

**KOBELCO**



**KOBELCO ECO-SOLUTIONS CO.,LTD.**

# Profile of Financial Highlights

Kobelco Eco-Solutions group (the “Group”) consists of the Parent Company, Kobelco Eco-Solutions Co., Ltd., (the “Company”) and twenty-eight subsidiaries. The Group operates in the manufacture and sale of products used in the Water Treatment Associated Business, the Waste Treatment Associated Business and the Chemical and Food Machine Associated Business and is involved in providing after-sale services in their respective fields.

## Water Treatment Associated Business

The Water Treatment Associated Business consists of Kobelco Eco-Solutions Co., Ltd. and three subsidiaries. The main products in the Water Treatment Associated Business are facilities and equipment for industrial waste water, water supply systems and sewage systems, processing equipment for ultrapure water, water purification, industrial waste and general waste water, recycling equipment for organic waste such as sewage sludge and food products and cooling towers for industrial applications and air-conditioning. The main subsidiaries are Kobelco Eco-Maintenance Co., Ltd. and Kobelco Eco-Solutions Vietnam Co., Ltd.

## Waste Treatment Associated Business

The Waste Treatment Associated Business consists of Kobelco Eco-Solutions Co., Ltd. and twenty-one subsidiaries. The main products in the Waste Treatment Associated Business are incinerating and melting equipment for city waste, recycling equipment for bulky waste and discarded electronics and PCB detoxification treatment facilities. The main subsidiaries are Kobelco Eco-Maintenance Co., Ltd., E.R.C. Takajo Co., Ltd., Toyota Environment Services Co., Ltd. and Fukui Green Power Co., Ltd.

## Chemical and Food Machine Associated Business

The Chemical and Food Machine Associated Business consists of Kobelco Eco-Solutions Co., Ltd. and one subsidiary. The main products in the Chemical and Food Machine Associated Business are equipment for chemical industries, powder materials, brewing industries and hydrogen-oxygen generators. The main subsidiary is Kobelco Eco-Solutions Vietnam Co., Ltd.

	Years ended March 31 Millions of yen			Thousands of U.S. dollars (Note 1)
	2021	2020	2019*	2021
<b>Net sales</b>	¥ 112,406	¥ 97,998	¥ 90,200	\$ 1,015,319
<b>Water Treatment Associated Business</b>	42,555	37,181	34,934	384,383
<b>Waste Treatment Associated Business</b>	58,752	51,711	44,917	530,684
<b>Chemical and Food Machine Associated Business</b>	10,961	9,082	10,306	99,006
<b>Corporate and Eliminations</b>	138	24	43	1,246
<b>Segment income (loss)</b>	5,673	3,529	3,744	51,242
<b>Water Treatment Associated Business</b>	2,264	545	(54)	20,450
<b>Waste Treatment Associated Business</b>	2,745	2,710	3,384	24,795
<b>Chemical and Food Machine Associated Business</b>	1,363	951	1,224	12,311
<b>Corporate and Eliminations</b>	(699)	(677)	(810)	(6,314)
<b>Income before income taxes</b>	4,180	4,180	3,744	37,756
<b>Net income attributable to owners of the parent</b>	2,729	2,729	2,442	24,650
<b>Depreciation</b>	1,457	1,659	1,622	13,161
<b>Capital expenditures</b>	1,505	977	1,047	13,594
<b>Research and development expenses</b>	1,725	1,927	1,865	15,581
<b>Total assets</b>	95,993	84,694	85,836	867,067
<b>Net assets</b>	33,450	29,365	27,543	302,141
<b>Per share data</b>	(Yen)			(U.S. dollars)
<b>Net income</b>	¥ 224.49	¥ 169.33	¥ 151.55	\$ 2.03
<b>Net assets</b>	2,061.63	1,809.48	1,699.61	18.62
<b>Cash dividends</b>	60.00	45.00	45.00	0.54

\* In 2019, the provisional accounting treatment for business combinations was finalized. With regard to the above related major management indicators in 2019, the definitive results of provisional accounting treatment are reflected.

# *A Message From The President*



Due to the spread of COVID-19, the Japanese economy during the term under review remained in a severe situation with extensive restrictions on economic activities and social life throughout the year, including two “state of emergency” declarations issued by the government. Although there has been some visible signs of recovery in Japan due to the implementation of policies aimed at the resumption of economic activity, it is not yet possible to predict when the spread of COVID-19 will come to an end on a global scale. Therefore, there are concerns that the persisting uncertainty for the future will continue for a considerable length of time.

With regard to the business environment surrounding the Group, domestic investment in the environment related businesses of Water Treatment and Waste Treatment by the public sector remained steady from the previous term due to measures taken for the prevention and mitigation of more frequent and devastating natural disasters and the development of the resilience of national land as well as demand for the prevention of global warming and the development of a recycling-based society. The domestic investment by the private sector for the Water Treatment Associated Business and the Chemical and Food Machine Associated Business generally remained unchanged although there were some movements to postpone investment due to the spread of COVID-19.

In these circumstances and based on our Corporate Philosophy, the Company has shared with the entire Group its goal of achieving ongoing, enduring prosperity while contributing to society. The Company has implemented several measures and business activities in line with the basic policies of the five-year, medium-term management plan ending in the fiscal year 2020, which are: [1] Renovation of the core businesses, [2] Development in overseas markets and steady expansion of sales activities in new businesses and [3] Strengthening coordination with the Kobe Steel Group.

Compared with the previous fiscal year, in which there were large-scale orders in the Water Treatment Associated Business and Waste Treatment Associated Business, the overall results of operations for the fiscal year ended March 31, 2021 saw orders and engagements decrease by 25,431 million yen year-on-year to 95,543 million yen (21.0% decrease). At the end of the year, orders and engagements backlog decreased by 16,862 million yen year-on-year to 209,282 million yen (7.5% decrease). Sales increased by 14,407 million yen year-on-year to 112,405 million yen (14.7% increase) due to the progress of construction work of large-scale projects and increases in the volume of after-sales services. As for profit, due to factors such as increases in income and improvements to profitability, operating income increased by 2,131 million yen year-on-year to 5,635 million yen and ordinary income increased by 2,143 million yen year-on-year to 5,673 million yen. After recording extraordinary losses and deducting corporate taxes and other items, net income attributable to the owners of the parent was 3,617 million yen, an increased of 888 million yen year-on-year.

The numerical targets for the final year of the current medium-term management plan, which were 110 billion yen in consolidated sales and 5 billion yen in consolidated ordinary income, were achieved.

With regard to dividends, the Company would like to implement a dividend based on our basic policy that consists of various elements, including continuous and stable dividends to the shareholders as well as the Company's current business results, financial status and investment fund demand, to improve the Company's value and payout ratio. In conclusion, the Company would like to increase the dividend by 15 yen per share from the previous fiscal year and propose to our shareholders with 60 a dividend of yen per share.

June 2021

A handwritten signature in dark ink that reads "Takao Ohama".

Takao Ohama  
President

# Review of Operations

*The condition of the businesses in our group is as follows:*

## Water Treatment Associated Business

In the Water Treatment Associated Business, the Fuji City Seibu Joka Center Digestion Gas Power Generation Project was started. In this project, the Company will purchase digestion gas generated from the Joka Center (i.e., sewage treatment plant) owned by Fuji City, Shizuoka Prefecture and will operate a digestion gas power generation business pursuant to the Feed-In Tariff (FIT) system for renewable energy. Fuji City will apply the sales revenue of the digestion gas to renovate its sewage treatment facilities over 20 years, which equals the project period. With regard to overseas business in Cambodia, where a water supply business was started by the Company in the previous fiscal year, the Company and The Ministry of Industry, Science, Technology & Innovation (MISTI) in Cambodia signed a Memorandum of Understanding (MoU) for the joint development of small scale water supply system. In Vietnam, KOBELCO ECO-SOLUTIONS VIETNAM CO., LTD (KESV), a 100% owned subsidiary of the Company, was awarded the Top 10 Vietnam Gold Brands prize for fiscal year 2020 at the event sponsored by government-affiliated organizations, namely Vietnam Consumers Protection Center and Institute of Economics and Culture. The award was presented in recognition for KESV's provision of safe and high-quality products and services in the water treatment field.

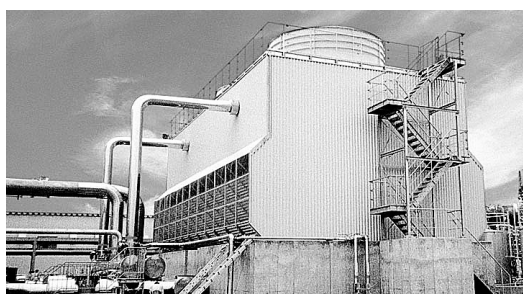
With regard to the annual results, orders and engagements decreased by 11,077 million yen year-on-year to 42,432 million yen, and the orders and engagements backlog decreased by 121 million yen year-on-year to 64,774 million yen. Sales increased by 5,373 million yen year-on-year to 42,554 million yen due to factors such as contributions of the progress of construction work of large-scale projects, and ordinary income increased by 1,719 million yen year-on-year to 2,264 million yen due to factors such as increases in income and improvements to profitability.



The Joka Center in Fuji City



Advanced Two-stage Incinerator



Cooling Tower



Membrane Bio-reactor (MBR)



## Waste Treatment Associated Business

In the Waste Treatment Associated Business, the Company received orders for Core Equipment Improvement Work at the Mibu Town Cleaning Center from Mibu Town, Tochigi Prefecture, and Core Equipment Improvement Work at Clean Center Shirasagi from the Kashiwa-Shiroi-Kamagaya Kankyo Eisei Kumiai, Chiba Prefecture (Eisei Kumiai is an association of municipalities for certain public services such as waste treatment). These works are to contribute to lowering and leveling the total cost of waste treatment plant's construction, operation and maintenance by prolonging their service life as well as to establishing a recycling-based society by reducing CO<sub>2</sub> emissions discharged from the operation of these plants. Furthermore, the Company is proceeding with a waste power generation project under construction in the United Kingdom while strengthening management of risk that includes the impact on the project schedule resulting from the COVID-19 crisis.

With regard to the annual results, orders and engagements decreased by 14,094 million yen year-on-year to 42,802 million yen, and the orders and engagements backlog decreased by 15,950 million yen year-on-year to 138,008 million yen. Sales increased by 7,041 million yen year-on-year to 58,752 million yen due to factors such as increases in the volume of after-sales services and the progress of construction work for large-scale projects, and ordinary income was affected by declines in profitability of some domestic and overseas large-scale projects, remaining nearly at the same level year-on-year at 2,745 million yen.



Clean Center Shirasagi

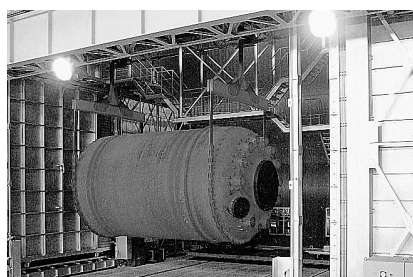


PCB Waste Treatment Facility

## Chemical and Food Machine Associated Business

In the Chemical and Food Machine Associated Business, the Company is promoting automation as part of the strengthening of our “monozukuri capability (manufacturing capability)”, and is proceeding with initiatives to improve customer satisfaction. The impact of COVID-19 on capital investment in markets related to our core fields was limited, and domestic demand remained at a high level.

With regard to the annual results, orders and engagements decreased by 374 million yen year-on-year to 10,174 million yen, and the orders and engagements backlog decreased by 786 million yen year-on-year to 6,488 million yen. Sales increased by 1,878 million yen year-on-year to 10,960 million yen, and ordinary income increased by 412 million yen year-on-year to 1,363 million yen due to factors such as increases in income.



Glasslined Equipment



Long Duc Plant

(Note) Until the previous fiscal year, the amount of “orders” was used as a numerical indicator for the results of the Company’s business operations. However, from the fiscal year ended March 31, 2021, the indicator has been changed to the amount of “orders and engagements,” which includes the amount of engagements for long-term operations and maintenance management projects in addition to the amount of orders. In this context, “engagements” shall mean the ordered amounts for long-term operations and maintenance management projects during the fiscal year. In this document, comparisons with the previous fiscal year are also made using the numerical values after this revision. In addition, the engagements backlog for long-term operations and maintenance management projects from the end of the previous fiscal year, which was 145.5 billion yen, is included in the orders and engagements backlog at the start of the fiscal year.

# CONSOLIDATED BALANCE SHEETS

Kobelco Eco-Solutions Co., Ltd. and its Consolidated Subsidiaries

As of March 31, 2021 and 2020

Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
<b>Current assets :</b>			
Cash and cash equivalents (Note 5) . . . . .	¥ 4,758	¥ 5,311	\$ 42,977
Notes and accounts receivable (Notes 5 and 11) :			
Trade . . . . .	55,886	43,071	504,796
Electronically recorded monetary claims . . . . .	1,000	1,111	9,033
Short-term loans receivable . . . . .	4,474	4,392	40,412
Other . . . . .	421	1,879	3,803
Allowance for doubtful receivables . . . . .	(111)	(103)	(1,003)
	61,670	50,350	557,041
Inventories (Note 3) . . . . .	3,433	3,901	31,009
Other . . . . .	1,894	1,794	17,108
Total current assets . . . . .	71,755	61,356	648,135
<b>Property, plant and equipment (Note 4) :</b>			
Land . . . . .	3,560	3,516	32,156
Buildings and structures . . . . .	16,422	16,464	148,334
Machinery and equipment . . . . .	14,517	15,149	131,126
Construction in progress . . . . .	712	250	6,431
	35,211	35,379	318,047
Less accumulated depreciation . . . . .	(21,475)	(21,360)	(193,975)
Total property, plant and equipment . . . . .	13,736	14,019	124,072
<b>Intangible assets (Note 4) :</b>			
Customer related assets . . . . .	166	386	1,499
Other . . . . .	1,133	728	10,234
Total intangible assets . . . . .	1,299	1,114	11,733
<b>Investments and other assets :</b>			
Investment in securities (Notes 5 and 6) . . . . .	542	367	4,896
Investment in unconsolidated subsidiaries and affiliates (Notes 5 and 6)	276	212	2,493
Deferred income taxes (Note 13) . . . . .	5,811	5,231	52,488
Net defined benefit asset (Note 9) . . . . .	1,558	1,277	14,073
Other . . . . .	1,146	1,248	10,351
Allowance for doubtful receivables . . . . .	(130)	(130)	(1,174)
Total investments and other assets . . . . .	9,203	8,205	83,127
<b>Total assets . . . . .</b>	<b>¥ 95,993</b>	<b>¥ 84,694</b>	<b>\$ 867,067</b>

See accompanying notes.

Liabilities and Net Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
<b>Current liabilities :</b>			
Short-term borrowings (Notes 5, 7 and 11) . . . . .	¥ 9,402	¥ 5,802	\$ 84,925
Long-term debt due within one year (Notes 5 and 7) . . .	366	366	3,306
Accounts payable (Note 5) :			
Trade . . . . .	13,310	13,626	120,224
Electronically recorded obligations . . . . .	10,210	9,127	92,223
Construction . . . . .	139	125	1,255
Unconsolidated subsidiaries . . . . .	35	50	316
Other . . . . .	1,281	1,356	11,571
	24,975	24,284	225,589
Advances from customers . . . . .	3,659	3,291	33,050
Income and enterprise taxes payable (Note 5) . . . . .	2,545	2,294	22,988
Accrued expenses . . . . .	4,009	3,129	36,212
Provision for product warranties . . . . .	1,786	1,713	16,132
Reserve for loss on construction contracts . . . . .	3,610	2,673	32,608
Other . . . . .	2,454	1,456	22,166
Total current liabilities . . . . .	52,806	45,008	476,976
<b>Long-term liabilities :</b>			
Long-term debt (Notes 5 and 7) . . . . .	2,183	2,549	19,718
Net defined benefit liability (Note 9) . . . . .	6,880	7,150	62,144
Asset retirement obligations . . . . .	585	503	5,284
Other . . . . .	89	119	804
Total long-term liabilities . . . . .	9,737	10,321	87,950
<b>Net assets (Note 10) :</b>			
<b>Stockholders' equity :</b>			
Common stock			
Authorized — 64,000,000 shares			
Issued — 16,120,000 shares . . . . .	6,020	6,020	54,376
Capital surplus . . . . .	3,332	3,332	30,097
Retained earnings . . . . .	23,082	20,190	208,491
Less treasury stock . . . . .	(7)	(6)	(63)
Total stockholders' equity . . . . .	32,427	29,536	292,901
<b>Accumulated other comprehensive income (Note 14) :</b>			
Unrealized gains on securities, net of taxes . . . . .	155	100	1,400
Unrealized losses (gains) on hedging derivatives, net of taxes	1	12	9
Foreign currency translation adjustments . . . . .	53	29	479
Remeasurements of defined benefit plans, net of taxes . . .	588	(516)	5,311
Total accumulated other comprehensive income . . . . .	797	(375)	7,199
<b>Non-controlling interests . . . . .</b>	226	204	2,041
<b>Total net assets . . . . .</b>	33,450	29,365	302,141
<b>Total liabilities and net assets . . . . .</b>	¥ 95,993	¥ 84,694	\$ 867,067

See accompanying notes.

# CONSOLIDATED STATEMENTS OF INCOME

Kobelco Eco-Solutions Co., Ltd. and its Consolidated Subsidiaries

Years Ended March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Net sales (Note 11) . . . . .	¥ 112,406	¥ 97,998	\$ 1,015,319
Cost of sales . . . . .	95,243	83,285	860,292
Gross profit . . . . .	17,163	14,713	155,027
Selling, general and administrative expenses (Note 12) . . . .	11,528	11,209	104,128
Operating income . . . . .	5,635	3,504	50,899
Other income (expenses) :			
Interest and dividend income (Note 11) . . . . .	74	107	668
Interest expense (Note 11) . . . . .	(74)	(49)	(668)
Loss on sales and disposals of property, plant and equipment	(37)	(7)	(334)
Gain on sales of investment securities (Note 6) . . . . .	13	1	117
Other, net . . . . .	62	(26)	560
Ordinary income . . . . .	5,673	3,530	51,242
Extraordinary income (loss) :			
Gain on early contract settlement . . . . .	—	650	—
Loss on retirement of fixed assets . . . . .	(241)	—	(2,177)
Income before income taxes . . . . .	5,432	4,180	49,065
Income taxes (Note 13) :			
Current . . . . .	2,893	2,424	26,131
Deferred . . . . .	(1,101)	(998)	(9,945)
Net income attributable to non-controlling interests . . . . .	22	25	199
Net income attributable to owners of the parent . . . . .	¥ 3,618	¥ 2,729	\$ 32,680
Amounts per share :	Yen		U.S. dollars
Net income . . . . .	¥ 224.49	¥ 169.33	\$ 2.03
Cash dividends applicable to the year . . . . .	60.00	45.00	0.54

See accompanying notes.

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Kobelco Eco-Solutions Co., Ltd. and its Consolidated Subsidiaries

Years Ended March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
<b>Net income</b> . . . . .	¥ 3,640	¥ 2,754	\$ 32,879
<b>Other comprehensive income (Note 14) :</b>			
Unrealized gains on securities, net of taxes . . . . .	55	(73)	497
Unrealized losses (gains) on hedging derivatives, net of taxes	(11)	(0)	(100)
Foreign currency translation adjustments . . . . .	24	(20)	217
Remeasurements of defined benefit plans . . . . .	1,104	(133)	9,972
Total other comprehensive income . . . . .	1,172	(226)	10,586
<b>Comprehensive income</b> . . . . .	4,812	2,528	43,465
<b>Comprehensive income attributable to :</b>			
Owners of the parent . . . . .	4,790	2,503	43,267
Non-controlling interests . . . . .	¥ 22	¥ 25	\$ 198

See accompanying notes.



# CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Kobelco Eco-Solutions Co., Ltd. and its Consolidated Subsidiaries

Years Ended March 31, 2021 and 2020

	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Millions of yen					Total
						Unrealized gains on securities, net of taxes	Unrealized gains (losses) on hedging derivatives, net of taxes	Foreign currency translation adjustments	Remeasurements of defined benefit plans, net of taxes	Non-controlling interests	
<b>Net assets at April 1, 2019</b>	16,120,000	¥6,020	¥3,332	¥18,194	¥(6)	¥173	¥12	¥49	¥(383)	¥153	¥27,544
Cash dividends paid				(725)							(725)
Net income attributable to owners of the parent				2,729							2,729
Purchase of treasury stock					(0)						(0)
Changes in scope of consolidation				(8)							(8)
Net changes in items other than stockholders' equity						(73)	(0)	(20)	(133)	51	(175)
<b>Balance at March 31, 2020</b>	<u>16,120,000</u>	<u>¥6,020</u>	<u>¥3,332</u>	<u>¥20,190</u>	<u>¥(6)</u>	<u>¥100</u>	<u>¥12</u>	<u>¥29</u>	<u>¥(516)</u>	<u>¥204</u>	<u>¥29,365</u>

	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Millions of yen					Total
						Unrealized gains on securities, net of taxes	Unrealized gains (losses) on hedging derivatives, net of taxes	Foreign currency translation adjustments	Remeasurements of defined benefit plans, net of taxes	Non-controlling interests	
<b>Net assets at April 1, 2020</b>	16,120,000	¥6,020	¥3,332	¥20,190	¥(6)	¥100	¥12	¥29	¥(516)	¥204	¥29,365
Cash dividends paid				(725)							(725)
Net income attributable to owners of the parent				3,618							3,618
Purchase of treasury stock					(1)						(1)
Changes in scope of consolidation				(1)							(1)
Net changes in items other than stockholders' equity						55	(11)	24	1,104	22	1,194
<b>Balance at March 31, 2021</b>	<u>16,120,000</u>	<u>¥6,020</u>	<u>¥3,332</u>	<u>¥23,082</u>	<u>¥(7)</u>	<u>¥155</u>	<u>¥1</u>	<u>¥53</u>	<u>¥588</u>	<u>¥226</u>	<u>¥33,450</u>

	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Thousands of U.S. dollars (Note 1)					Total
						Unrealized gains on securities, net of taxes	Unrealized gains (losses) on hedging derivatives, net of taxes	Foreign currency translation adjustments	Remeasurements of defined benefit plans, net of taxes	Non-controlling interests	
<b>Net assets at April 1, 2020</b>	16,120,000	\$54,376	\$30,097	\$182,368	\$(54)	\$903	\$109	\$262	\$(4,661)	\$1,843	\$265,243
Cash dividends paid				(6,548)							(6,548)
Net income attributable to owners of the parent				32,680							32,680
Purchase of treasury stock					(9)						(9)
Changes in scope of consolidation				(9)							(9)
Net changes in items other than stockholders' equity						497	(100)	217	9,972	198	10,784
<b>Balance at March 31, 2021</b>	<u>16,120,000</u>	<u>\$54,376</u>	<u>\$30,097</u>	<u>\$208,491</u>	<u>\$(63)</u>	<u>\$1,400</u>	<u>\$9</u>	<u>\$479</u>	<u>\$5,311</u>	<u>\$2,041</u>	<u>\$302,141</u>

See accompanying notes.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Kobelco Eco-Solutions Co., Ltd. and its Consolidated Subsidiaries

Years Ended March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
<b>Cash flows from operating activities :</b>			
Income before income taxes . . . . .	¥ 5,432	¥ 4,180	\$ 49,065
<b>Adjustments to reconcile income before income taxes to net cash provided by (used in) operating activities :</b>			
Depreciation . . . . .	1,457	1,659	13,160
Interest and dividend income . . . . .	(74)	(107)	(668)
Interest expense . . . . .	74	49	668
Loss on sales and disposals of property, plant and equipment	276	3	2,493
Decrease (increase) in provision for product warranties . . .	72	(1,091)	650
Increase and decrease in net defined benefit asset and liability	1,040	384	9,394
Increase (decrease) in trade receivables . . . . .	(12,331)	3,972	(111,381)
Decrease (increase) in inventories . . . . .	480	(967)	4,336
Increase (decrease) in trade payables . . . . .	864	(1,057)	7,804
Gain on early settlement of contract . . . . .	—	(650)	—
Increase (decrease) in deposit received . . . . .	1,286	—	11,616
Other . . . . .	3,270	(1,014)	29,537
Subtotal . . . . .	1,846	5,361	16,674
Interest and dividends received . . . . .	73	107	659
Interest paid . . . . .	(74)	(50)	(668)
Income taxes paid . . . . .	(2,890)	(1,094)	(26,104)
Cancellation fee income received . . . . .	—	1,932	—
Payment of lease contract cancellation money . . . . .	—	(999)	—
Net cash provided by (used in) operating activities . . . . .	(1,045)	5,257	(9,439)
<b>Cash flows from investing activities :</b>			
Decrease (increase) in short-term loans receivable . . . . .	(82)	(1,193)	(741)
Collection of long-term loans receivable . . . . .	2	2	18
Payments for purchases of property, plant and equipment . .	(1,347)	(925)	(12,167)
Payments for purchases of intangible fixed assets . . . . .	(348)	(164)	(3,143)
Payments for purchases of investment securities . . . . .	(176)	(49)	(1,590)
Proceeds from sales of investment securities . . . . .	19	7	172
Proceeds from sale of property, plant and equipment and other assets	2	8	18
Other . . . . .	(11)	22	(99)
Net cash used in investing activities . . . . .	(1,941)	(2,292)	(17,532)
<b>Cash flows from financing activities :</b>			
Increase (decrease) in short-term borrowings . . . . .	3,584	(1,775)	32,373
Cash dividends paid . . . . .	(725)	(725)	(6,549)
Repayment of finance lease obligations . . . . .	(88)	(86)	(795)
Other . . . . .	(373)	(370)	(3,369)
Net cash provided by (used in) financing activities . . . . .	2,398	(2,956)	21,660
<b>Effect of exchange rate changes on cash and cash equivalents</b>	25	(4)	226
<b>Increase in cash and cash equivalents . . . . .</b>	(563)	5	(5,085)
<b>Cash and cash equivalents at beginning of year . . . . .</b>	5,311	5,016	47,972
<b>Increase in cash and cash equivalents from newly consolidated subsidiary</b>	9	290	81
<b>Cash and cash equivalents at end of year . . . . .</b>	¥ 4,757	¥ 5,311	\$ 42,968

See accompanying notes.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*Kobelco Eco-Solutions Co., Ltd. and its Consolidated Subsidiaries*

*Years Ended March 31, 2021 and 2020*

## 1. Basis of Presenting Consolidated Financial Statements

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

The accompanying consolidated financial statements have been restructured and translated into English with some expanded descriptions and the inclusion of consolidated statements of stockholders' equity from the consolidated financial statements of Kobelco Eco-Solutions Co., Ltd. prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2021, which was ¥110.71 to U.S. \$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

## 2. Summary of Accounting Policies

The consolidated financial statements include the accounts of the Company and its twenty-four (twenty-three in 2020) significant majority-owned subsidiaries (the "Companies"). Intercompany transactions and accounts have been eliminated.

The Company does not account for unconsolidated subsidiaries using the equity method because doing so would not have a material effect on the consolidated financial statements. In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to non-controlling stockholders, are evaluated using the fair value at the time the Company acquired the control of the respective subsidiary. The difference, if considered significant, between the cost of the investment and the equity in the net assets at the date of acquisition is amortized over an estimated number of years when the amortization period can be estimated or over five

years. When the difference is small, it is recognized as expense when incurred.

### Cash and Cash Equivalents

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

### Allowance for Doubtful Accounts Receivables

The allowance for doubtful accounts receivables is provided in amounts considered to be sufficient to cover possible losses on collection. With respect to normal trade accounts receivable, the allowance is based on the actual rate of historical bad debts. For certain doubtful receivables, the uncollectible amount is individually estimated.

### Inventories

Work-in-process is stated at specific identified cost. Merchandise and finished goods, raw materials and supplies are stated at average cost. The Companies write down the value of inventory based on decreases in profitability to calculate the inventory value on the balance sheets.

### Property, Plant and Equipment

Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment. Depreciation is computed mainly using the straight-line method over the estimated useful life of the asset in accordance with tax laws.

### Software Costs

The Companies include internal use software in intangible assets and amortize it using the straight-line method over the estimated useful life of five years.

### Customer related assets

Customer related assets are amortized over their effective period not to exceed 3 years.

### Leases

Depreciation for lease assets is computed by the straight-line method over the term of the lease with a residual value of zero.

### Marketable Securities and Investments in Securities

Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of stockholders' equity. Realized gains on the sale of such securities are computed using moving average cost. Available-for-sale securities with no available fair market values are stated at moving average cost.

### **Hedge Accounting**

The Companies defer recognition of gains and losses resulting from changes in the fair value of derivative financial instruments until the related losses and gains on the hedged items are recognized. When forward foreign exchange contracts meet certain hedging criteria, related transactions are recorded using the contracted forward rate.

### **Provision for Product Warranties**

A provision for product warranties provides for the estimated future costs arising from the repair or replacement of products after sale. The provision is calculated based on a percentage of past costs multiplied by the sales of products for the year and the estimated costs associated with certain individual contracts.

### **Reserve for Loss on Construction Contracts**

A reserve for loss on construction contracts provides for losses on construction contracts for uncompleted work at the end of the fiscal year. To determine the amount of reserve, the Companies recognize reasonably estimated losses for specific construction orders which are expected to result in losses.

### **Employees' Severance and Retirement Benefits**

The employee projected benefit obligation is computed primarily based on the straight-line attribution standard using the projected benefit obligation at the end of the consolidated fiscal year. Past service cost is amortized using the straight-line method over the estimated average remaining service years of the employees. Actuarial differences are amortized from the year following the year in which the actuarial difference is incurred using the straight-line method over the estimated average remaining service years of the employees.

### **Revenue Recognition**

For construction contracts for which the progress through the fiscal year-end can be measured, the Companies record revenues by the percentage of completion method. The work completed is measured by the percentage of cost method. For other construction contracts, the Companies record revenue at the time of completion using the completed contract method.

### **Research and Development Expenses**

Expenses associated with the development of new products and research into and the application of new technologies are charged directly to income and loss. Research and development expenses for the years ended March 31, 2021 and 2020 were ¥1,725 million (\$15,581 thousand) and ¥1,927 million, respectively.

### **Income Taxes**

Income taxes consist of corporation, inhabitants and enterprise taxes. The Companies apply deferred income tax accounting to recognize the tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting purposes.

### **Translation of Foreign Currencies**

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates. Balance sheets of consolidated overseas subsidiaries are translated into Japanese yen at year-end rates, except net asset accounts, which are translated at historical rates. Statements of income of consolidated overseas subsidiaries

are translated into Japanese yen at the average rates for the period. The Company and its domestic consolidated subsidiaries report foreign currency translation adjustments in net assets.

### **Goodwill**

Goodwill is amortized over an appropriate period not to exceed 20 years.

### **Amounts Per Share**

Net income per share is based on the weighted average number of shares outstanding during the year. Cash dividends applicable to the year include year-end dividends approved by the general stockholders meeting held after the end of the fiscal year. Diluted net income per share is not disclosed because potentially dilutive securities are not issued.

### **Additional Information**

(Accounting estimates in relation to the COVID-19 pandemic)

It is difficult to predict when the spread of the coronavirus will come to an end, however, we make accounting estimates for the calculation of estimated total cost and percentage of completion for the percentage of completion method with construction contracts based on available information as of the end of the fiscal year. We anticipate that the spread of COVID-19 will have a limited impact on the Group's business performance. However, the impact on economic activity is highly uncertain. If the above assumption changes, the Group's financial position and business performance in the upcoming fiscal year could be affected.

### **Significant accounting estimates**

The Companies recognize revenue from construction contracts in the Water Treatment Associated Business and the Waste Treatment Associated Business by applying the percentage-of-completion method. If a loss on undelivered construction work in relation to a construction contract is expected to be incurred and the amount of loss can be reasonably estimated, the estimated amount of loss is recognized as a reserve for loss on construction contracts. For the fiscal year ended March 31, 2021, net sales recognized based on the percentage-of-completion method amounted to ¥62,832 million. The balance of reserve for loss on construction contracts was ¥3,609 million at the end of the fiscal year.

The percentage-of-completion method is applied to construction contracts for which the realization of the completed portion is assured. A reserve for loss on construction contracts is recognized for construction contracts for which the estimated total construction costs are likely to exceed total construction revenue and the amount of reserve can be reasonably estimated. In applying the percentage-of-completion method and recognizing a reserve for loss on construction contracts, it is necessary to reasonably estimate total construction revenue and costs and the progress toward completion of construction at the end of the fiscal year.

Construction contracts in the Water Treatment Associated Business involve mainly the construction of facilities and equipment for industrial waste water, water supply systems and sewage systems, while those in the Waste Treatment Associated Business involve mainly the design and construction of incinerating and melting equipment for city waste. However, work may be changed due to changes in design that occur after the start of construction or depending

on the progress of equipment delivery and field work. Therefore, the preparation of a project budget, which provides the basis for estimating total construction costs, involves a high degree of uncertainty, especially as described below, and management's judgment thereon can have a significant effect on the estimate of total construction costs at the end of the fiscal year.

A project budget can be affected by whether all the work necessary to complete the construction contract was identified and the estimated costs were included in the project budget and whether any changes in work due to changes in circumstances that occurred subsequent to the start of construction, including the construction management by contractors, were reflected within the project budget in a timely and appropriate manner.

#### Standards and guidance not yet adopted

The following standards and guidance were issued but not yet adopted.

Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020)

Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 26, 2021)

Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

#### a) Overview

The Accounting Standards Board of Japan (ASBJ) announced the above standard and guidance following the move of The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) in the United States that jointly developed comprehensive accounting standards for revenue recognition and announced Revenue from Contracts with Customers (IFRS 15 in the IASB and Topic 606 in the FASB) in May 2014. ASBJ developed its standard and guidance based on IFRS 15 and the basic principle of comparability of financial statements. ASBJ added some alternative approaches out of consideration for domestic business practice and without damaging the comparability.

#### b) Effective date

Effective from the beginning of the fiscal year ending March 31, 2022.

#### c) Effects of application

The Company and its consolidated domestic subsidiaries are in the process of determining the effects of the new standard and guidance on the consolidated financial statements.

Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019)

Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, July 4, 2019)

Accounting Standard for Measurement of Inventories (ASBJ Statement No. 9, July 4, 2019)

Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019)

Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

#### a) Overview

ASBJ announced these standards following the move of the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) in the United States, which have provided almost the same detailed guidance for fair value measurement (IFRS 13 Fair Value Measurement by IFRS and Topic 820 Fair Value Measurement of Accounting Standards Codification by U.S. GAAP). ASBJ developed these standards based on all the policies of IFRS 13 recognizing that it enables the comparability of financial statements of companies in Japan and abroad. They added some alternative approaches in consideration of domestic business practice, without damaging the comparability.

#### b) Effective date

Effective from the beginning of the fiscal year ending March 31, 2022.

#### c) Effects of application

The Company and its consolidated domestic subsidiaries are in the process of determining the effects of the new standards and guidance on the consolidated financial statements.

### 3. Inventories

Inventories at March 31, 2021 and 2020 consisted of the following :

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Merchandise and finished goods	¥102	¥84	\$921
Work-in-process	2,356	2,849	21,281
Raw materials and supplies	975	968	8,807
Total	¥3,433	¥3,901	\$31,009

### 4. Reduction Entries Due to State Subsidies, Etc.—

Cumulative reduction entries due to state subsidies, etc., for the acquisition of property, plant and equipment and intangible assets as of March 31, 2021 and 2020 were as follows :

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Buildings and structures	¥326	¥326	\$2,945
Machinery and equipment	467	467	4,218
Intangible assets	26	26	235
Total	¥819	¥819	\$7,398

### 5. Financial Instruments

#### a) Policies for using financial instruments

The Companies raise funds according to their capital budgets. Short-term financing for operating capital is limited to borrowings in accordance with the Cash Management System (CMS), an efficient fund management system of the Kobe Steel Group. Long-term financing for purposes such as capital investment is sourced from financial institutions. Temporary surpluses of funds are limited to deposits or loans made under the CMS in accordance with internal management rules.



The Companies enter into derivative contracts to hedge the risks discussed below and do not enter into derivative transactions for trading or speculative purposes.

b) Financial instruments and exposure to risk

Although notes and accounts receivable generally have payment dates within one year and are settled in the short term, they expose the Companies to credit risk, the risk that the customer might default on payment. The Companies minimize their exposure to the credit risk of their customers at the business division level by monitoring the due dates and balances of receivables and regularly evaluating the credit status of major customers.

c) Managing risks

(1) Credit risk management

With regard to operating receivables, the Companies closely monitor the due dates and balances for each customer at the business division level. The Companies seek early identification of any deterioration in the financial condition of its counterparties or other payment concerns and work to alleviate these concerns through receivable control management, including the implementation of receivable recovery schedules.

(2) Market risk management (exchange rate fluctuation risk)

For receivables and liabilities in foreign currencies, the Companies generally hedge against exchange rate fluctuation risk by using forward currency exchange contracts. Forward currency exchange contracts are executed through the finance division according to the rules governing foreign exchange contracts that set out trading authority and maximum contract limits.

To manage investments in securities, the finance division regularly evaluates market prices and the financial status of the issuing companies (client companies, etc.).

(3) Management of liquidity risk related to financing (the risk of not being able to make payment by payment deadlines)

Liquidity risk is managed at the Companies by creating and updating cash flow plans at the finance division, receiving reports from all the divisions and maintaining a ready liquidity position.

d) Supplemental information on fair values

The fair value of financial instruments includes estimates made using reasonable methods of valuation as well as quoted market prices. Estimates resulting from these methods are subjective in nature and involve uncertainties and, therefore, cannot be determined with precision. Changes in assumptions upon which the estimates are made could significantly affect the valuations.

The contracted amounts of the derivative transactions presented in Note 8 do not reflect exposure to the market risk for the derivative instruments themselves.

**Fair Value of Financial Instruments**

The book values of the financial instruments included in the consolidated balance sheets and their fair values at March 31, 2021 and 2020 were as follows :

March 31, 2021	Millions of yen		
	Book values	Fair values	Differences
1. Cash and cash equivalents	¥4,758	¥4,758	—
2. Notes and accounts receivable-trade	55,886	55,886	—
3. Electronically recorded monetary claims	1,000	1,000	—
4. Short-term loans receivable	4,474	4,474	—
5. Investment in securities	407	407	—
Total assets	¥66,525	¥66,525	—
1. Accounts payable-trade	¥13,310	¥13,310	—
2. Electronically recorded obligations	10,210	10,210	—
3. Short-term borrowings and long-term debt due within one year	9,768	9,768	¥0
4. Income and enterprise taxes payable	2,545	2,545	—
5. Long-term debt	2,183	2,103	(80)
Total liabilities	¥38,016	¥37,936	¥(80)
Derivative transactions	¥2	¥2	—

March 31, 2020	Millions of yen		
	Book values	Fair values	Differences
1. Cash and cash equivalents	¥5,311	¥5,311	—
2. Notes and accounts receivable-trade	43,071	43,071	—
3. Electronically recorded monetary claims	1,111	1,111	—
4. Short-term loans receivable	4,392	4,392	—
5. Investment in securities	335	335	—
Total assets	¥54,220	¥54,220	—
1. Accounts payable-trade	¥13,626	¥13,626	—
2. Electronically recorded obligations	9,127	9,127	—
3. Short-term borrowings and long-term debt due within one year	6,168	6,168	¥(0)
4. Income and enterprise taxes payable	2,294	2,294	—
5. Long-term debt	2,549	2,481	(68)
Total liabilities	¥33,764	¥33,696	¥(68)
Derivative transactions	¥17	¥17	—

March 31, 2021	Thousands of U.S. dollars (Note 1)		
	Book values	Fair values	Differences
1. Cash and cash equivalents	\$42,977	\$42,977	—
2. Notes and accounts receivable-trade	504,796	504,796	—
3. Electronically recorded monetary claims	9,033	9,033	—
4. Short-term loans receivable	40,412	40,412	—
5. Investment in securities	3,676	3,676	—
Total assets	\$600,894	\$600,894	—
1. Accounts payable-trade	\$120,224	\$120,224	—
2. Electronically recorded Obligations	92,223	92,223	—
3. Short-term borrowings and long-term debt due within one year	88,231	88,231	\$0
4. Income and enterprise taxes payable	22,988	22,988	—
5. Long-term debt	19,718	18,996	(723)
Total liabilities	\$343,384	\$342,662	\$(723)
Derivative transactions	\$18	\$18	—

Assets and liabilities arising from derivative transactions are presented as net amounts, with parentheses ( ) if the result is a liability.

#### Methods Used to Estimate the Fair Value Were as Follows :

##### a) Assets

(1) Cash and cash equivalents, notes and accounts receivable - trade, electronically recorded monetary claims and short-term loans receivable

The carrying amount of cash and cash equivalents, notes and accounts receivable - trade, electronically recorded monetary claims and short-term loans receivable approximates fair value because of the short maturities of these instruments.

##### (2) Investment in securities

The fair value of investments in securities is based mainly on quoted market prices.

##### b) Liabilities

(1) Accounts payable - trade, electronically recorded obligations, short-term borrowings and long-term debt due within one year and income and enterprise taxes payable

The carrying amount of accounts payable - trade, short-term borrowings and long-term debt due within one year and income and enterprise taxes payable approximate fair value because of the short maturities of these instruments. The fair value of long-term debt due within one year is estimated based on the present value of future cash flows using the current borrowing rate for similar debt of comparable maturity.

##### (2) Long-term debt

The fair value of long-term debt is estimated based on the present value of future cash flows using the current borrowing rate for similar debt of comparable maturity.

##### c) Derivative transactions

Information on derivative transactions is described in Note 8.

Financial instruments for which fair value was difficult to estimate were as follows :

March 31, 2021	Millions of yen	Thousands of U.S. dollars (Note 1)
Non-listed equity securities	¥135	\$1,219
Non-listed securities of subsidiaries	278	2,511
Total	¥413	\$3,730

Non-listed equity securities and non-listed securities of subsidiaries have no market price and cannot be reliably estimated. Therefore, they are not included in item 5, "Investment in securities," in the above tables.

The aggregate annual maturities of financial assets were as follows :

Cash and cash equivalents	Millions of yen	Thousands of U.S. dollars (Note 1)
2022	¥4,758	\$42,977
2023 and thereafter	—	—
Total	¥4,758	\$42,977

Notes and accounts receivable - trade	Millions of yen	Thousands of U.S. dollars (Note 1)
2022	¥55,886	\$504,796
2023 and thereafter	—	—
Total	¥55,886	\$504,796

Electronically recorded monetary claims	Millions of yen	Thousands of U.S. dollars (Note 1)
2022	¥1,000	\$9,033
2023 and thereafter	—	—
Total	¥1,000	\$9,033

Short-term loans receivable	Millions of yen	Thousands of U.S. dollars (Note 1)
2022	¥4,474	\$40,412
2023 and thereafter	—	—
Total	¥4,474	\$40,412

The aggregate annual maturities of short-term borrowings and long-term debt due within one year were as follows :

Short-term borrowings and long-term debt due within one year	Millions of yen	Thousands of U.S. dollars (Note 1)
2022	¥9,768	\$88,231
2023 and thereafter	—	—
Total	¥9,768	\$88,231

The aggregate annual maturities of long-term debt were as follows :

Long-term debt	Millions of yen	Thousands of U.S. dollars (Note 1)
2022	—	—
2023	¥286	\$2,583
2024	286	2,583
2025	286	2,583
2026	285	2,575
2027 and thereafter	1,040	9,394
Total	¥2,183	\$19,718

## 6. Securities

a) The following tables summarize securities with available fair values as of March 31, 2021 and 2020.

Available-for sale securities

Book values (fair values) exceeding acquisition costs :

March 31, 2021	Millions of yen		
	Acquisition cost	Book (fair) value	Difference
Equity securities	¥187	¥407	¥220

March 31, 2020	Millions of yen		
	Acquisition cost	Book (fair) value	Difference
Equity securities	¥194	¥335	¥140

March 31, 2021	Thousands of U.S. dollars (Note 1)		
	Acquisition cost	Book (fair) value	Difference
Equity securities	\$1,689	\$3,676	\$1,987

b) The following table summarizes book values of securities with no available fair values as of March 31, 2021 and 2020.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Available-for-sales securities :			
Non-listed equity securities	¥135	¥32	\$1,219

c) Sales of available-for-sale securities for the years ended March 31, 2021 and 2020 were as follows :

March 31, 2021		Millions of yen		
	Sales	Gains on sales	Losses on sales	
Equity securities	¥19	¥13	—	

March 31, 2020		Millions of yen		
	Sales	Gains on sales	Losses on sales	
Equity securities	¥7	¥1	¥1	

March 31, 2021		Thousands of U.S. dollars (Note 1)		
	Sales	Gains on sales	Losses on sales	
Equity securities	\$172	\$117	—	

d) Securities pledged as collateral for subsidiaries' maintenance and management of waste treatment facilities :

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Investment in unconsolidated subsidiaries	¥45	¥45	\$406
Total	¥45	¥45	\$406

Other than the above, securities in the amount of ¥305 million (\$2,755 thousand) eliminated in intercompany transactions were pledged as collateral for subsidiaries' maintenance and management of waste treatment facilities for the years ended March 31, 2021 and 2020.

## 7. Short-term Borrowings and Long-term Debt

Short-term borrowings at March 31, 2021 and 2020 consisted of the following :

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Bank loans	¥9,402	¥5,802	\$84,925

The weighted average interest rate on short-term borrowings outstanding at March 31, 2021 and 2020 was 0.7% and 0.9%, respectively.

Long-term debt at March 31, 2021 and 2020 consisted of the following :

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Unsecured :			
Loans from banks, interest rate of 0.7%, due 2021 to 2032	¥2,549	¥2,915	\$23,024
Less amounts due within one year	366	366	3,306
Total	¥2,183	¥2,549	\$19,718
Lease :			
Lease obligations, interest rate of 2.5%, due 2021 to 2026	¥83	¥141	\$750
Less amounts due within one year	48	83	434
Total	¥35	¥58	\$316

The weighted average interest rate on long-term loans from banks outstanding at March 31, 2021 and 2020 was 0.7% and 0.7%, respectively.

The weighted average interest rate on long-term lease obligations at March 31, 2021 and 2020 was 2.5% and 3.0%, respectively.

The aggregate annual maturities of long-term debt were as follows :

Long-term debt	Millions of yen	Thousands of U.S. dollars (Note 1)
2023	¥286	\$2,583
2024	286	2,583
2025	286	2,583
2026 and thereafter	1,325	11,969
Total	¥2,183	\$19,718

## 8. Derivative Transactions

The Companies enter into forward currency exchange contracts to hedge the risk of changes in foreign currency exchange rates associated with transactions denominated in foreign currencies. The Companies do not enter into derivative transactions for speculative purposes.

The Companies may be exposed to loss from fluctuations in foreign currency exchange rates. However, the Companies do not anticipate any significant credit risk because the counterparties for its derivatives are highly rated major financial institutions.

Derivative transactions are made in accordance with internal regulations and are reported to management.

Derivative transactions for which hedge accounting was applied

Forward currency exchange contracts outstanding at March 31, 2021 and 2020 were as follows :

March 31, 2021		Millions of yen		
Foreign currency exchange contracts :	Hedged items	Contracted amount	Contracted amount (over one year)	Fair value
Deferred hedge method				
To buy foreign currencies :				
U.S. dollars	Trade payables	¥229	—	¥11
To sell foreign currencies :				
U.S. dollars	Trade receivables	¥182	—	¥(9)
Assigning method				
To buy foreign currencies :				
U.S. dollars	Trade payables	¥43	—	—

March 31, 2020		Millions of yen		
Foreign currency exchange contracts :	Hedged items	Contracted amount	Contracted amount (over one year)	Fair value
Deferred hedge method				
To buy foreign currencies :				
U.S. dollars	Trade payables	¥1,003	¥178	¥17
Euros	Trade payables	58	—	(0)
To sell foreign currencies :				
U.S. dollars	Trade receivables	¥3	—	—
Euros	Trade payables	10	—	—

March 31, 2021	Thousands of U.S. dollars (Note 1)			
Foreign currency exchange contracts :	Hedged items	Contracted amount	Contracted amount (over one year)	Fair value
Deferred hedge method				
To buy foreign currencies :				
U.S. dollars	Trade payables	\$2,068	—	\$99
To sell foreign currencies :				
U.S. dollars	Trade receivables	\$1,644	—	\$(81)
Assigning method				
To buy foreign currencies :				
U.S. dollars	Trade payables	\$388	—	—

The fair value is recognized at the price presented by the financial institution.

#### Assigning method

Since foreign exchange forward contracts under the alternative method are accounted for as an integral part of accounts payable as hedge items, their fair values are included in the fair value of the underlying accounts payable.

## 9. Employees' Severance and Retirement Benefits

#### Summary of adopted retirement benefits

The Companies operate two types of defined benefit retirement plans, unfunded lump-sum payment plans and funded non-contributory pension plans. The Company also operates a retirement benefit trust.

Net defined benefit asset or liability in the consolidated balance sheets for the years ended March 31, 2021 and 2020 consisted of the following :

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Defined benefit plans			
(1) Movement in projected benefit obligations			
Balance at beginning of the year	¥10,252	¥9,697	\$92,602
Service cost	868	823	7,841
Interest cost	88	77	795
Actuarial differences	313	222	2,827
Benefits paid	(496)	(531)	(4,480)
Past service cost incurred	(1,621)	(36)	(14,642)
Increase due to transfer	711	—	6,422
Balance at end of the year	¥10,115	¥10,252	\$91,365
(2) Movements in plan assets			
Balance at beginning of the year	¥4,379	¥4,441	\$39,554
Expected return on plan assets	51	51	461
Actuarial differences	112	(108)	1,011
Contributions paid by the employer	402	144	3,631
Benefits paid	(152)	(149)	(1,373)
Balance at end of the year	¥4,792	¥4,379	\$43,284

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
(3) Reconciliation from projected benefit obligations and plan assets to net defined benefit liability and asset			
Funded projected benefit obligations	¥8,434	¥8,727	\$76,181
Plan assets	(4,792)	(4,379)	(43,284)
	3,642	4,348	32,897
Unfunded projected benefit obligations	1,680	1,525	15,174
Total net defined benefit liability and asset at end of the year	¥5,322	¥5,873	\$48,071
Net defined benefit asset	(1,558)	(1,277)	(14,073)
Net defined benefit liability	6,880	7,150	62,144
Total net defined benefit liability and asset at end of the year	¥5,322	¥5,873	\$48,071
(4) Retirement benefit costs			
Service cost	¥868	¥824	\$7,840
Interest cost	87	77	786
Expected return on plan assets	(51)	(51)	(461)
Amortization of actuarial differences	172	91	1,554
Amortization of past service cost	(2)	7	(18)
Total retirement benefit costs for the fiscal year	¥1,074	¥948	\$9,701
(5) Adjustments for retirement benefits			
Past service cost	¥1,619	¥43	\$14,624
Actuarial differences	(29)	(239)	(262)
Total	¥1,590	¥(196)	\$14,362
(6) Accumulated adjustments for retirement benefits			
Unrecognized past service cost	¥(1,664)	¥(46)	\$(15,030)
Unrecognized actuarial differences	815	787	7,361
Total balance at end of the year	¥(849)	¥741	\$(7,669)
(7) Plan assets			
1. Plan assets comprise :			
General accounts of life insurance	¥3,501	¥3,267	\$31,623
Bonds	574	466	5,185
Cash and cash equivalents	457	468	4,128
Equity securities	255	173	2,303
Other	5	5	45
Total	¥4,792	¥4,379	\$43,284
2. Long-term expected rate of return			
Current and target asset allocations, historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.			

#### (8) Actuarial assumptions

The principal actuarial assumptions at March 31, 2021 and 2020 were as follows :

	2021	2020
Discount rate	0.8%~0.9%	0.8%~0.9%
Long-term expected rate of return	1.3%	1.3%

Information about the expected rate of pay increase is not disclosed because the Companies have adopted mainly a point basis, and the effect on the calculation of projected benefit obligations would be insignificant.

## 10. Net Assets

Under the Japanese Companies Act, 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 cases in which a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. However, all additional paid-in capital and all legal earnings 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 nonconsolidated financial statements of the Company in accordance with Japanese Companies Act.

At the general stockholders meeting held on June 25, 2021, the stockholders approved cash dividends amounting to ¥967 million (\$8,735 thousand). These appropriations have not been accrued in the consolidated financial statements as of March 31, 2021. Such appropriations are recognized in the period in which they are approved by the stockholders.

## 11. Related Party Transactions

a) Related party transactions between the Company and its related companies

Account balances with Kobe Steel, Ltd., the majority stockholder of the Company, at March 31, 2021 and 2020 were as follows :

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Current receivables	¥4,945	¥3,266	\$44,666

Transactions with Kobe Steel, Ltd. for the years ended March 31, 2021 and 2020 were as follows :

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Sales	¥3,239	¥3,395	\$29,257

Account balances with Kobelco Financial Center, Ltd., a fellow subsidiary of Kobe Steel, Ltd. at March 31, 2021 and 2020 were as follows :

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Short-term loans receivables	—	—	—
Short-term borrowings	¥9,055	¥5,259	\$81,790

Transactions with Kobelco Financial Center, Ltd. for the years ended March 31, 2021 and 2020 were as follows :

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Loans advanced	¥5,658	¥6,052	\$51,106
Interest income	2	3	18
Borrowing funds	6,056	3,049	54,701
Interest expense	22	7	199

b) Related party transactions between the Company's consolidated subsidiaries and its related companies  
Account balances with Kobelco Financial Center, Ltd. at March 31, 2021 and 2020 were as follows :

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Short-term loans receivables	¥2,272	¥2,364	\$20,522

Transactions with Kobelco Financial Center, Ltd. for the years ended March 31, 2021 and 2020 were as follows :

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Loans advanced	¥2,427	¥2,272	\$21,922
Interest income	2	0	18

## 12. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended March 31, 2021 and 2020 were as follows :

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Employees' salaries and allowances	¥2,808	¥2,757	\$25,364
Bonuses	1,126	945	10,171
Severance and retirement benefit expenses	217	205	1,960
Depreciation	425	430	3,839
Expenses for estimates and designs	2,255	1,943	20,368
Other expenses	4,697	4,929	42,426
Total	¥11,528	¥11,209	\$104,128



### 13. Income Taxes

Significant components of the Companies' deferred income tax assets and liabilities as of March 31, 2021 and 2020 were as follows :

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Deferred income tax assets :			
Net defined benefit liability	¥1,990	¥2,150	\$17,975
Percentage of completion method	919	787	8,301
Provision for loss on construction contracts	1,042	763	9,412
Accrued bonuses	992	762	8,960
Provision for product warranties	540	516	4,878
Research and development expenses	226	436	2,041
Depreciation	384	400	3,469
Loss on valuation of inventories	299	173	2,701
Accrued business enterprise tax	156	146	1,409
Asset retirement obligations	166	141	1,499
Other	708	569	6,395
Total deferred income tax assets	7,422	6,843	67,040
Valuation allowance	(498)	(412)	(4,498)
Deferred income tax assets, net	6,924	6,431	62,542
Deferred income tax liabilities :			
Reserve for advanced depreciation of non-current assets	667	706	6,025
Liability adjustment	222	255	2,005
Customer-related assets	50	117	452
Asset retirement obligations	129	111	1,165
Other	69	48	623
Total deferred income tax liabilities	1,137	1,237	10,270
Net deferred income tax assets	¥5,787	¥5,194	\$52,272

The following table summarizes the significant differences between the statutory tax rate and the Companies' effective tax rate for financial statement purposes for the years ended March 31, 2021 and 2020.

	2021	2020
Statutory tax rate	30.6 %	30.6 %
Nondeductible expenses	0.4	1.3
Nontaxable dividend income	(0.2)	(0.2)
Per capita inhabitants taxes	1.6	2.1
Tax credit for research and development expenses, etc.	(1.5)	(4.0)
Valuation allowance	1.6	2.7
Other	0.5	1.6
Effective tax rate	33.0 %	34.1 %

### 14. Consolidated Statements of Comprehensive Income

Amounts reclassified to net income in the current period that were recognized in other comprehensive income in the current or previous periods and the tax effects for each component of other comprehensive income were as follows :

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Unrealized gains (losses) on securities			
Increase during the year	¥93	¥(101)	\$840
Reclassification adjustments	(12)	(2)	(108)
Subtotal, before tax	81	(103)	732
Tax (expense) or benefit	(26)	30	(235)
Subtotal, net of tax	55	(73)	497
Unrealized gains on hedges			
Increase during the year	(15)	(0)	(136)
Reclassification adjustments	—	—	—
Subtotal, before tax	(15)	(0)	(136)
Tax (expense) or benefit	4	0	36
Subtotal, net of tax	(11)	(0)	(100)
Foreign currency translation adjustments			
Increase (decrease) during the year	24	(20)	217
Reclassification adjustments	—	—	—
Subtotal, before tax	24	(20)	217
Tax (expense) or benefit	—	—	—
Subtotal, net of tax	24	(20)	217
Remeasurements of defined benefit plans			
Decrease during the year	1,421	(294)	12,835
Reclassification adjustments	169	98	1,527
Subtotal, before tax	1,590	(196)	14,362
Tax expense	(486)	63	(4,390)
Subtotal, net of tax	1,104	(133)	9,972
Total other comprehensive income	¥1,172	¥(226)	\$10,586

### 15. Segment Information

#### a) General information about reportable segments

The Companies' reportable segments are consistent units of the Companies for which separate financial data is accessible. The Board of Directors conducts regular reviews of each segment in order to decide the allocation of managerial resources and analyze and assess results. The Company has three reporting segments based on the business divisions established at the Company for different products: Water Treatment Associated Business, Waste Treatment Associated Business and Chemical and Food Machine Associated Business. Each segment develops comprehensive strategies for the business it is responsible for (including business at subsidiaries) both within Japan and overseas and promotes business activities accordingly.

#### b) Basis of measurement about reportable segment income or loss, segment assets, segment liabilities and other material items

Reportable segment income or loss is ordinary income. Intersegment transactions are based on market prices.

c) Information about reportable segment income or loss, segment assets, segment liabilities and other material items  
Reportable segment information for the years ended March 31, 2021 and 2020 was as follows :

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
<b>Net sales :</b>			
Water Treatment Associated Business	¥42,555	¥37,181	\$384,383
Waste Treatment Associated Business	58,752	51,711	530,684
Chemical and Food Machine Associated Business	10,961	9,082	99,006
Adjustment	138	24	1,246
<b>Total</b>	<b>¥112,406</b>	<b>¥97,998</b>	<b>\$1,015,319</b>
<b>Segment income or loss :</b>			
Water Treatment Associated Business	¥2,264	¥545	\$20,450
Waste Treatment Associated Business	2,745	2,710	24,795
Chemical and Food Machine Associated Business	1,363	951	12,311
Adjustment	(699)	(676)	(6,314)
<b>Total</b>	<b>¥5,673</b>	<b>¥3,530</b>	<b>\$51,242</b>
<b>Segment assets :</b>			
Water Treatment Associated Business	¥27,324	¥22,755	\$246,807
Waste Treatment Associated Business	41,439	32,774	374,302
Chemical and Food Machine Associated Business	8,863	8,826	80,056
Adjustment	18,367	20,339	165,902
<b>Total</b>	<b>¥95,993</b>	<b>¥84,694</b>	<b>\$867,067</b>
<b>Segment liabilities :</b>			
Water Treatment Associated Business	¥13,820	¥13,924	\$124,830
Waste Treatment Associated Business	21,220	17,489	191,672
Chemical and Food Machine Associated Business	3,001	2,879	27,107
Adjustment	24,502	21,037	221,317
<b>Total</b>	<b>¥62,543</b>	<b>¥55,329</b>	<b>\$564,926</b>
<b>Depreciation :</b>			
Water Treatment Associated Business	¥181	¥394	\$1,635
Waste Treatment Associated Business	781	776	7,054
Chemical and Food Machine Associated Business	201	199	1,815
Adjustment	294	290	2,656
<b>Total</b>	<b>¥1,457</b>	<b>¥1,659</b>	<b>\$13,160</b>
<b>Amortization of goodwill</b>			
Water Treatment Associated Business	—	—	—
Waste Treatment Associated Business	¥2	¥2	\$18
Chemical and Food Machine Associated Business	—	—	—
Adjustment	—	—	—
<b>Total</b>	<b>¥2</b>	<b>¥2</b>	<b>\$18</b>
<b>Interest income :</b>			
Water Treatment Associated Business	¥273	¥242	\$2,466
Waste Treatment Associated Business	482	394	4,354
Chemical and Food Machine Associated Business	74	52	668
Adjustment	(815)	(676)	(7,362)
<b>Total</b>	<b>¥14</b>	<b>¥12</b>	<b>\$126</b>

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
<b>Interest expense :</b>			
Water Treatment Associated Business	¥345	¥292	\$3,116
Waste Treatment Associated Business	411	281	3,712
Chemical and Food Machine Associated Business	—	—	—
Adjustment	(682)	(524)	(6,160)
<b>Total</b>	<b>¥74</b>	<b>¥49</b>	<b>\$668</b>
<b>Capital expenditures :</b>			
Water Treatment Associated Business	¥699	¥405	\$6,314
Waste Treatment Associated Business	294	209	2,656
Chemical and Food Machine Associated Business	164	140	1,481
Adjustment	348	223	3,143
<b>Total</b>	<b>¥1,505</b>	<b>¥977</b>	<b>\$13,594</b>

(1) The segment income or loss adjustment of ¥(699) million (\$6,314 thousand) refers to companywide expenses and non-operating income not allocated to the reportable segments. Companywide expenses are mostly general management expenses not belonging to a particular reportable segment (including allocation variance for the reportable segments).

(2) The segment assets adjustment of ¥18,367 million (\$165,902 thousand) refers to cash and deposits and fixed assets of the management departments not allocated to the reportable segments.

(3) The segment liabilities adjustment of ¥24,502 million (\$221,317 thousand) refers to short-term borrowings and accrued income taxes and expenses not allocated to the reportable segments.

(4) The depreciation expense adjustment of ¥294 million (\$2,656 thousand) refers to depreciation expense for buildings, etc., belonging to the management departments not allocated to the reportable segments.

(5) Interest income adjustment of ¥(815) million (\$7,362 thousand) refers to the differences between the expected interest rates and the actual interest rates.

(6) Interest expense adjustment of ¥(682) million (\$6,160 thousand) refers to the differences between the expected interest rates and the actual interest rates.

(7) Capital expenditures adjustment of ¥348 million (\$3,143 thousand) refers to the increase in systems related fixed assets belonging to the management departments not allocated to the reportable segments.

#### Sales to external customers by reportable segment

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2021	2021
<b>Sales to external customers :</b>		
Water Treatment Associated Business	¥42,555	\$384,383
Waste Treatment Associated Business	58,752	530,684
Chemical and Food Machine Associated Business	10,961	99,006
Adjustment	138	1,246
<b>Total</b>	<b>¥112,406</b>	<b>\$1,015,319</b>

Sales to external customers adjustment of ¥138 million (\$1,246 thousand) refers to sales that do not belong to the reportable segments.

## Information about geographic areas

### (1) Sales

Information about sales by geographic area was not disclosed because sales to external customers in Japan were more than 90% of consolidated net sales.

### (2) Tangible fixed assets

Information about tangible fixed assets by geographic area was not disclosed because tangible fixed assets in Japan were more than 90% of consolidated tangible fixed assets.

### (3) Information about major customers

Information about major customers was not disclosed because sales to major customers were less than 10% of consolidated net sales.

## Amortization and unamortized balance of goodwill by reportable segment

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Amortization :			
Water Treatment Associated Business	—	—	—
Waste Treatment Associated Business	¥2	¥2	\$18
Chemical and Food Machine Associated Business	—	—	—
Adjustment	—	—	—
Total	¥2	¥2	\$18
Unamortized balance :			
Water Treatment Associated Business	—	—	—
Waste Treatment Associated Business	¥7	¥10	\$63
Chemical and Food Machine Associated Business	—	—	—
Adjustment	—	—	—
Total	¥7	¥10	\$63

## 16. Changes in the Number of Shares

Changes in the number of shares issued and outstanding during the years ended March 31, 2021 and 2020 were as follows :

	Shares		
	2021	2020	Difference
Outstanding stock :			
Common stock	16,120,000	16,120,000	—
Total	16,120,000	16,120,000	—
Treasury stock :			
Common stock	4,314	4,210	104
Total	4,314	4,210	104

# Financial Statements

## INDEPENDENT AUDITOR'S REPORT

### Independent Auditor's Report

To the Board of Directors of Kobelco Eco-Solutions Co., Ltd.:

#### Opinion

We have audited the accompanying consolidated financial statements of Kobelco Eco-Solutions Co., Ltd. ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheets as at March 31, 2021 and 2020, the consolidated statements of income and comprehensive income, the consolidated statements of 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, 2021 and 2020, 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.

#### **Reasonableness of the Company's estimate of total construction costs in applying the percentage-of-completion method to construction contracts and recognizing a reserve for loss on construction contracts**

The key audit matter	How the matter was addressed in our audit
As described in Note 2, "Summary of Accounting Policies, Significant accounting estimates" to the consolidated financial statements, the Company and its consolidated subsidiaries recognize revenue from construction contracts in the Water Treatment Associated Business and the Waste Treatment Associated Business by applying the percentage-of-completion method. If a loss on undelivered construction work in relation to a construction contract is expected to be incurred and the amount of loss can be reasonably estimated, the estimated amount of loss is recognized as a reserve for loss on construction contracts. For the fiscal year ended March 31, 2021, net sales recognized based on the percentage-of-completion method amounted to	<p>The primary procedures we performed to assess whether the Company's estimate of total construction costs in applying the percentage-of-completion method to construction contracts and recognizing a reserve for loss on construction contracts was reasonable included the following:</p> <p><b>(1) Internal control testing</b></p> <p>We tested the design and operating effectiveness of certain of the Company's internal controls relevant to the process of preparing a project budget for construction contracts. In this assessment, we focused our testing on the following controls:</p> <ul style="list-style-type: none"> <li>● controls to ensure compliance with the</li> </ul>

¥62,832 million, which represented 55.9% of net sales. The balance of reserve for loss on construction contracts was ¥3,609 million at the end of the fiscal year.

The percentage-of-completion method is applied to construction contracts for which the realization of the completed portion is assured. A reserve for loss on construction contracts is recognized for construction contracts for which the estimated total construction costs are likely to exceed total construction revenue and the amount of reserve can be reasonably estimated. In applying the percentage-of-completion method and recognizing a reserve for loss on construction contracts, it is necessary to reasonably estimate total construction revenue and costs and the progress toward completion of construction at the end of the fiscal year.

Construction contracts in the Water Treatment Associated Business involve mainly the construction of facilities and equipment for industrial waste water, water supply systems and sewage systems, while those in the Waste Treatment Associated Business involve mainly the design and construction of incinerating and melting equipment for city waste. Work for these contracts may be changed due to changes in design that occur after the start of construction or depending on the progress of equipment delivery and field work. Therefore, the preparation of a project budget, which provides the basis for estimating total construction costs, involves a high degree of uncertainty especially as described below, and management's judgment thereon can have a significant effect on the estimate of total construction costs at the end of the fiscal year. A project budget can be affected by:

- whether all the work necessary to complete the construction contract was identified and the estimated costs were included in the project budget; and
- whether any changes in work due to changes in circumstances that occurred subsequent to the start of construction, including the construction management by contractors, were reflected within the project budget in a timely and appropriate manner.

We, therefore, determined that our assessment of the reasonableness of the Company's estimate of total construction costs in applying the percentage-of-completion method to construction

internal rules for preparing a project budget, including how to accumulate work hours of each activity, what information and data to be used, and how to reflect the risk of any uncertainties within the budget; and

- controls to reflect any changes in circumstances that occur after the start of construction within the project budget in a timely and appropriate manner.

## **(2) Assessment of the reasonableness of the estimated total construction costs**

In order to assess the reasonableness of key assumptions adopted in preparing the project budget for the construction contract, which was used as the basis for estimating total construction costs, we inquired of management and the personnel responsible for construction work about the basis on which those assumptions were developed for the constructions selected based on certain criteria, such as those for which a large amount of revision was made to the estimated total construction costs. In addition, we:

- assessed whether all the activities agreed upon with the customer were included in the schedule of accumulated costs within the project budget by comparing it with the construction contract and the specification sheet;
- agreed the estimated costs of each activity included in the project budget with the supporting worksheet that calculated the accumulated costs, such as estimates from external service providers, and compared them with actual costs incurred;
- evaluated the accuracy of the project budget by comparing the actual total cost of constructions completed in the current fiscal year with their project budget and examining variances between the two;
- inquired of the personnel in charge of construction cost management about the progress toward completion of the construction, including his/her judgment as to whether the project budget should be updated considering the construction timeline and the status of funds still available in the project budget, and inspected the supporting documents that served as the basis for their responses to our inquiries; and
- inspected the materials for the project status



contracts and recognizing a reserve for loss on construction contracts was one of the most significant in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.

meetings to understand the progress of the project and inquired of the personnel in charge of construction cost management and other relevant personnel, including the head of administration and the head of accounting about any changes in circumstances that occurred after the start of construction and their judgment on whether to update the project budget, and assessed the consistency of their responses with each other's and the reported matters at the project status meetings.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and

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

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

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

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

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

#### **Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2021 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.

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Daisuke Harada  
Designated Engagement Partner  
Certified Public Accountant

Sakurako Ohtsuki  
Designated Engagement Partner  
Certified Public Accountant

KPMG AZSA LLC  
Osaka Office, Japan  
August 4, 2021

**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.



# KOBELCO ECO-SOLUTIONS CO.,LTD.

## Product Line

### ●Water Treatment

- City water and sewage treatment plant
- Sludge treatment / Sludge volume reduction equipment
- Sludge incineration / Melting / Recycling system
- Wastewater Treatment Facilities
- Industrial water processing system
- Water treatment system for liquid crystals and semiconductors
- Pure water / Ultrapure water production equipment
- Leachate treatment system
- Seawater desalination system

### ●Biomass

- Biogas Upgrading System
- Biogas technology for the injection into the natural gas grid

### ●Cooling Tower

- Cooling tower for district heating and cooling
- Super-low-noise cooling tower
- Industrial cooling tower

### ●Waste Treatment and Waste to Energy (Incinerator)

- Fluidized Bed Gasification and Melting Furnace
- Grate Type Incineration
- Fluidized-bed furnace

### ●Detoxification of PCBs

- Sodium Pulverulent Process "SP Process"
- Solvent Extraction and Decomposition Process "SED Process"
- Plasma Melting Technology for PCB-contaminated Waste
- Heated Oil. Circulation Washing

### ●Technological Development

- Water Treatment / Sludge Treatment / Recycling
- Cooling Tower
- Waste Treatment and Recycling
- Environmental Restoration and Recycling
- Process Equipment
- Business Development & Innovative Technologies

### ●Environmental Analysis Service

- Potable water and sewage sludge
- Wastewater from factories, research centers, etc.
- Industrial waste (PCB, metals, organics, etc.)

### ●Process Equipment for Chemical and Food Industries, etc.

- Glasslined Reactor
- Polymerizer / Reactor
- Mixer / Dryer
- Evaporator

### ●Hydrogen-Related

- High-purity Hydrogen Oxygen Generator

## Offices

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