tax effect regarding the sales of the stock of subsidiaries, etc. when the group taxation regime is adopted.

(2) Effective date

The Company will apply above standards and guidance from the beginning of the fiscal year ending March 31, 2025.

(3) Effects of application of these standards and guidance

The effects of the application of these standards and guidance are being evaluated when preparing the consolidated financial statements for the current fiscal year.

6. Accumulated depreciation of property and equipment

Accumulated depreciation of property and equipment at March 31, 2023 and 2022 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	**2023**
Leased assets	**¥51,757**	¥47,120	**$387,578**
Other operating assets	**2,342**	1,882	**17,540**
Assets held for own use	**1,070**	957	**8,013**

7. Investment Securities

Investment securities at March 31, 2023 and 2022 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	**2023**
Current:			
Marketable available-for-sale securities	**¥565**	¥913	**$4,241**
Non-marketable available-for-sale securities	**22,310**	20,270	**167,057**
Total	**¥22,875**	¥21,183	**$171,298**
Non-current:			
Marketable available-for-sale securities	**¥7,677**	¥2,797	**$57,485**
Non-marketable available-for-sale securities	**38,489**	34,755	**288,231**
Non-consolidated subsidiaries and affiliated companies	**15,571**	11,368	**116,598**
Total	**¥61,737**	¥48,920	**$462,314**

The aggregate acquisition cost and fair value of available-for-sale securities with readily determinable market value at March 31, 2023 and 2022 were as follows:

	March 31, 2023			
	Acquisition cost	Unrealized gain	Unrealized loss	Fair value
	Millions of Yen			
Available-for-sale securities:				
Current				
Equity securities	¥278	¥272	¥15	¥535
Debt securities	30	—	—	30
Non-current				
Equity securities	705	638	97	1,246
Debt securities	650	44	4	690
Other (trust beneficiary rights, etc.)	5,301	440	—	5,741
Total	¥6,964	¥1,394	¥116	¥8,242

	March 31, 2022			
	Acquisition cost	Unrealized gain	Unrealized loss	Fair value
	Millions of Yen			
Available-for-sale securities:				
Current				
Equity securities	¥357	¥541	¥15	¥883
Debt securities	30	—	—	30
Non-current				
Equity securities	705	354	71	988
Debt securities	1,126	43	—	1,169
Other (trust beneficiary rights, etc.)	426	214	—	640
Total	¥2,644	¥1,152	¥86	¥3,710

	March 31, 2023			
	Acquisition cost	Unrealized gain	Unrealized loss	Fair value
	Thousands of U.S. Dollars			
Available-for-sale securities:				
Current				
Equity securities	$2,084	$2,041	$111	$4,014
Debt securities	227	—	—	227
Non-current				
Equity securities	5,281	4,776	724	9,333
Debt securities	4,866	330	30	5,166

Other (trust beneficiary rights, etc.)	39,693	3,293	—	42,986
Total	$52,151	$10,440	$865	$61,726

Non-marketable available-for-sale securities whose fair value were not readily determinable at March 31, 2023 and 2022 were as follows:

	Carrying value		
	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	**2023**
Non-marketable available-for-sale securities:			
Equity securities	**¥25,337**	¥21,486	**$189,726**
Debt securities	—	—	—
Other (investment in partnerships, etc.)	**35,462**	33,539	**265,563**
Total	**¥60,799**	¥55,025	**$455,289**

Available-for-sale securities sold during the fiscal year ended March 31, 2023 and 2022 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	**2023**
Equity securities:			
Sales prices	**¥205**	¥7,709	**$1,538**
Total gains on sales	**126**	5,189	**946**
Total losses on sales	—	—	—
Debt securities:			
Sales prices	—	¥1,023	—
Total gains on sales	—	23	—
Total losses on sales	—	—	—

8. Short-Term Borrowings and Long-Term Debt

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

	Millions of Yen		Thousands of U.S. Dollars	Weighted-average interest rate
	2023	2022	**2023**	**2023**
Short-term loans from banks	**¥27,091**	¥24,581	**$202,865**	**4.68%**
Commercial paper	**243,000**	216,000	**1,819,679**	**0.03%**
Total	**¥270,091**	¥240,581	**$2,022,544**	—

Long-term debt at March 31, 2023 and 2022 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars	Weighted-average interest rate
	2023	2022	**2023**	**2023**
Long-term loans, principally from banks	**¥485,122**	¥485,328	**$3,632,787**	**0.59%**
Payables under securitized lease receivables	**3,986**	6,370	**29,847**	**0.49%**
Unsecured bonds	**100,150**	110,150	**749,963**	**0.35%**
Total	**589,258**	601,848	**4,412,597**	—
Less current portion	**170,773**	204,046	**1,278,813**	—

	¥418,485	¥397,802	**$3,133,784**	—

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

Fiscal Year ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2024	¥170,773	$1,278,813
2025	124,577	932,886
2026	206,338	1,545,138
2027	38,768	290,308
2028	10,095	75,600
2029 and thereafter	38,707	289,852
	¥589,258	$4,412,597

At March 31, 2023, the Company had overdraft facilities or line-of-credit agreements with 46 financial institutions that were set up in order to procure working capital efficiently. The unused committed lines of credit under such agreements at March 31, 2023, totaled ¥316,411 million ($2,369,410 thousand).

At March 31, 2022, the Company had overdraft facilities or line-of-credit agreements with 42 financial institutions that were set up in order to procure working capital efficiently. The unused committed lines of credit under such agreements at March 31, 2022, totaled ¥300,323 million.

9. Commitment

Loan commitment as lender

As of March 31, 2023 and 2022, the Company had the following balances:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	**2023**
Loan commitment agreements	**¥20,719**	¥32,190	**$155,152**
The loans provided under these credit facilities	**7,587**	16,234	**56,817**
Aggregated balance of loan commitments available for customers of the Company	**¥13,132**	¥15,956	**$98,335**

Depending on the credit standing of borrower, any unused amount will not necessarily be utilized in full.

10. Income Taxes

The Company and its domestic consolidated subsidiaries are subject to Japanese national and local income taxes that, in the aggregate, resulted in a statutory tax rate of approximately 30.62% for the fiscal year ended March 31, 2023 and 2022.

The tax effects of significant temporary differences that resulted in deferred tax assets and liabilities at March 31, 2023 and 2022 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	**2023**
Deferred tax assets:			
Tax adjustments for lease transactions	**¥3,673**	¥5,083	**$27,505**
Allowance for doubtful accounts	**2,519**	3,008	**18,866**
Loss on valuation of investment securities	**1,962**	2,320	**14,695**
Net operating loss carryforwards (*2)	**569**	1,427	**4,257**
Net defined benefit liability	**519**	524	**3,886**
Accrued bonuses	**291**	326	**2,180**
Other	**1,643**	1,285	**12,305**
Subtotal	**11,176**	13,973	**83,694**
Valuation allowance for tax loss carryforward (*2)	**(564)**	(183)	**(4,225)**
Valuation allowance for total amount of deductible temporary differences and other	**(791)**	(1,699)	**(5,930)**
Valuation allowance (*1)	**(1,355)**	(1,882)	**(10,155)**
Total deferred tax assets	**¥9,821**	¥12,091	**$73,539**
Deferred tax liabilities:			
Net unrealized gain on marketable securities	**(656)**	(465)	**(4,912)**
Other	**(272)**	(634)	**(2,034)**
Total deferred tax liabilities	**(928)**	(1,099)	**(6,946)**
Net deferred tax assets	**¥8,893**	¥10,992	**$66,593**

(*1) The amount of valuation allowance decreased by ¥526 million ($3,941 thousand). The main component of this decrease is due to the decrease of valuation allowance for tax loss carryforward of the consolidated subsidiary, RISA Partners, Inc.
(*2) The amounts of tax loss carryforward and related deferred tax assets by carryforward period at March 31, 2023 are as follows:

	Millions of Yen						
	Due within 1 year	**Due after 1 year through 2 years**	**Due after 2 years through 3 years**	**Due after 3 years through 4 years**	**Due after 4 years through 5 years**	**Due after 5 years**	**Total**
Net operating loss carryforwards (a)	**¥4**	**¥—**	**¥—**	**¥—**	**¥—**	**¥564**	**¥568**
Valuation allowance	**—**	**—**	**—**	**—**	**—**	**(564)**	**(564)**
Deferred tax assets	**4**	**—**	**—**	**—**	**—**	**—**	**(b)4**

	Thousands of U.S. Dollars						
	Due within 1 year	**Due after 1 year through 2 years**	**Due after 2 years through 3 years**	**Due after 3 years through 4 years**	**Due after 4 years through 5 years**	**Due after 5 years**	**Total**
Net operating loss carryforwards (a)	**$32**	**$—**	**$—**	**$—**	**$—**	**$4,225**	**$4,257**
Valuation allowance	—	—	—	—	—	**(4,225)**	**(4,225)**
Deferred tax assets	**32**	—	—	—	—	—	**(b) 32**

(a) Tax loss carryforward is the amount after multiplying the statutory tax rate.
(b) Deferred tax assets of ¥4 million ($32 thousand) are recognized for tax loss carryforward of ¥568 million ($4,257 thousand), which is the amount after multiplying the statutory tax rate. Deferred tax assets of ¥4 million ($32 thousand) are mainly recognized for certain part of tax loss carryforward of RISA Partners, Inc. As for the above tax loss carryforward, it considered to be recoverable since future taxable income will be available.

The reconciliation between the statutory income tax rate and the effective income tax rate for the fiscal years ended March 31, 2023 and 2022 were as follows:

	2023	2022
Statutory tax rate	**30.62%**	30.62%
(Reconciliation)		
Amortization of goodwill	**0.40%**	0.55%
Adjustment related to distribution of net income of anonymous partnerships attributable to non-controlling interests	**(7.29%)**	(6.27%)
Valuation allowance	**(4.86%)**	(31.11%)
Expiration of net operating loss carryforwards	**—%**	19.00%
Different tax rates applied by consolidated subsidiaries	**2.45%**	3.38%
Aggregation of income earned by foreign subsidiaries	**3.50%**	0.77%
Inhabitant tax on per capita basis etc.	**0.41%**	0.42%
Equity in earnings of affiliates	**0.07%**	(0.04%)
Other	**(0.51%)**	2.88%
Effective tax rate	**24.79%**	20.20%

11. Accrued Retirement Benefits

The Company has a defined-benefit corporate pension plan, a defined-benefit plan with guaranteed benefits and a defined-contribution pension plan, as well as a severance indemnity plan covering virtually all employees other than directors and corporate auditors. The defined-benefit corporate pension plan is a cash balance pension plan sponsored by NEC Group and established in December 2003.

Under the terms of these plans, eligible employees are entitled to lump-sum payments or annuity payments based on their level of compensation upon termination and their years of service with the Company.

The Company transferred its pension plan from a defined benefit plan to a defined contribution plan on April 1, 2023. Loss of ¥21 million arising from this transfer is recorded under Other income (expenses) for the fiscal year ended March 31, 2023 as “loss on revision of retirement benefit plan”, based on “Accounting for Transfer between Retirement Benefit Plans” (ASBJ Guidance No. 1, January 31, 2002, revised on December 16, 2016) and “Practical Solution on Accounting for Transfer between Retirement Benefits Plans” (ASBJ PITF No. 2, March 29, 2002, revised on February 7, 2007).

Certain consolidated subsidiaries have joined in multi-employer defined-benefit corporate pension plan from the current fiscal year, however, for certain plans in which the amount of plan assets corresponding to the Company’s contribution cannot be reasonably calculated, the amount is accounted for the same manner as defined-contribution plan.

Defined benefit plans at March 31, 2023 and 2022 were as follows:

(1) Reconciliation of changes in defined benefit obligations

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	**2023**
Defined benefit obligations at beginning of year	**¥4,628**	¥4,658	**$34,655**
Service cost	**229**	238	**1,717**
Interest cost	**51**	51	**381**
Actuarial gains and losses	**4**	(8)	**32**
Benefits paid	**(476)**	(311)	**(3,567)**
Reduction due to transition to a defined contribution plan	**(1,240)**	―	**(9,285)**
Defined benefit obligations at end of year	**¥3,196**	¥4,628	**$23,933**

(2) Reconciliation of changes in plan assets

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	**2023**
Plan assets at beginning of year	**¥2,917**	¥2,940	**$21,841**
Expected return on plan assets	**73**	74	**546**
Actuarial gains and losses	**(48)**	(28)	**(362)**
Employer contributions	**91**	98	**683**
Benefits paid	**(270)**	(167)	**(2,019)**
Reduction due to transition to a defined contribution plan	**(1,262)**	―	**(9,448)**
Plan assets at end of year	**¥1,501**	¥2,917	**$11,241**

(3) Reconciliation between defined benefit obligations (plan assets) and amounts of net defined benefit liability (asset) recognized in the consolidated balance sheet

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	**2023**
Defined benefit obligations (funded)	**¥1,209**	¥2,595	**$9,054**
Plan assets	**(1,501)**	(2,917)	**(11,241)**
Subtotal	**(292)**	(322)	**(2,187)**
Defined benefit obligations (unfunded)	**1,987**	2,033	**14,880**
Net liability (asset) recognized in the consolidated balance sheet	**¥1,695**	¥1,711	**$12,693**
Net defined benefit liability	**2,035**	2,077	**15,238**
Net defined benefit asset	**(340)**	(366)	**(2,545)**
Net liability (asset) recognized in the consolidated balance sheet	**¥1,695**	¥1,711	**$12,693**

(4) Retirement benefit expenses

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	**2023**
Service cost	**¥229**	¥238	**$1,717**
Interest cost	**51**	51	**381**
Expected return on plan assets	**(73)**	(73)	**(546)**
Amortization of actuarial gains and losses	**20**	(193)	**149**
Retirement benefit expenses	**¥227**	¥23	**$1,701**
Gains and losses associated with the transition to a defined contribution plan (Note)	**¥22**	－	**$165**

(Note)Other income (expenses) was recorded as a "loss on revision of retirement benefit plan."

(5) Adjustment amount of defined benefit plans

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	**2023**
Actuarial gains and losses	**¥(33)**	¥(213)	**$(245)**
Total	**¥(33)**	¥(213)	**$(245)**

(6) Remeasurement of defined benefit plans

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	**2023**
Unrecognized actuarial gains and losses	**¥53**	¥20	**$394**
Total	**¥53**	¥20	**$394**

(7) Percentage by major category of plan assets

	2023	2022
Debt securities	**58.7%**	61.9%
Equity securities	**23.3%**	25.4%
General account	**16.1%**	8.4%
Other	**1.9%**	4.3%
Total	**100.0%**	100.0%

In determining long-term expected rate of return on plan assets, the Company considers the current and projected asset allocations, as well as current and future long-term rate of returns for various categories of the plan assets.

(8) Basis for calculation of actuarial assumption (weighted-average)

	2023	2022
Discount rate	**1.1%**	1.1%
Long-term expected rate of return on plan assets	**2.5%**	2.5%

(Note) Defined benefit plans include multi-employer pension plans.

The amount to be paid by the Company to the defined contribution plans was ¥69 million ($519 thousand) for the fiscal year ended March 31, 2023 and ¥65 million for the fiscal year ended March 31, 2022.

The amount to be paid to the multi-employer pension plans, which are accounted for the same manner as the defined-contribution pension plan, were ¥259 million ($1,939 thousand) and ¥302 million for the years ended March 31, 2023 and 2022, respectively.

(1) Fund status of the multi-employer pension plans

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	**2023**
Plan assets	**¥77,272**	¥62,838	**$578,643**
Actuarial obligations for pension plan finance calculation	**75,263**	61,220	**563,599**
Net amount	**¥2,009**	¥1,618	**$15,044**

(2) Ratio of the Group's contribution to the total contributions of the multi-employer pension plans

For the fiscal year ended March 31, 2023 1.35% (From January 1, 2022 to December 31, 2022)

For the fiscal year ended March 31, 2022 1.81% (From January 1, 2021 to December 31, 2021)

(3) Supplementary explanation

The main factors of Net amount listed above (1) were general reserve (¥1,617 million ($12,109 thousand) and ¥1,189 million for the fiscal years ended March 31, 2023 and 2022, respectively) and Retained Earnings (¥390 million ($2,920 thousand) and ¥428 million for the fiscal years ended March 31, 2023 and 2022, respectively). In addition, ratio listed above (2) does not match the actual ratio afforded by the Group.

12. Lease Transactions

Information relating to finance leases of the Company as lessor for the fiscal year ended March 31, 2023 and 2022 is summarized as follows:

(1) Components of investment in leases

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	**2023**
Lease payments receivables	**¥441,840**	¥454,420	**$3,308,675**
Estimation of residual value	**16,638**	16,277	**124,589**
Unearned interest income	**(20,469)**	(21,414)	**(153,279)**
Investment in leases	**¥438,009**	¥449,283	**$3,279,985**

(2) Collecting schedule of lease payments receivables after the fiscal year-ends

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	**2023**
Lease receivables			
Due within 1 year	**¥27,418**	¥26,640	**$205,320**
Due after 1 year through 2 years	**21,355**	20,647	**159,916**
Due after 2 years through 3 years	**15,372**	15,518	**115,114**
Due after 3 years through 4 years	**9,364**	10,015	**70,122**
Due after 4 years through 5 years	**4,196**	4,303	**31,421**
Due after 5 years	**5,060**	6,042	**37,892**
Investment in leases			
Due within 1 year	**¥154,178**	¥150,790	**$1,154,542**
Due after 1 year through 2 years	**112,956**	117,820	**845,862**
Due after 2 years through 3 years	**80,089**	84,900	**599,735**
Due after 3 years through 4 years	**49,028**	53,283	**367,143**
Due after 4 years through 5 years	**24,526**	23,698	**183,662**
Due after 5 years	**21,063**	23,928	**157,731**

(3) Future lease receivables under non-cancelable operating leases

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	**2023**
Due within 1 year	**¥3,531**	¥3,184	**$26,438**
Due after 1 year	**16,871**	17,741	**126,338**
Total	**¥20,402**	¥20,925	**$152,776**

Future lease payments under non-cancelable operating leases are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	**2023**
Due within 1 year	**¥1,656**	¥1,569	**$12,398**
Due after 1 year	**11,440**	12,240	**85,668**
Total	**¥13,096**	¥13,809	**$98,066**

13. Pledged Assets

Assets pledged as collateral as of March 31, 2023 and 2022 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	**2023**
Lease receivables and investment in leases	**¥1,279**	¥1,313	**$9,581**
Operational investment securities	**4,081**	—	**30,558**
Real estate for sale	**1,849**	10,542	**13,844**
Leased assets	**1,504**	1,492	**11,265**
Other operating assets	**922**	985	**6,905**
Total	**¥9,635**	¥14,332	**$72,153**

Liabilities secured by the assets pledged as collateral as of March 31, 2023 and 2022 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	**2023**
Bonds payable	**100**	100	**749**
Long-term debt due within a year	**378**	358	**2,828**
Long-term debt	**3,407**	9,683	**25,514**
Total	**¥3,885**	¥10,141	**¥29,091**

Besides the above, the following assets which have been eliminated in consolidation are pledged as collateral

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	**2023**
Investments in capital of subsidiaries and affiliates	**¥128**	¥128	**$957**
Total	**¥128**	¥128	**$957**

Assets pledged for loans of companies which were borrowed from the third parties, etc. as of March 31, 2023 and 2022 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	**2023**
Accounts receivable - Loans	**¥1,206**	¥1,294	**$9,033**
Operational investment securities	—	3,160	—
Investment securities	**1,133**	1,022	**8,483**
Other (Investments and other assets)	**31**	31	**232**
Total	**¥2,370**	¥5,507	**$17,748**

14. Financial Instruments
Year ended March 31, 2023

1. Financial instruments

(1) Policies for financial instruments

The Group provides financial services, such as leases, installment sales, and corporate loans, to a wide range of customers, including public offices, local governments, large companies, and small and medium enterprises. The Group also offers services, such as factoring, settlement and collection agency services, and securitization, meeting the financial needs of a diverse array of customers. In addition to these, the Group deal with overseas loans and investments denominated in foreign currencies, certain consolidated subsidiaries also make investments in corporate equities, loans receivable and real estate directly and indirectly through funds.

With a basic policy of maintaining the consistency of funding with its operating assets, the Group manages its funding based on the changes in operating and other assets. Specifically, taking into account the market conditions and the balance of short-term and long-term products or direct and indirect products, the Group raises funds using a range of methods, including bank borrowings as the main funding source, issuance of corporate bonds and commercial paper, and securitized receivables.

The Group's operating assets are comprised principally of those with fixed interest rates such as investment in leases. However, the Group primarily utilizes variable-rate debt obligations to raise funds. The variable-rate debt obligations expose the Group to fluctuations in cash flows as well as profit margin due to change in interest rates. Therefore, the Group strives to properly manage risks associated with fluctuations in interest rates and liquidity risks by carrying out appropriate operating assets and liabilities management (ALM).

With respect to the risks from the fluctuations of interest rates, the Group uses interest rate swaps to hedge the risks of fluctuations in both the present and future profit margin of the Group. The Group does not hold or issue derivative instruments for trading or speculative purposes.

(2) Details and the risks of financial instruments

Operating receivables mainly consist of installment sales receivable, lease receivables and investment in leases, accounts receivable, loans receivable and purchased receivables, and are exposed to the customers' credit risk.

Repayments of these operating receivables are made over a long term from the commencement to the termination of transactions. Consequently, obligations may not be fulfilled in accordance with contracts due to delinquency or bankruptcy, etc., as a result of changes in the economic environment and other factors.

Operational investment securities, securities and investment securities mainly comprise stocks, bonds, trust beneficiary rights, and investments in partnerships, excluding short-term financial assets. These securities are exposed to credit risks associated with the issuers of the securities, risks associated with fluctuations of interest rates, risks of foreign exchange, and risks associated with fluctuations in market prices.

The Group enters into derivative transactions including interest rate swap transactions for hedging the risks of interest rate and currency swap transactions for hedging the risks of foreign exchange. The Group's derivative instruments are exposed to market risks.

Moreover, because the Group borrows funds mainly based on variable rates, the Group is exposed to the risks of interest rate fluctuations. The Group manages these risks by entering into interest rate swap transactions.

The Group primarily uses pay-fixed, receive-variable interest rate swaps to effectively change variable-rate debt obligations to fixed-rate debt obligations to the extent that there are fixed rate operating assets. Therefore, market risks of the hedging derivative instruments are offset by those of the fixed rate operating assets.

To manage the fluctuations in cash flows caused by interest rate changes, the Group enters into interest rate swaps as a hedging instrument. The Group accounts for the interest rate swaps by using hedge accounting. If the criteria for hedge accounting are not met, the Group's profit or loss may be affected. The hedge accounting method, hedging instruments and hedged items, hedging policy, and assessment method of the effectiveness of hedging are discussed in Note 2. k).

The Group is exposed to liquidity risks arising from its borrowings, corporate bonds and commercial paper. That is, if the Group cannot raise funds through the markets for these instruments under certain circumstances, the Group may not be able to make payments on the relevant due dates.

(3) Risk management

(i) Credit risk management

The Group mitigates credit risks for business transactions through monitoring each customer periodically, managing due dates and outstanding balances, and monitoring the difficulty of collection caused by the deterioration of customers' financial positions in accordance with the internal rules.

a) Leases, installment sales and corporate loans

The Credit Department and the Credit Management Department as well as the relevant sales departments are responsible for the management of credit risks of leases, installment sales and corporate loans.

Moreover, at the Management Meeting and meetings of the Board of Directors held on a regular basis, the credit status is reported and examined. In connection with each credit transaction, the Company performs a customer credit evaluation based on the relevant customer's business performance, financial position, projected cash flow, and others. After the evaluation, the Company sets credit limits, internal credit ratings, collateral or guarantees, and terms and conditions of the transaction.

After the transaction has been made, the Company regularly monitors business performance, collateral and progress of repayment by each customer, and revises credit limits when necessary.

In the event of a default due to delinquency, bankruptcy, or others, the Company seeks to protect its claims in accordance with its operating manuals.

With respect to the credit risks of large borrowers, the Management Meeting examines credit limits of those borrowers. Moreover, at meeting of the Board of Directors held on a regular basis, the outstanding balances of claims, internal credit ratings, terms and conditions of the transactions are reported.

b) Securities and purchased receivables

With respect to securities that are held for operational purposes, market prices are periodically assessed for marketable securities and financial conditions of issuers are regularly monitored for the other securities.

With respect to purchased receivables, loans, operational investment securities, and investment securities held by certain consolidated subsidiaries, credit risks of customers or issuers are monitored in accordance with the internal rules and operating manuals. The results of the monitoring are periodically reported to their presidents.

c) Derivative transactions

In dealing with counterparty risks in derivative transactions, the Company's Finance Department monitors the credit risks of financial institutions to avoid losses that arise if the relevant financial institution fails to meet its obligations.

(ii) Market risk management

a) Risks of interest rate fluctuations

As part of ALM, the Group manages the risks of interest rate fluctuations, mainly by using interest rate derivatives. The Group has internal policies of risk management that stipulate risk hedging policies, hedging plan and reporting process. The Board of Directors must approve the hedging plan before the transaction is made.

The Finance Department comprehensively monitors the interest rates and terms of financial assets and liabilities on a continuous basis, and manages risks by utilizing value at risk (VaR). At least once a month, the department reports the status of transactions and current operational strategies to the President of the Company.

With respect to the operation and management of derivative transactions conducted by certain consolidated subsidiaries, the transaction policies and authorization rules are established and derivative transactions are approved through a decision-making process based on a request for approval.

b) Risks of foreign exchange

Both domestic and overseas subsidiaries manage the risks of foreign exchange on operating assets denominated in foreign currencies for each individual transaction. In addition to matching balance of foreign currency denominated assets and liabilities, they have entered into currency swap transactions in order to hedge the risks of foreign exchange. The status on the risks of foreign exchange has been reported regularly to the ALM committee.

c) Risks of price fluctuations

The Group invests in securities for the purpose of customer intimacy in addition to operational investments. The Finance Department regularly monitors market information to manage risks of these securities. This information is reported to the Management Meeting on a regular basis.

d) Derivative transactions

The Company enters into derivative transactions in accordance with its internal policies. The policies include the objectives for derivative instruments, risk management policies and procedures (including authorization, responsibilities and reporting).

In addition, the Company maintains segregation of duties between those with the authority to enter into derivative transactions (front office) and those responsible for bookkeeping (back office) by assigning different employees in the Finance Department.

e) Quantitative information about market risks

The financial instruments affected by the risks of interest rate fluctuations are installment sales receivable, lease receivables and investment in leases, loans receivable, investment securities, long-term debt, bonds and interest rate swaps of derivative transactions.

The risks of interest rate fluctuations of long-term fixed rate assets and liabilities are measured by VaR. The Company calculates VaR using a historical simulation method (holding period of one year, confidence level of 99%, and observation period of ten years) and periodically performs backtesting to confirm and verify its effectiveness.

In addition, calculation method of VaR has changed from variance-covariance method to historical simulation method in order to reflect past long-term market fluctuation to risk volume, and observation period which is a part of main preconditions has changed from one to ten years in this fiscal year.

As of March 31, 2023, the total market risk quantity (estimated amount of losses) of long-term fixed rate assets and liabilities was ¥14 million ($105 thousand).

(iii) Liquidity risk management

The Group mitigates the liquidity risks for funding (risks that the Group will be unable to repay on a repayment date) by using procedures such as follows:

・Appropriately maintain the relationship between cash flows from operating assets and those for operating liabilities on ALM

・Prepare and update the cash flow plan on a timely basis

・Seek diversification of funding sources

・Maintain an appropriate level of liquidity on hand

(4) Supplementary explanation about fair value of financial instruments

Fair values of financial instruments are based on market prices and, in cases where market prices are not available, reasonably calculated prices. Such prices have been calculated based on certain assumptions, and may differ if calculated based on different assumptions.

With respect to the notional amount of derivative transactions in Note 15 "Derivatives," they do not present the Company's exposure to market risks of such derivative transactions.

2. Fair value of financial instruments

	Millions of Yen			Thousands of U.S. Dollars		
	Amount recorded in the consolidated balance sheet	Fair Value	Difference	Amount recorded in the consolidated balance sheet	Fair Value	Difference
(1) Lease receivables and investment in leases	¥517,945			$3,878,577		
Allowance for doubtful accounts (*3)	(1,670)			(12,506)		
(*4)	516,275	512,417	(3,858)	3,866,071	3,837,179	(28,892)
(2) Installment sales receivable	38,828			290,763		
Allowance for doubtful accounts (*3)	(319)			(2,389)		
	38,509	38,150	(359)	288,374	285,679	(2,695)
(3) Loans receivable	231,612			1,734,401		
Allowance for doubtful accounts (*3)	(6,464)			(48,405)		
	225,148	224,442	(706)	1,685,996	1,680,712	(5,284)
(4) Operational investment securities and Investment securities(*6) ,(*7)	8,243	8,243	—	61,724	61,724	—
Total assets	¥788,175	¥783,252	¥(4,923)	$5,902,165	$5,865,294	$(36,871)
(1) Bonds	¥100,150	¥99,135	¥(1,015)	$749,963	$742,363	$(7,600)
(2) Long-term debt	485,122	484,916	(206)	3,632,787	3,631,242	(1,545)
Total liabilities	¥585,272	¥584,051	¥(1,221)	$4,382,750	$4,373,605	$(9,145)
Derivatives (*5)	¥(2,594)	¥(2,594)	¥—	$(19,428)	$(19,428)	$—

(*1) "Cash and cash equivalents" are not disclosed because they are cash and are settled in a short period of time and their fair value approximates their book value. "Accounts receivable – leases", "Income taxes receivable", "Notes and accounts payable-trade", "Short-term borrowings", "Accounts payable, other", "Accrued income taxes" and "Deposits received" are not disclosed as well because they are settled in a short period of time and their fair value approximates their book value.

(*2) "Purchased receivables", "Receivables from companies in bankruptcy and reorganization" and "Payables under securitized lease receivables" are not disclosed because they are quantitatively immaterial.

(*3) An allowance for doubtful accounts that has been provided for installment sales receivable, lease receivables and investment in leases, loans receivable has been deducted.

(*4) The amounts presented in the consolidated balance sheet and the fair value provided for include the estimated residual value.

(*5) The amount of assets and liabilities incurred from derivative transactions is presented on a net basis. Items that fall into net liabilities are presented in ( ).

(*6) Investments securities that do not have quoted market prices are not included in "Asset (4) Operational investment securities and investment securities" and the amount recognized in the consolidated balance sheet is as follows.

	Amount presented in the consolidated balance sheet	
	Millions of Yen	Thousands of U.S. Dollars
Unlisted stocks	¥34,003	$254,628

(*7) The investment in partnerships and other similar entities recognized at the net amount corresponding to the portion pertaining to the equity interests owned by the Company on the consolidated balance sheet are not disclosed. The book value of such investments recognized on the consolidated balance sheet is ¥42,366 million ($317,253 thousand).

The following table shows the scheduled maturity payments of monetary claims and securities with maturity dates after March 31, 2023

Millions of Yen

	Millions of Yen			
	Due within 1 year	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and cash equivalents	¥35,558	¥—	¥—	¥—
Lease receivables and investment in leases (*1)(*2)	181,596	316,887	20,830	5,294
Installment sales receivables (*1)(*2)	19,255	20,141	315	—
Loans receivables (*2)	124,240	92,616	14,061	1,851
Accounts receivables-leases (*2)	22,035	—	—	—
Purchased receivables (*3)	4,061	4,066	295	32
Income taxes receivable	754	—	—	—
Available-for-sale securities				
Debt/bond	—	235	533	—
Total	¥387,499	¥433,945	¥36,034	¥7,177

	Thousands of U.S. Dollars			
	Due within 1 year	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and cash equivalents	$266,271	$—	$—	$—
Lease receivables and investment in leases (*1)(*2)	1,359,862	2,372,975	155,981	39,643
Installment sales receivable (*1)(*2)	144,197	150,825	2,355	—
Loans receivables (*2)	930,358	693,543	105,292	13,863
Accounts receivable-leases (*2)	165,003	—	—	—
Purchased receivables (*3)	30,408	30,444	2,217	239
Income taxes receivable	5,644	—	—	—
Available-for-sale securities				
Debt/bond	—	1,762	3,991	—
Total	$2,901,743	$3,249,549	$269,836	$53,745

(*1) The amount of interest income is included in the maturity table above.
(*2) Receivables from companies in bankruptcy and reorganization of ¥2,014 million ($15,087 thousand) are not included in the table above, because payments are not expected to be collected on schedule.
(*3) Purchased receivables of ¥3,965 million ($29,696 thousand) are not included in the table above, because payments are not expected to be collected on schedule.

The following table shows the scheduled maturity payments of unsecured bonds, long-term debt and other interest-bearing liabilities subsequent to March 31, 2023.

	Millions of Yen					
	Due within 1 year	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
Short-term borrowings	¥270,091	¥—	¥—	¥—	¥—	¥—
Unsecured bonds	20,000	15,000	20,000	15,000	150	30,000
Long-term debt	149,486	109,094	185,917	23,568	9,745	7,312
Payables under securitized lease receivables	1,287	484	421	200	200	1,394
Total	¥440,864	¥124,578	¥206,338	¥38,768	¥10,095	¥38,706

	Thousands of U.S. Dollars					
	Due within 1 year	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
Short-term borrowings	$2,022,545	$—	$—	$—	$—	$—
Unsecured bonds	149,768	112,326	149,768	112,326	1,123	224,652
Long-term debt	1,119,410	816,937	1,392,219	176,484	72,980	54,756
Payables under securitized lease receivables	9,635	3,623	3,151	1,498	1,497	10,443
Total	$3,301,358	$932,886	$1,545,138	$290,308	$75,600	$289,851

3. Fair value of financial instruments by each level

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

Level 1 fair value: Fair value is calculated based on quoted prices of assets or liabilities subject to the calculation of fair values that are formed in an active market out of observable inputs to a fair value measurement.

Level 2 fair value: Fair value is calculated based on inputs that are other than the inputs to a fair value measurement of level 1, out of observable inputs to a fair value measurement.

Level 3 fair value: Fair value is calculated based on unobservable inputs.
When multiple inputs that have a significant effect on fair value measurement are used, fair value is classified into the level with the lowest priority in the calculation of fair value among the levels to which those inputs belong.

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

March 31, 2023

	Fair value (Millions of Yen)			
	Level 1	Level 2	Level 3	Total
Operational investment securities and investment securities				
Other securities				
Equity securities	¥1,694	¥88	¥—	¥1,782
Debt securities	—	—	720	720
Other	656	5,084	—	5,740
Derivative transactions				
Interest-related transactions	—	172	—	172
Total assets	¥2,350	¥5,344	¥720	¥8,414
Derivative transactions				
Currency-related transactions	—	(2,767)	—	(2,767)

Total liabilities	¥—	¥(2,767)	¥—	¥(2,767)

March 31, 2023

	Fair value (Thousands of U.S. Dollars)			
	Level 1	Level 2	Level 3	Total
Operational investment securities and investment securities				
Other securities				
Equity securities	$12,692	$655	$—	$13,347
Debt securities	—	—	5,393	5,393
Other	4,909	38,076	—	42,985
Derivative transactions				
Interest-related transactions	—	1,290	—	1,290
Total assets	$17,601	$40,021	$5,393	$63,015
Derivative transactions				
Currency-related transactions	—	(20,718)	—	(20,718)
Total liabilities	$—	$(20,718)	$—	$(20,718)

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

March 31, 2023

	Fair value (Millions of Yen)			
	Level 1	Level 2	Level 3	Total
Installment sales receivables	¥—	¥—	¥38,150	¥38,150
Lease receivables and investment in leases	—	—	512,417	512,417
Loans receivables	—	—	224,442	224,442
Total assets	¥—	¥—	¥775,009	¥775,009
Bonds (including current portion)	—	98,986	150	99,136
Long-term debt (including current portion)	—	—	484,916	484,916
Total liabilities	¥—	¥98,986	¥485,066	¥584,052

March 31, 2023

	Fair value (Thousands of U.S. Dollars)			
	Level 1	Level 2	Level 3	Total
Installment sales receivables	$—	$—	$285,678	$285,678
Lease receivables and investment in leases	—	—	3,837,178	3,837,178
Loans receivables	—	—	1,680,712	1,680,712
Total assets	$—	$—	$5,803,568	$5,803,568
Bonds (including current portion)	—	741,242	1,121	742,363
Long-term debt (including current portion)	—	—	3,631,242	3,631,242
Total liabilities	$—	$741,242	$3,632,363	$4,373,605

(Note 1) Description of the valuation techniques and inputs used to measure fair value

Operational investment securities and investment securities

The fair values of securities for which unadjusted quoted prices in active markets are available are classified as Level 1. The fair values of securities for which quoted prices are available, but their markets are inactive, are classified as Level 2.

The fair value of investment trusts without market prices is based on a unit price if there are no restrictions that are significant enough to cause market participants to demand compensation for risks with respect to cancellation or repurchase requests, and the fair value is categorized as level 2.

The fair values of private placement bonds are determined based on reasonably estimated amounts and their discount rates are not observable, and therefore, these are classified as Level 3.

Derivative transactions

The fair values of derivative transactions are determined based on quotes obtained provided by dealers and financial institutions and these are classified as level 2 if observable inputs are available or the impact of unobservable inputs to the fair value is immaterial.

Installment sales receivables, lease receivables and lease investments

The fair values of these items are calculated by the present values based on the sum of principal and interest of each contract discounted by interest rates estimated to be applied to similar new transactions and these are classified as level 3.

The fair values of the doubtful receivables are calculated based on the estimated future cash flows of each contract discounted by risk-free rate and these are classified as level 3.

Loans receivables

With respect to loans receivables with variable interest rates, the interest rates reflect the market interest rates in the short term. Unless the credit conditions of debtors significantly change after the executions of loans, the book values of such loans receivables are presented as the fair values because their fair value approximates their book value and these are classified as level 3. With respect to loans receivables with fixed interest rates, the fair values are determined based on the present values that are calculated by discounting the estimated future cash flows of each contract at interest rates estimated to be applied if newly obtaining a loan with similar terms and conditions and these are classified as level 3.

The fair values of the doubtful receivables are calculated based on the estimated future cash flows of each contract discounted by risk-free rate and these are classified as level 3.

Bonds

The fair values of bonds issued by the Company are determined based on their published market prices and these are classified as level 2.

The fair values of bonds issued by the consolidated subsidiaries of the Company are determined by the present values based on the sum of principal and interest of such bonds discounted by the interest rates estimated to be applied if newly procuring funds with similar terms and conditions and these are classified as level 3.

Long-term debt

With respect to long-term debt with variable interest rates, the interest rate reflects the market interest rates in the short term. Accordingly, the book values of such debt are presented as the fair values because their fair value approximates their book value and these are classified as level 3.

With respect to long-term debt with fixed interest rates, the fair values are determined based on the present values that are calculated by discounting the estimated future cash flows of each debt at interest rates estimated to be applied if newly obtaining a debt with similar terms and conditions and these are classified as level 3.

(Note 2) Information concerning the fair values of level 3 financial assets and liabilities that are stated at fair value in the consolidated balance sheet.

(1) Quantitative information on significant unobservable inputs

March 31, 2023

	Valuation technique	Significant unobservable inputs	Range of inputs	Weighted average of inputs
Operational investment securities and investment securities				
Other securities				
Debt securities	Present value method	Discount rate	5.2%-7.0%	6.3%

(2) Reconciliation between beginning balance and ending balance, and net unrealized gains (losses) recognized in profit or loss in the period

Year ended March 31, 2023

	(Millions of Yen)		(Thousands of U.S. Dollars)	
	Operational investment securities and investment securities	Total	Operational investment securities and investment securities	Total
	Other securities		Other securities	
	Debt securities		Debt securities	
Beginning balance	¥801	¥801	$6,001	$6,001
Recognized in profit or loss or other comprehensive income for the year				
Recognized in profit or loss (*1)				
Recognized in other comprehensive income (*2)	7	7	53	53
Purchases, sales, issuance and redemption				
Purchases	50	50	374	374
Sales	—	—	—	—
Issuance	—	—	—	—
Redemption	—	—	—	—
Reclassification to Level 3 fair value	—	—	—	—
Reclassification from level 3 fair value	—	—	—	—
Other	(138)	(138)	(1,036)	(1,036)
Ending balance	¥720	¥720	$5,392	$5,392
Net unrealized gains (losses) recognized in the period with respect to those financial assets and liabilities held at the end of the period. (*1)	—	—	—	—

(*1) Included in "Costs" in the consolidated statements of income

(*2) Included in "Net unrealized gains (losses) on marketable securities" of "Other comprehensive income (loss)" in the consolidates statements of comprehensive income.

(3) Description of the fair value measurement process

The Company develops valuation techniques and methods for classifying fair value levels in accordance with the policies concerning fair value measurement and classification of fair value levels. The Company also verifies the appropriateness of the valuation techniques used to determine fair value, the inputs used, the calculated fair values and classified fair value levels in accordance with such policies.

(4) Description of the effects of the fair value with respect to changes in significant unobservable inputs

Significant unobservable inputs used to calculate the fair values of debt securities with fixed rates included in other securities are considered as discount rates. The discount rates represent estimates of interest rates to be applied when new similar transactions. Generally, a significant decline (increase) in discount rates causes a significant increase (decline) in their fair values.

Year ended March 31, 2022

1.Fair value of financial instruments

	Millions of Yen		
	Amount recorded in the consolidated balance sheet	Fair Value	Difference
(1) Lease receivables and investment in leases	¥529,610		
Allowance for doubtful accounts (*3)	(2,094)		
(*4)	527,516	528,340	824
(2) Installment sales receivable	35,342		
Allowance for doubtful accounts (*3)	(256)		
	35,086	34,952	(135)
(3) Loans receivable	217,254		
Allowance for doubtful accounts (*3)	(6,375)		
	210,879	211,381	502
(4) Operational investment securities and Investment securities(*6) ,(*7), (*8)	3,712	3,712	—
Total assets	¥777,193	¥778,385	¥1,191
(1) Bonds	¥110,150	¥109,811	¥(339)
(2) Long-term debt	485,328	485,711	383
Total liabilities	¥595,478	¥595,522	¥44
Derivatives (*5)	¥(1,967)	¥(1,967)	¥—

(*1) "Cash and cash equivalents" are not disclosed because they are cash and are settled in a short period of time and their fair value approximates their book value. "Accounts receivable – leases", "Income taxes receivable", "Notes and accounts payable-trade", "Short-term borrowings", "Accounts payable, other", "Accrued income taxes" and "Deposits received" are not disclosed as well because they are settled in a short period of time and their fair value approximates their book value.

(*2) "Purchased receivables", "Receivables from companies in bankruptcy and reorganization" and "Payables under securitized lease receivables" are not disclosed because they are quantitatively immaterial.

(*3) An allowance for doubtful accounts that has been provided for installment sales receivable, lease receivables and investment in leases, loans receivable has been deducted.

(*4) The amounts presented in the consolidated balance sheet and the fair value provided for include the estimated residual value.

(*5) The amount of assets and liabilities incurred from derivative transactions is presented on a net basis. Items that fall into net liabilities are presented in ( ).

(*6) Investments securities that do not have quoted market prices are not included in "Asset (4) Operational investment securities and investment securities" and the amount recognized in the consolidated balance sheet is as follows.

	Amount presented in the consolidated balance sheet
	Millions of Yen
Unlisted stocks	¥25,090

(*7) The investment in partnerships and other similar entities recognized at the net amount corresponding to the portion pertaining to the equity interests owned by the Company on the consolidated balance sheet are not disclosed. The book value of such investments recognized on the consolidated balance sheet is ¥34,861 million.

(*8) The fair value of investment trusts that have no quoted market price is not disclosed in accordance with the transitional treatment of the paragraph 26 of "Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, July 4, 2019). The book value of such investment trusts recognized on the consolidated balance sheet is ¥6,440 million.

The following table shows the scheduled maturity payments of monetary claims and securities with maturity dates after March 31, 2022

Millions of Yen

	Millions of Yen			
	Due within 1 year	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and cash equivalents	¥37,467	¥—	¥—	¥—
Lease receivables and investment in leases (*1)(*2)	177,431	330,185	23,428	6,542
Installment sales receivables (*1)(*2)	16,833	19,187	271	—
Loans receivables (*2)	112,657	86,982	13,673	4,005
Accounts receivables-leases (*2)	20,680	—	—	—
Purchased receivables (*3)	1,293	2,802	923	315
Income taxes receivable	371	—	—	—
Available-for-sale securities				
Debt/bond	—	71	698	388
Total	¥366,732	¥439,227	¥38,993	¥11,250

(*1) The amount of interest income is included in the maturity table above.
(*2) Receivables from companies in bankruptcy and reorganization of ¥1,856 million are not included in the table above, because payments are not expected to be collected on schedule.
(*3) Purchased receivables of ¥2,677 million are not included in the table above, because payments are not expected to be collected on schedule.

The following table shows the scheduled maturity payments of unsecured bonds, long-term debt and other interest-bearing liabilities subsequent to March 31, 2022.

	Millions of Yen					
	Due within 1 year	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
Short-term borrowings	¥240,581	¥—	¥—	¥—	¥—	¥—
Unsecured bonds	30,000	20,000	15,000	—	15,150	30,000
Long-term debt	171,662	148,128	114,808	33,511	10,227	6,992
Payables under securitized lease receivables	2,385	1,287	484	420	200	1,594
Total	¥444,628	¥169,415	¥130,292	¥33,931	¥25,577	¥38,586

2. Fair value of financial instruments by each level

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

Level 1 fair value: Fair value is calculated based on quoted prices of assets or liabilities subject to the calculation of fair values that are formed in an active market out of observable inputs to a fair value measurement.

Level 2 fair value: Fair value is calculated based on inputs that are other than the inputs to a fair value measurement of level 1, out of observable inputs to a fair value measurement.

Level 3 fair value: Fair value is calculated based on unobservable inputs.
When multiple inputs that have a significant effect on fair value measurement are used, fair value is classified into the level with the lowest priority in the calculation of fair value among the levels to which those inputs belong.

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

March 31, 2022

	Fair value (Millions of Yen)			
	Level 1	Level 2	Level 3	Total
Operational investment securities and investment securities				
Other securities				
Equity securities	¥1,785	¥87	¥−	¥1,872
Debt securities	−	399	801	1,200
Other	640	−	−	640
Derivative transactions				
Interest-related transactions	−	211	−	211
Total assets	¥2,425	¥697	¥801	¥3,923
Derivative transactions				
Currency-related transactions	−	(2,179)	−	(2,179)
Total liabilities	¥−	¥(2,179)	¥−	¥(2,179)

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

March 31, 2022

	Fair value (Millions of Yen)			
	Level 1	Level 2	Level 3	Total
Installment sales receivables	¥−	¥−	¥34,952	¥34,952
Lease receivables and investment in leases	−	−	528,340	528,340
Loans receivables	−	−	211,381	211,381
Total assets	¥−	¥−	¥774,673	¥774,673
Bonds (including current portion)	−	109,661	150	109,811
Long-term debt (including current portion)	−	−	485,710	485,710
Total liabilities	¥−	¥109,661	¥485,860	¥595,521

(Note 1) Description of the valuation techniques and inputs used to measure fair value

Operational investment securities and investment securities

The fair values of securities for which unadjusted quoted prices in active markets are available are classified as Level 1. The fair values of securities for which quoted prices are available, but their markets are inactive, are classified as Level 2.

The fair values of private placement bonds are determined based on reasonably estimated amounts and their discount rates are not observable, and therefore, these are classified as Level 3.

Derivative transactions

The fair values of derivative transactions are determined based on quotes obtained provided by dealers and financial institutions and these are classified as level 2 if observable inputs are available or the impact of unobservable inputs to the fair value is immaterial.

Installment sales receivables, lease receivables and lease investments

The fair values of these items are calculated by the present values based on the sum of principal and interest of each contract discounted by interest rates estimated to be applied to similar new transactions and these are classified as level 3.

The fair values of the doubtful receivables are calculated based on the estimated future cash flows of each contract discounted by risk-free rate and these are classified as level 3.

Loans receivables

With respect to loans receivables with variable interest rates, the interest rates reflect the market interest rates in the short term. Unless the credit conditions of debtors significantly change after the executions of loans, the book values of such loans receivables are presented as the fair values because their fair value approximates their book value and these are classified as level 3. With respect to loans receivables with fixed interest rates, the fair values are determined based on the present values that are calculated by discounting the estimated future cash flows of each contract at interest rates estimated to be applied if newly obtaining a loan with similar terms and conditions and these are classified as level 3.

The fair values of the doubtful receivables are calculated based on the estimated future cash flows of each contract discounted by risk-free rate and these are classified as level 3.

Bonds

The fair values of bonds issued by the Company are determined based on their published market prices and these are classified as level 2.

The fair values of bonds issued by the consolidated subsidiaries of the Company are determined by the present values based on the sum of principal and interest of such bonds discounted by the interest rates estimated to be applied if newly procuring funds with similar terms and conditions and these are classified as level 3.

Long-term debt

With respect to long-term debt with variable interest rates, the interest rate reflects the market interest rates in the short term. Accordingly, the book values of such debt are presented as the fair values because their fair value approximates their book value and these are classified as level 3.

With respect to long-term debt with fixed interest rates, the fair values are determined based on the present values that are calculated by discounting the estimated future cash flows of each debt at interest rates estimated to be applied if newly obtaining a debt with similar terms and conditions and these are classified as level 3.

(Note 2) Information concerning the fair values of level 3 financial assets and liabilities that are stated at fair value in the consolidated balance sheet.

(1) Quantitative information on significant unobservable inputs

March 31, 2022

	Valuation technique	Significant unobservable inputs	Range of inputs	Weighted average of inputs
Operational investment securities and investment securities				
Other securities				
Debt securities	Present value method	Discount rate	4.9%-7.1%	6.0%

(2) Reconciliation between beginning balance and ending balance, and net unrealized gains (losses) recognized in profit or loss in the period

Year ended March 31, 2022

(Millions of Yen)

	Operational investment securities and investment securities Other securities Debt securities	Total
Beginning balance	¥1,795	¥1,795
Recognized in profit or loss or other comprehensive income for the year		
Recognized in profit or loss (*1)	(11)	(11)
Recognized in other comprehensive income (*2)	(8)	(8)
Purchases, sales, issuance and redemption		
Purchases	24	24
Sales	(1,000)	(1,000)
Issuance	–	–
Redemption	–	–
Reclassification to Level 3 fair value	–	–
Reclassification from level 3 fair value	–	–
Ending balance	¥801	¥801
Net unrealized gains (losses) recognized in the period with respect to those financial assets and liabilities held at the end of the period. (*1)	–	–

(*1) Included in "Costs" in the consolidated statements of income

(*2) Included in “Net unrealized gains (losses) on marketable securities” of “Other comprehensive income (loss)” in the consolidates statements of comprehensive income.

(3) Description of the fair value measurement process

The Company develops valuation techniques and methods for classifying fair value levels in accordance with the policies concerning fair value measurement and classification of fair value levels. The Company also verifies the appropriateness of the valuation techniques used to determine fair value, the inputs used, the calculated fair values and classified fair value levels in accordance with such policies.

(4) Description of the effects of the fair value with respect to changes in significant unobservable inputs

Significant unobservable inputs used to calculate the fair values of debt securities with fixed rates included in other securities are considered as discount rates. The discount rates represent estimates of interest rates to be applied when new similar transactions. Generally, a significant decline (increase) in discount rates causes a significant increase (decline) in their fair values.

15. Derivatives
Year ended March 31, 2023
(1) Derivatives for which hedge accounting is not applied
Derivatives related to currency at March 31, 2023 were as follows:

	March 31, 2023			
	Amount of contract	Gain	Loss	Fair value
	Millions of Yen			
Interest rate currency swap transactions				
receipt Yen, payment U.S. dollar	¥25,830	¥—	¥2,680	¥(2,680)
receipt Yen, payment EUR	820	—	46	(46)
receipt Yen, payment Singapore dollar	2,012	—	59	(59)
receipt U.S. dollar, payment Malaysian Ringgit	681	12	—	12
receipt Yen, payment Malaysian Ringgit	765	7	—	7

	March 31, 2023			
	Amount of contract	Gain	Loss	Fair value
	Thousands of U.S. Dollars			
Interest rate currency swap transactions				
receipt Yen, payment U.S. dollar	$193,427	$—	$20,067	$(20,067)
receipt Yen, payment EUR	6,139	—	342	(342)
receipt Yen, payment Singapore dollar	15,067	—	444	(444)
receipt U.S. dollar, payment Malaysian Ringgit	5,097	86	—	86
receipt Yen, payment Malaysian Ringgit	5,725	49	—	49

The fair value is determined based on quoted prices provided by dealers and other financial institutions.

(2) Derivatives for which hedge accounting is applied
Derivatives related to currency at March 31, 2023 were as follows:
Not applicable

Interest rate related transactions at March 31, 2023 were as follows:

Interest rate swaps that are accounted for using deferral hedge accounting

		March 31, 2023		
	Hedged item	Notional amount	Notional amount expiring on April 1, 2023 or after	Fair value (*1)
		Millions of Yen		
Interest rate swap transactions				
pay fixed, receive variable	Borrowings	¥225,441	¥120,300	¥172

		March 31, 2023		
	Hedged item	Notional amount	Notional amount expiring on April 1, 2023 or after	Fair value (*1)
		Thousands of U.S. Dollars		
Interest rate swap transactions				
pay fixed, receive variable	Borrowings	$1,688,191	$900,854	$1,290

(*1) The fair value is determined based on quoted prices provided by dealers and other financial institutions.

Year ended March 31, 2022
(1) Derivatives for which hedge accounting is not applied
Derivatives related to currency at March 31, 2022 were as follows:

	March 31, 2022			
	Amount of contract	Gain	Loss	Fair value
	Millions of Yen			
Interest rate currency swap transactions				
receipt Yen, payment U.S. dollar	¥23,835	¥–	¥2,188	¥(2,188)
receipt U.S. dollar, payment Malaysian Ringgit	454	8	–	8

The fair value is determined based on quoted prices provided by dealers and other financial institutions.

(2) Derivatives for which hedge accounting is applied
Derivatives related to currency at March 31, 2022 were as follows:
Not applicable

Interest rate related transactions at March 31, 2022 were as follows:

Interest rate swaps that are accounted for using deferral hedge accounting

		March 31, 2022		
	Hedged item	Notional amount	Notional amount expiring on April 1, 2022 or after	Fair value (*1)
		Millions of Yen		
Interest rate swap transactions				
pay fixed, receive variable	Borrowings	¥233,071	¥181,071	¥212

(*1) The fair value is determined based on quoted prices provided by dealers and other financial institutions.

16.Stock options

1.Details, number and movement of advance grant-type stock options as part of free stock options granted to directors as compensation

(1) Details of advance grant-type stock options

	Advance grant-type stock options for 2021	Advance grant-type stock options for 2022
Title and number of grantees (Persons)	4 directors of the Company	4 directors of the Company
Class and number of shares granted	4,568 shares ordinary stocks	4,366 shares ordinary stocks
Date of grant	August 27, 2021	August 24, 2022
Vesting conditions	The restriction with respect to all the shares granted will be lifted at the expiration of the transfer restriction period, provided that the grantees continue to be directors of the Company during the period from July 1, 2021 to the completion of the ordinary general meeting of shareholders for the fiscal year ended March 31, 2022 (hereinafter referred to as the “service period”). If a grantee loses his/her position as director during the service period, the restriction with respect to the number of granted shares calculated by multiplying number of months for the period from July 2021 to the month which his/her resignation date belongs to and divided by 12 (fraction number of shares shall be rounded down if any) will be lifted at the expiration of the restriction period.	The restriction with respect to all the shares granted will be lifted at the expiration of the transfer restriction period, provided that the grantees continue to be directors of the Company during the period from July 1, 2022 to the completion of the ordinary general meeting of shareholders for the fiscal year ended March 31, 2023 (hereinafter referred to as the “service period”). If a grantee loses his/her position as director during the service period, the restriction with respect to the number of granted shares calculated by multiplying number of months for the period from July 2022 to the month which his/her resignation date belongs to and divided by 12 (fraction number of shares shall be rounded down if any) will be lifted at the expiration of the restriction period.
Service period	From July 1, 2021 to June 28, 2022	From July 1, 2022 to June 26, 2023

(2) Number of advance grant-type stock options and their movement

(i)Amount and account

	Year ended March 31, 2022	Year ended March 31, 2023
Selling, general, and administrative expenses	¥7 million	¥9 million ($67thousand)

(ii)Number of shares

The following table shows the information of advance grant-type stock options with outstanding non-vested shares during the year ended March 31, 2023.

	Advance grant-type stock options for 2021	Advance grant-type stock options for 2022
As of March 31, 2022 (shares)	4,568	—
Granted (shares)	—	4,366
Forfeited (shares)	—	—
Vested (shares)	4,568	—
As of March 31, 2023 (shares)	—	4,366

(iii) Price information

Fairly value at date of grant (Yen)	¥2,152	¥2,101

2.Details, number and movement of subsequent grant-type stock options as part of free stock options granted to directors as compensation

None

3.Estimation method for fair unit value

The Company used the closing price of the Company's common stock on the Tokyo Stok Exchange on the business day immediately preceding the date of resolution by the Board of Directors.

4.Estimation method for the number of shares to be vested

For advance grant-type stock options, basically, it is difficult to reasonably estimate the number of shares to be forfeited. Therefore, the Company adopted a method by reflecting the actual number of shares forfeited only.

17. Segment Information
Years ended March 31, 2023 and 2022

(1) Overview of reportable segments
(i) Methods of identification of reportable segment
The reportable segment of the Group is a component of the Group for which discrete financial information is available and whose operating results are regularly reviewed by the management to make decisions about resources to be allocated to the segment and assess its performance.
The Group mainly provides financial services such as leases, installment sales and corporate loans for a wide range of customers, such as public offices, local governments, large companies, and small and medium enterprises.
Additionally, certain consolidated subsidiaries of the Group provide corporate investment, loan asset investment and advisory services directly and indirectly through funds, as well as the new businesses the Group pursuing, and a range of other services. The Group has four reportable segments (Leasing Business, Finance Business, Investment Business and Other Business), which are determined based on the nature of their main business transactions.

(ii) Products and services by reportable segment
The Leasing Business includes leasing and rental of information and communication devices, office equipment, and other equipment investments, installment sales, etc., as well as sales of equipment associated with leasing, sales of used equipment of off-leased or terminated leasing contracts, rendering of maintenance services for leased equipment etc.
The Finance Business includes loans, factoring, and investment activities for securities held to obtain dividend income, etc.
The Investment Business includes investment for venture business aiming at receiving gains on sales of such investment, etc., as well as asset, real estate, and finance and advisory service business, etc. operated by RISA Partners, Inc.
The Other Business includes new businesses in the field of energy, tourism, agriculture and healthcare, PFI/PPP business, other services and etc.

(2) Method of calculating revenues, profit or loss, assets, liabilities, and other items by reportable segment
The accounting policies for the reportable segments presented are the same as described in Note 2 “Summary of Significant Accounting Policies”.

(3) Information about revenues, profit or loss, assets, liabilities, and other items by reportable segment as of March 31, 2023 and 2022 was as follows:

	2023						
	Reportable segments					Adjustment	Amount recorded in the consolidated financial statements
	Leasing and Installment Sales	Finance	Investment	Other	Total		
	Millions of Yen						
Revenues							
Revenues from customers	¥224,303	¥6,569	¥22,778	¥4,456	¥258,106	¥—	¥258,106
Intersegment revenues	3	—	35	7	45	(45)	—
Total	¥224,306	¥6,569	¥22,813	¥4,463	¥258,151	¥(45)	¥258,106
Segment income	¥6,368	¥2,154	¥4,412	¥493	¥13,427	¥(1,714)	¥11,713
Segment assets	644,758	241,341	103,270	39,342	1,028,711	27,165	1,055,876
Others							
Depreciation	¥17,617	¥76	¥106	¥852	¥18,651	¥81	¥18,732
Amortization of goodwill	163	—	18	20	201	—	201
Investment in affiliated companies	959	154	8,237	6,205	15,555	—	15,555
Increase in property and equipment and intangible assets	21,249	384	62	3,342	25,037	408	25,445

	2023						
	Reportable segments					Adjustment	Amount recorded in the consolidated financial statements
	Leasing and Installment Sales	Finance	Investment	Other	Total		
	Thousands of U.S. Dollars						
Revenues							
Revenues from customers	$1,679,674	$49,194	$170,574	$33,368	$1,932,810	$—	$1,932,810
Intersegment revenues	25	—	260	54	339	(339)	—
Total	$1,679,699	$49,194	$170,834	$33,422	$1,933,149	$(339)	$1,932,810
Segment income	$47,692	$16,131	$33,041	$3,698	$100,562	$(12,827)	$87,735
Segment assets	4,828,198	1,807,258	773,322	294,611	7,703,389	203,422	7,906,811
Others							
Depreciation	$131,926	$566	$796	$6,380	$139,668	$602	$140,270
Amortization of goodwill	1,218	—	131	153	1,502	—	1,502
Investment in affiliated companies	7,180	1,156	61,680	46,466	116,482	—	116,482
Increase in property and equipment and intangible assets	159,123	2,875	462	25,026	187,486	3,059	190,545

- Adjustment of ¥(1,714) million ($(12,827) thousand) in segment income is an amount of difference between segment income and operating income on the consolidated statement of income, which is mainly general administrative expenses not attributable to each reportable segment.
- Adjustment of ¥27,165 million ($203,422 thousand) in segment assets is corporate assets not allocated to each reportable segment.
- Adjustment of ¥408 million ($3,059 thousand) in increase in property and equipment and intangible assets is an investment in corporate assets.
- Increase due to new consolidation is not included in increase in property and equipment and intangible assets.

	2022						
	Reportable segments					Adjustment	Amount recorded in the consolidated financial statements
	Leasing	Finance	Investment	Other	Total		
	Millions of Yen						
Revenues							
Revenues from customers	¥224,198	¥5,220	¥16,322	¥4,168	¥249,908	¥—	¥249,908
Intersegment revenues	3	—	44	12	59	(59)	—
Total	¥224,201	¥5,220	¥16,366	¥4,180	¥249,967	¥(59)	¥249,908
Segment income	¥7,121	¥(655)	¥5,396	¥275	¥12,137	¥(1,690)	¥10,447
Segment assets	650,293	217,833	95,647	25,829	989,602	41,016	1,030,617
Others							
Depreciation	¥13,213	¥76	¥139	¥713	¥14,141	¥90	¥14,231
Amortization of goodwill	149	—	69	20	238	—	238
Investment in affiliated companies	915	142	9,188	1,176	11,421	—	11,421
Increase in property and equipment and intangible assets	13,448	145	34	1,517	15,144	172	15,316

- Adjustment of ¥(1,689) million in segment income is an amount of difference between segment income and operating income on the consolidated statement of income, which is mainly general administrative expenses not attributable to each reportable segment.
- Adjustment of ¥41,016 million in segment assets is corporate assets not allocated to each reportable segment.
- Adjustment of ¥172 million in increase in property and equipment and intangible assets is an investment in corporate assets.
- Increase due to new consolidation is not included in increase in property and equipment and intangible assets.

(4) Related Information
(i) Information by geographical areas
a) Revenues
Disclosure of revenues by geographical areas is omitted because the amount of domestic revenues is more than 90% of the amount of the consolidated revenues.

b) Property and equipment
Disclosure of property and equipment by geographical areas is omitted because the amount of domestic property and equipment is more than 90% of the amount of the consolidated property and equipment.

(ii) Information by major customers
Information by major customers is not disclosed because there are no customers whose revenues are more than 10% of the amount of the consolidated revenues.

(5) Information about impairment losses of property and equipment and intangible assets by reportable segment
Not applicable

(6) Information about amortization of goodwill and unamortized balances by reportable segment at March 31, 2023 and 2022 was as follows:

	2023						
	Reportable Segments					Corporate or Elimination	Total
	Leasing and Installment Sales	Finance	Investment	Other	Total		
	Millions of Yen						
Amortization for the current fiscal year	**¥163**	**¥—**	**¥18**	**¥20**	**¥201**	**¥—**	**¥201**
Balance at March 31, 2023	**1,247**	**—**	**—**	**313**	**1,560**	**—**	**1,560**

	2023						
	Reportable Segments					Corporate or Elimination	Total
	Leasing and Installment Sales	Finance	Investment	Other	Total		
	Thousands of U.S. Dollars						
Amortization for the current fiscal year	**$1,218**	**$—**	**$131**	**$153**	**$1,502**	**$—**	**$1,502**
Balance at March 31, 2023	**9,335**	**—**	**—**	**2,347**	**11,682**	**—**	**11,682**

	2022						
	Reportable Segments					Corporate or Elimination	Total
	Leasing	Finance	Investment	Other	Total		
	Millions of Yen						
Amortization for the current fiscal year	¥149	¥—	¥69	¥20	¥238	¥—	¥238
Balance at March 31, 2022	1,292	—	—	334	1,626	—	1,626

(7) Information about negative goodwill by reportable segment
Not applicable

18. Net Assets

Under the Law and its related regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus in the accompanying consolidated balance sheets.

The Law provides that earnings in an amount equal to at least 10 percent of appropriations of retained earnings to be paid as dividends should be appropriated as a capital surplus or a legal reserve until the total of capital surplus and legal reserve equals 25 percent of stated common stock. Legal reserve is included in retained earnings in the accompanying consolidated balance sheets. In addition to transfer from capital surplus to stated common stock, either capital surplus or legal reserve may be available for dividends by resolution of the general meeting of shareholders.

Under the Law, all additional paid-in capital and all legal reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

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

At the meeting of the Board of Directors of the Company held on May 22, 2023, cash dividends amounting to ¥1,571 million ($11,764 thousand) were approved. This appropriation has not been reflected in the accompanying consolidated financial statements for the fiscal year ended March 31, 2023.

19. Related Party Transactions

Year ended March 31, 2023:

(1) Transactions with parent and major shareholder of the Company

The Company procured equipment for lease transactions from NEC Corporation that has a 37.7% ownership share in the Company at a transaction amount of ¥42,737 million ($320,032 thousand) for the year, and the outstanding balance of ¥4,813 million ($36,039 thousand) at the year-end has been included in "Notes and accounts payable – trade." The Company entered into factoring contracts with NEC Corporation at a transaction amount of ¥22,924 million ($171,665 thousand) and the outstanding balance of ¥7,613 million ($57,008 thousand) at the year-end has been included in "Accounts receivable – Loans."

(2) Transactions with subsidiaries of the Company's other affiliated companies

The Company procured equipment for lease transactions from NEC Fielding, Ltd. at a transaction amount of ¥20,511 million ($153,592 thousand) for the year, and the outstanding balance of ¥2,580 million ($19,320 thousand) at the year-end has been included in "Notes and accounts payable – trade."

The Company entered into factoring contracts with NEC Platforms, Ltd. at a transaction amount of ¥24,387 million ($182,617 thousand) and the outstanding balance of ¥7,816 million ($58,532 thousand) at the year-end has been included in "Accounts receivable - Loans."

Year ended March 31, 2022:

(1) Transactions with parent and major shareholder of the Company

The Company procured equipment for lease transactions from NEC Corporation that has a 37.7% ownership share in the Company at a transaction amount of ¥62,078 million for the year, and the outstanding balance of ¥3,635 million at the year-end has been included in "Notes and accounts payable – trade." The Company entered into factoring contracts with NEC Corporation at a transaction amount of ¥26,608 million and the outstanding balance of ¥8,180 million at the year-end has been included in "Accounts receivable – Loans."

(2) Transactions with subsidiaries of the Company's other affiliated companies

The Company entered into factoring contracts with NEC Platforms, Ltd. at a transaction amount of ¥26,101 million and the outstanding balance of ¥7,568 million at the year-end has been included in "Accounts receivable - Loans."

20. Significant subsequent events

(Issuance of domestic straight bond)
The Company issued unsecured bond on June 7, 2023, based on the maximum amount of issuance of domestic unsecured straight bond for the year ending March 31, 2024 and its outline resolved at the Board of Directors' meeting held on March 29, 2023.
The contents are as follows.

(1) Name	25rd unsecured straight bond (with inter-bond pari passu clause)
(2) Amount of issue	¥10,000 million ($74,884 thousand)
(3) Payment date	June 7, 2023
(4) Issue price	¥100 ($0.75) per face value of ¥100 ($0.75)
(5) Interest rate	0.340% per annum
(6) Maturity date	June 5, 2026
(7) Method of redemption	Redemption on maturity (however, the redemption by purchase will be available any time on and after the following day of the issue date)
(8) Use of proceeds	Equipment funds (including lease asset purchase funds)

Independent Auditor's Report

NEC Capital Solutions Limited

For the Years ended March 31,
2023 and 2022

KPMG AZSA LLC
October 2023

Independent auditor's report

To the Board of Directors of NEC Capital Solutions Limited:

Opinion

We have audited the accompanying consolidated financial statements of NEC Capital Solutions Limited. ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheets as at March 31, 2023 and 2022, the consolidated statements of income and comprehensive income, changes in net assets and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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

Basis for Opinion

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

Key Audit Matters

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

Determination of the borrower categories for operating receivables related to the Leasing Business and the Finance Business

The key audit matter	How the matter was addressed in our audit
The Group reported installment sales receivable of ¥38,828 million, lease receivables and investment in leases of ¥517,945 million, accounts receivable-leases of ¥22,034 million, accounts receivable - loans of ¥231,611 million, purchased receivables of ¥12,419 million, receivables	The primary procedures we performed to assess the appropriateness of the determination of the borrower categories for operating receivables related to the Leasing Business and the Finance Business of the Company included the following: **(1) Internal control testing**

from companies in bankruptcy and reorganization of ¥2,014 million, and allowance for doubtful accounts for the balances of these receivables of ¥11,851 million in the consolidated balance sheet as of March 31, 2023. These were mainly related to the Leasing Business and the Finance Business of the Company. As described in Note 3 “Significant Accounting Estimates” to the consolidated financial statements, the Company determines borrower categories for its customers based on the degree of credit risks and categorizes the receivables into general receivables, doubtful receivables and receivables from companies in bankruptcy and reorganization based on the borrower categories. Allowance for doubtful accounts is recorded to provide for probable losses based on historical write-off ratio of bad debt losses for general receivables, and based on an estimate of the uncollectible amounts after reviewing the collectibility of specific receivables by considering the financial position and business performance of the borrower, as well as the amount expected to be collected through credit protection measures for doubtful receivables and receivables from companies in bankruptcy and reorganization. Judgements on the borrower categories for the customers according to the degree of credit risks are determined based on a predetermined criteria for recognizing allowances for each borrower category, taking into consideration quantitative factors such as repayment status (including delinquency information) and financial indicators, as well as qualitative factors. In particular, judgment of the classification of the borrower categories based on qualitative factors such as abilities to repay debts based on future outlook of business performance and profitability of projects based on business plans involves judgment by management. We, therefore, determined that our assessment of the appropriateness of the determination of the borrower categories for operating receivables related to the Leasing Business and the Finance Business was of	We tested the design and operating effectiveness of certain of the Company’s internal controls relevant to the process of recognizing allowance for doubtful accounts, with a particular focus on the following: ● whether the repayment status (including delinquency information), which was the basis for determining the borrower categories, was accurately identified; and ● whether the judgment of the borrower categories were appropriately determined by considering quantitative factors such as financial indicators and qualitative factors such as future outlook of business performances. **(2) Assessment as to whether the borrower categories were appropriately determined** In order to assess whether the borrower categories were appropriately determined, we: ● assessed whether the criteria for recognizing allowances for each borrower category were in accordance with accounting principles generally accepted in Japan; and ● selected borrowers, determined by borrower categories that may have a significantly affect on profit or loss, such as large borrowers and borrowers with repayment status concerns, from among the borrowers of operating receivables related to the Leasing Business and the Finance Business of the Company based on certain criteria, and performed the following procedures: − inspection of records and documents related to determination of the borrower categories based on the results of financial information analysis performed by the Company − inspection of records and documents related to determination of the borrower categories performed by the Company based on the qualitative factors; and − inquiry of personnel in the departments responsible for credit.

most significance in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.	

Other Information

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

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

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

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

We have nothing to report in this regard.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan.

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

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

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

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

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

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

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

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

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

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

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

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

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

Convenience Translation

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

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

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

Koji Fukai

Designated Engagement Partner

Certified Public Accountant

Yoshimori Takahashi

Designated Engagement Partner

Certified Public Accountant

KPMG AZSA LLC

Tokyo Office, Japan

October 16, 2023

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

Integrated Report 2023 (Financial Section)

NEC Capital Solutions Limited
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