



SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Consolidated Financial Statements

March 31, 2024 and 2023

(With Independent Auditors' Report Thereon)



KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Independent Auditors' Report

The Board of Directors
Sumitomo Corporation of Americas:

Opinion

We have audited the consolidated financial statements of Sumitomo Corporation of Americas and its subsidiaries (the Company), which comprise the consolidated statements of financial position as of March 31, 2024 and 2023, and the related consolidated statements of comprehensive income, changes in equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2024 and 2023, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS as issued by the IASB, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise significant doubt about the Company's ability to continue as a going concern for one year after the date that the consolidated financial statements are authorized for issuance.

Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. 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. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.



In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise significant doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

KPMG LLP

New York, New York
May 14, 2024

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Consolidated Statements of Financial Position

March 31, 2024 and 2023

(In millions of U.S. dollars)

Assets	2024	2023
Current assets:		
Cash and cash equivalents	\$ 350	680
Accounts receivable, net of allowance for doubtful accounts of \$16 and \$23, respectively	1,867	1,977
Inventories (note 7)	1,450	2,078
Intracompany cash management receivable (note 8)	30	54
Advance payments to suppliers	45	61
Current tax assets	31	9
Prepaid expenses and other current assets	260	241
Total current assets	4,033	5,100
Long-term receivables:		
Third party	134	191
Related parties (note 8)	8	15
Property and equipment, net (note 9)	1,917	1,566
Investment property (note 10)	315	332
Equity-accounted investments (notes 4 and 5)	1,112	1,382
Goodwill (note 11)	272	119
Other intangible assets (note 11)	401	298
Other assets (note 18)	362	324
Total noncurrent assets	4,521	4,227
Total assets	\$ 8,554	9,327

See accompanying notes to consolidated financial statements.

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Consolidated Statements of Financial Position

March 31, 2024 and 2023

(In millions of U.S. dollars)

Liabilities and Equity	2024	2023
Current liabilities:		
Commercial paper	\$ —	142
Notes payable (note 12)	80	150
Current portion of long-term debt (note 13)	350	396
Accounts payable:		
Third party	929	1,186
Related parties (note 5 and 8)	282	285
Advances received	11	17
Accrued expenses and other current liabilities	562	573
Total current liabilities	2,214	2,749
Long-term liabilities:		
Long-term debt:		
Third party (note 13)	1,080	1,428
Other long-term liabilities	431	382
Deferred income taxes (note 15)	193	190
Total noncurrent liabilities	1,704	2,000
Equity:		
Common stock, no par value. Authorized-300,000 shares; issued and outstanding-187,650 shares	411	411
Additional paid-in capital (note 16)	1,960	1,959
Retained earnings	2,242	2,164
Other components of equity (note 16)	(25)	(10)
Equity attributable to owners of the parent company	4,588	4,524
Noncontrolling interests	48	54
Total equity	4,636	4,578
Total liabilities and equity	\$ 8,554	9,327

See accompanying notes to consolidated financial statements.

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

Years ended March 31, 2024 and 2023

(In millions of U.S. dollars)

	2024	2023
Revenues (note 8)	\$ 10,026	11,458
Cost of sales (note 8)	<u>(8,486)</u>	<u>(9,674)</u>
Gross profit	1,540	1,784
Selling, general and administrative expenses (note 23)	(870)	(782)
Interest expense (net of interest income of \$57 and \$29, respectively)	(80)	(79)
Other income (expense) – net (note 6)	(69)	96
Equity in net income of affiliates (note 5)	<u>132</u>	<u>36</u>
Income before income taxes	653	1,055
Income tax expense (note 14)	<u>(100)</u>	<u>(198)</u>
Net income	<u>553</u>	<u>857</u>
Other comprehensive income:		
Items that will not be reclassified to net income:		
Net change in fair value of equity securities	(38)	(33)
Income tax benefit	<u>11</u>	<u>6</u>
Total items that will not be reclassified to net income	<u>(27)</u>	<u>(27)</u>
Items that may be reclassified to net income:		
Foreign currency translation differences for foreign operations	—	11
Effective portion of changes in fair value of cash flow hedges	4	(5)
Share of equity-accounted investments	7	9
Income tax benefit (expense)	<u>6</u>	<u>(6)</u>
Total items that may be reclassified to net income	<u>17</u>	<u>9</u>
Other comprehensive loss	<u>(10)</u>	<u>(18)</u>
Total comprehensive income	<u>\$ 543</u>	<u>839</u>
Net income attributable to:		
Owners of the parent company	\$ 550	845
Noncontrolling interests	<u>3</u>	<u>12</u>
Net income	<u>\$ 553</u>	<u>857</u>
Total comprehensive income attributable to:		
Owners of the parent company	\$ 535	832
Noncontrolling interests	<u>8</u>	<u>7</u>
Total comprehensive income	<u>\$ 543</u>	<u>839</u>

See accompanying notes to consolidated financial statements.

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

Years ended March 31, 2024 and 2023

(In millions of U.S. dollars)

	Sumitomo Corporation of America stockholder's equity						Total stockholder's equity	Noncontrolling interests	Total equity
	Common stock	Additional paid-in capital	Retained earnings	Translation reserve	Hedging reserve	Fair value reserve			
Balance – March 31, 2022	\$ 411	1,967	1,724	(30)	10	24	4,106	65	4,171
Comprehensive income:									
Net income	—	—	845	—	—	—	845	12	857
Changes in other comprehensive income – net of tax:									
Net change in fair value of equity securities	—	—	1	—	—	(28)	(27)	—	(27)
Effective portion of changes in fair value of cash flow hedges	—	—	—	—	(5)	—	(5)	(5)	(10)
Foreign currency translation adjustments	—	—	—	19	—	—	19	—	19
Total comprehensive income	—	—	846	19	(5)	(28)	832	7	839
Dividend to parent company	—	—	(400)	—	—	—	(400)	—	(400)
Dividend in-kind to parent company	—	(8)	(6)	—	—	—	(14)	—	(14)
Dividends to noncontrolling interests	—	—	—	—	—	—	—	(20)	(20)
Contributed capital from noncontrolling interests	—	—	—	—	—	—	—	2	2
Balance – March 31, 2023	411	1,959	2,164	(11)	5	(4)	4,524	54	4,578
Comprehensive income:									
Net income	—	—	550	—	—	—	550	3	553
Changes in other comprehensive income – net of tax:									
Net change in fair value of equity securities	—	—	—	—	—	(26)	(26)	—	(26)
Effective portion of changes in fair value of cash flow hedges	—	—	—	—	5	—	5	5	10
Foreign currency translation adjustments	—	—	—	6	—	—	6	—	6
Total comprehensive income	—	—	550	6	5	(26)	535	8	543
Dividend to parent company	—	—	(400)	—	—	—	(400)	—	(400)
Dividend in-kind to parent company	—	(2)	(72)	—	—	—	(74)	—	(74)
Dividends to noncontrolling interests	—	—	—	—	—	—	—	(14)	(14)
Purchases and other changes in noncontrolling interests	—	3	—	—	—	—	3	—	3
Balance – March 31, 2024	\$ 411	1,960	2,242	(5)	10	(30)	4,588	48	4,636

See accompanying notes to consolidated financial statements.

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended March 31, 2024 and 2023

(In millions of U.S. dollars)

	<u>2024</u>	<u>2023</u>
Cash flows from operating activities:		
Income before income taxes	\$ 653	1,055
Adjustments to reconcile loss before income taxes to net cash provided by operating activities:		
Depreciation and amortization	325	262
Reversal of impairments of other intangible assets	—	(92)
Reversal of impairments of property and equipment	(8)	(44)
Impairments of investment property	41	28
Income of equity-accounted investments, net of distributions	(47)	35
Net realized (gain)/loss on property and investments	(9)	7
Net interest expense	86	73
Interest received	57	29
Rental equipment purchases	(367)	(312)
Other	(2)	11
Changes in operating assets and liabilities, net of acquisitions:		
Accounts and notes receivable	131	(286)
Inventories	715	(439)
Advance payments to suppliers	15	(26)
Prepaid expenses and other assets	(9)	(51)
Long-term receivables – derivatives	42	(11)
Accounts payable	(284)	219
Advances received	(6)	(1)
Accrued expenses and other liabilities	(40)	(47)
Other long-term liabilities	(40)	53
Cash generated from operating activities	<u>1,253</u>	<u>463</u>
Income tax payments	(111)	(105)
Interest paid	<u>(141)</u>	<u>(100)</u>
Net cash provided by operating activities	<u>1,001</u>	<u>258</u>
Cash flows from investing activities:		
Payments for purchases of:		
Property and equipment	(71)	(98)
Investment property	(38)	(2)
Other investments	(79)	(20)
Equity-accounted investments	(175)	(109)
Return of capital from and sales of equity-accounted investments	432	40
Decrease in intracompany cash management receivables	25	307
Businesses acquired, net of cash	(392)	—
Proceeds from sales of:		
Property and equipment	41	32
Other investments	—	4
Increase in long-term receivables	(105)	(15)
Principal collections on long-term receivables	<u>121</u>	<u>83</u>
Net cash provided by (used in) investing activities	<u>(241)</u>	<u>222</u>
Cash flows from financing activities:		
Increase (decrease) in commercial paper	(142)	142
Decrease in short-term notes payable	(70)	(55)
Issuance of long-term debt	—	40
Principal payments on long-term debt	(396)	(186)
Payments of lease liabilities	(68)	(58)
Dividend to owners of the parent company	(400)	(400)
Decrease in noncontrolling interests	(14)	(17)
Net cash used in financing activities	<u>(1,090)</u>	<u>(534)</u>
Net decrease in cash and cash equivalents	<u>(330)</u>	<u>(54)</u>
Cash and cash equivalents – beginning of year	<u>680</u>	<u>734</u>
Cash and cash equivalents – end of year	\$ <u>350</u>	<u>680</u>

See accompanying notes to consolidated financial statements.

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2024 and 2023

(In millions of U.S. dollars)

(1) Reporting Entity

Sumitomo Corporation of Americas (the Company) is a corporate entity in the United States and a wholly owned subsidiary of Sumitomo Corporation, Japan (SC). The consolidated financial statements of the Company include the accounts of the Company and its subsidiaries and their interests in its associated companies.

The Company, which is headquartered at 300 Madison Avenue, New York City, NY, is an integrated global trading company with diversified investments in businesses involved in marketing, sales and distribution of consumer products, sales and distribution of steel and other products, providing financing for customers and suppliers, coordination and operation of urban and industrial infrastructure projects, providing distribution and logistics services, developing natural resources and developing and managing real estate. The Company's target markets include North America and Asia. A significant portion of the Company's transactions are with SC.

(2) Basis of Presentation

(a) Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The Board of Directors of the Company authorized the consolidated financial statements for publication on May 14, 2024.

(b) Reporting Currency

The consolidated financial statements of the Company are presented in United States Dollars (\$), which is the Company's functional currency. All amounts presented in United States Dollars are rounded to the nearest million.

(c) Measurement

The consolidated financial statements have been prepared on the historical cost basis with the exception of the following items in the consolidated statements of financial position:

- Financial instruments at fair value through profit and loss are measured at fair value;
- Financial instruments at fair value through other comprehensive income are measured at fair value; and
- Derivatives are measured at fair value.

(d) Use of Estimates and Judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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Notes to Consolidated Financial Statements

March 31, 2024 and 2023

(In millions of U.S. dollars)

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Judgments and estimates made by management in the application of accounting policies that have a significant effect on the amounts recognized in the consolidated financial statements are as follows:

- Note 3 (b) – Revenue recognition
- Note 3 (g) – Investment property
- Note 18 – Fair value of financial instruments
- Note 19 – Derivatives and hedge accounting

The following notes include information related to uncertainties in judgments and estimates, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year.

- Note 3 (i) – Impairment
- Note 3 (o) – Provisions
- Note 18 – Fair value of financial instruments

(3) Significant Accounting Policies

The accounting policies described below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Basis of Consolidation

(i) Subsidiaries

Subsidiaries are those entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All intercompany profits, transactions and balances between the Company and its subsidiaries have been eliminated.

The accounting policies of subsidiaries have been adjusted when necessary to ensure consistency with the accounting policies adopted by the Company.

The acquisition of additional ownership interests in a subsidiary or the disposal of ownership interests in a subsidiary that does not result in the Company's relinquishment of control over the subsidiary is accounted for as an equity transaction. Any difference between the carrying amount of the ownership interests and the fair value of the consideration paid or received is recognized directly in equity as an adjustment to additional paid-in capital of equity attributable to the parent company.

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Notes to Consolidated Financial Statements

March 31, 2024 and 2023

(In millions of U.S. dollars)

(ii) *Equity-Accounted Investments (Associates)*

Associates are entities in which the Company has significant influence, but not control, over the financial and operating policies of the investee. Significant influence is presumed to exist when the Company holds between 20 and 50% of the voting power of another entity. This presumption can be overcome based on specific facts and circumstances that demonstrate that the ability to exercise significant influence is restricted. In addition, for equity investments in which the Company has less than a 20% ownership interest, the Company considers other facts and circumstances in assessing the ability to exercise significant influence over the investee.

Investments in associates are accounted for using the equity method of accounting and recognized initially at cost. The Company's investments in associates may include goodwill, representing the surplus of the cost of investment over the Company's share of the net fair value of the identifiable assets and liabilities of the investee. Such goodwill is recorded within equity-accounted investments and any impairment is included within equity in earnings of affiliates.

The Company's share of the income and expenses of the equity-accounted investments and changes in the Company's share in equity are included in the consolidated financial statements from the date significant influence commences until the date that it ceases. The Company generally recognizes its share of an investee's income and expenses and other changes in equity based on the percentage of equity interests owned. If the Company's share of losses exceeds its interest in an associate the carrying amount of that interest, including any other long-term investments in the associate, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the investee. For certain investees with complex and variable capital structures that provide for differing allocations of income and expense, cash flows from operations and cash flows from liquidation, it can be difficult to accurately determine the Company's equity income by simply applying a specific percentage to the net income of the investee. In those situations, the Company employs a Hypothetical Liquidation at Book Value (HLBV) method to calculate its equity method share of income and expenses of the investee. HLBV is a balance sheet approach that estimates the Company's share of ownership interests in the investee at any point in time. The increase or decrease in the book value of the underlying ownership interests are used to determine the Company's equity income from the investee.

Annual financial statements of certain associates included in the consolidated financial statements are prepared as of December 31 as it is impracticable for those associates to unify their closing date with that of the Company. Adjustments are made for the effects of significant transactions or events that occur between December 31 and the date of the Company's consolidated financial statements.

(iii) *Business Combinations*

Business combinations are transactions or events, whereby the Company obtains control of one or more businesses, which are accounted for using the acquisition method. Control is defined as the power to govern the financial and operating policies of an entity to obtain benefits from its activities. In assessing the existence of control, existing and potential voting rights that are currently

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

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(In millions of U.S. dollars)

exercisable are considered. The acquisition date is the date on which control is transferred to the Company.

Goodwill is measured at the fair value of the consideration transferred, including the recognized amount of any noncontrolling interests at the date of acquisition, less the net recognized amount of the identifiable assets acquired and liabilities assumed at the acquisition date measured at fair value. The consideration transferred includes the fair value of the assets, liabilities and equity interest transferred from the Company to the former owners, including the fair value of contingent consideration. Contingent liabilities of the businesses acquired are recognized in the business combinations if they are present obligations that arose from past events and their fair value can be measured with sufficient reliability. The Company measures noncontrolling interests in the businesses acquired at the noncontrolling interests' proportionate share of the identifiable net assets for each business combination.

If the initial accounting for business combinations is incomplete by the end of the reporting period in which the combinations occur, the Company reports provisional amounts of the items for which the accounting is incomplete. Those provisional amounts are retrospectively adjusted during the measurement period, during which additional assets or liabilities may be recognized to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date. The measurement period does not exceed one year.

Acquisition costs incurred by the Company in connection with business combinations such as finder's fees, legal, due diligence and other professional or consulting fees are expensed when incurred.

(iv) Transactions under Common Control

Business combinations of a subsidiary arising from a transfer of interests in entities that are under the control of SC are accounted for as business combinations as of the date of the transaction without retrospective restatement. The assets and liabilities are recognized at the carrying amounts previously reported in the controlling shareholder's consolidated financial statements.

Loss of control of a subsidiary and loss of significant influence in an associate arising from a transfer of interests to entities that are under the control of SC are accounted for as transactions as of the date of the transaction without retrospective restatement. The assets and liabilities are derecognized at the carrying amounts previously reported with recognition of the fair value of consideration received and the resulting gain or loss recognized in net income.

Non-reciprocal distributions of non-cash assets to owners of the parent company that result in a distribution in which the asset being distributed is ultimately controlled by the same party both before and after the distribution are accounted for at the carrying value of the asset distributed.

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Notes to Consolidated Financial Statements

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(In millions of U.S. dollars)

(b) Revenue Recognition

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Company recognizes revenue when it transfers control over a product or service to its customer.

The following is a description of the principal activities from which the Company generates its revenue:

(i) Primary Geographical Markets

A significant portion of the Company's revenues occur with customers in North America and Japan. Revenues with customers in North America and Japan represented 98% and 2% of sales, respectively, for each of the years ended March 31, 2024 and 2023.

(ii) Major Products and Service Lines

Sales of goods represented approximately 90% and 92% of revenues and provision of services represented approximately 10% and 8% of revenues of the Company for the years ended March 31, 2024 and 2023, respectively. The following table presents the percentage of revenues provided by major products and service lines:

	Year ending March 31,	
	2024	2023
Tubular & steel products	62 %	65 %
Electricity & natural gas	14	16
Construction equipment rentals	9	7
Construction equipment sales	7	5
Chemicals	3	3
Other	5	4
Total	100 %	100 %

Revenue from the sale of goods and rendering of services is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates.

The Company recognizes revenue from sales of goods in connection with the Company's wholesale, retail and manufacturing operations when control over the goods has been transferred to the customer. Depending upon the terms of the contract, this may occur at the time of delivery or shipment or upon the attainment of customer acceptance. The conditions of acceptance are governed by the terms of the contract or customer arrangement and those not meeting the predetermined specifications are not recognized as revenue until the attainment of customer acceptance. The Company's policy is not to accept product returns unless the products are defective. The amounts of trade discounts and volume rebates are not material and are recognized as a reduction of revenue as the sales are recognized.

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(In millions of U.S. dollars)

Pacific Summit Energy LLC (PSE), a wholly owned subsidiary of the Company, is an energy marketing company engaged primarily in the purchase and sale of natural gas (NG) and electricity in the North American energy markets. The subsidiary's trading gains and losses from physical and financial transactions, which are primarily wholesale transactions, are recognized in the consolidated statements of comprehensive income when they are realized or realizable and earned.

PSE has a natural gas purchase contract, see notes 22(d) and 22(e), that will be used exclusively to supply NG to the operator of a liquefied natural gas (LNG) plant for liquefaction to meet sales commitments to customers. The Company forecasts that a small or minor amount of NG over the own use purchase contract (unavoidable excess gas) will be required to be sold to the day ahead spot market during periods of planned plant maintenance, which is an unavoidable event outside of PSE's control.

The Company also generates revenue from rendering of services in connection with operating leases of commercial real estate and construction equipment that is recognized on a straight line basis over the lease or rental term.

(iii) Timing of Revenue Recognition

Of the Company's revenues, 90% and 92% were recognized at a point in time for the year ended March 31, 2024 and 2023, respectively, with the remainder recognized over time.

(iv) Principal versus Agent Considerations

In the ordinary course of business, the Company frequently acts as an intermediary or agent in executing transactions with third parties. In these arrangements, the Company determines whether to report revenue based on the "gross" sales amount of the transaction for goods or services provided or on the "net" amount of fees and commissions earned from the customer. However, the amounts of gross profit and income for the year attributable to the Company are not affected by whether revenue is reported on a gross or net basis.

Determining whether revenue should be reported gross or net is based on an assessment of whether the Company is acting as a "principal" or an "agent" in a transaction. Accordingly, the Company is acting as a principal in a transaction when it controls a promised good or service before it is transferred to a customer and therefore, the Company reports revenue on a gross basis when the performance obligation is satisfied. The Company is acting as an agent in a transaction when its performance obligation is to arrange for the provision of goods or services by another party and therefore, the Company reports revenue on a net basis. The determination of whether the Company is acting as a principal or an agent in a transaction involves judgment and is based on an evaluation of the terms of an arrangement, the nature of the Company's performance obligation and the significant risks and rewards related to sale of goods and rendering of services assumed by the Company.

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(In millions of U.S. dollars)

Factors that indicate that the Company acts as a principal include:

- (a) the Company is primarily responsible for fulfilling the promise to provide the specified good or service;
- (b) the Company has inventory risk before the specified good or service has been transferred to a customer or after transfer of control to the customer; and
- (c) the Company has discretion in establishing the price for the specified good or service.

(c) Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments are recognized when the Company becomes a party to the contractual provisions of the financial instrument and are recognized initially at fair value, normally consisting of the transaction price and any directly attributable transaction costs. The classification of financial assets and financial liabilities is determined at initial recognition.

Financial instruments in the form of financial assets and financial liabilities are offset and net amounts presented in the consolidated statements of financial position only when the Company has legally enforceable rights to set off and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when the Company transfers the contractual rights to such cash flows to another entity in transactions that transfer substantially all the risks and rewards of ownership of the asset. The Company recognizes any interests in transferred assets that are either created or continue to be held as separate assets or liabilities.

The Company derecognizes a financial liability when its contractual obligations are discharged, canceled or expire.

The subsequent measurement of financial instruments depends on their classification, as follows:

(i) Nonderivative Financial Assets

Cash and Cash Equivalents

Cash and cash equivalents include cash and highly liquid investments with an original maturity of three months or less that are readily convertible to known amounts of cash. Cash balances are held with financial institutions that have high credit ratings. The Company has not experienced any losses with respect to bank balances in excess of government provided insurance.

Accounts Receivable

The carrying amount of accounts receivables is reduced through the use of an allowance account. An allowance account is maintained at the level which, in the judgment of management, is adequate to provide for expected credit losses. Management considers individual customers' risk factors such as historical performance, recent developments, changes in original terms, internal

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risk ratings, industry trends and other specific factors applicable to the customer, as well as general risk factors. Accounts receivable determined to be uncollectible are charged against the allowance.

Financial Assets Measured at Amortized Cost

Financial assets that are held within a business model with the objective to hold assets in order to collect contractual cash flows and the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding are accounted for at amortized cost.

Financial Assets Measured at Fair Value

Financial assets that do not meet the amortized cost criteria are measured at fair value. Such assets that are held for trading are measured at fair value through profit or loss (FVTPL) with gains or losses on re-measurement recognized in net income.

At initial recognition, the Company may make an irrevocable election to measure investments in equity instruments, not held for trading, at fair value through other comprehensive income (FVTOCI) with gains or losses on re-measurement recognized in other comprehensive income. The election is made on an instrument-by-instrument basis. The amount of other components of equity is transferred directly to retained earnings, not to net income, when the equity investment is derecognized. Dividends from FVTOCI investments are recognized in net income unless the dividend clearly represents a recovery of part of the cost of the investment.

The Company generally makes the election to apply FVTOCI for financial assets that are equity instruments not held for trading.

(ii) Nonderivative Financial Liabilities

The Company has long-term debt, commercial paper, notes payable, accounts and other payables as nonderivative financial liabilities, with debt instruments measured at amortized cost using the effective interest method after the initial recognition.

(iii) Derivatives and Hedge Accounting

The Company reports all derivative instruments in the accompanying consolidated statements of financial position at their fair value. The Company utilizes derivative instruments to manage interest rate risk and foreign currency risk. The primary derivative instruments used by the Company are foreign exchange forward contracts. The Company does not hold or issue any significant amount of derivative instruments for speculative purposes other than those held by PSE related to its trading activities, see note 19.

At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and strategy for undertaking various hedge transactions, the hedging instrument, the hedged item, the nature of the risk being hedged, how the hedging instrument's effectiveness in offsetting the hedged risk will be assessed and a description of the method of measuring effectiveness and ineffectiveness.

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At the inception of the hedge and on an ongoing basis, the Company assesses whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk. To qualify as a cash flow hedge of a forecasted transaction, the transaction must be highly probable.

Derivatives are initially recognized at fair value with transaction costs being recognized in net income when they occur. If the requirements for hedge accounting are met, the Company designates and documents the relationship between the hedging instrument and the hedged item from the date a derivative contract is entered into as either a fair value or a cash flow hedge. In a fair value hedge, the fair value of a recognized asset or liability or an unrecognized firm commitment is hedged. In a cash flow hedge, the variability of cash flows to be received or paid related to a recognized asset or liability or a highly probable forecasted transaction is hedged. Subsequently, derivatives are measured at fair value, and gains and losses arising from changes in the fair values are accounted for as follows:

Fair Value Hedges

The changes in the fair value of the hedging instrument are recognized in net income. The carrying amounts of the hedged item are measured at fair value and gains and losses on the hedged items attributable to the hedged risks are recognized in net income.

Cash Flow Hedges

When derivatives are designated as an instrument to hedge the exposure to variability in cash flows that are attributable to a particular risk associated with recognized assets or liabilities, or a highly probable forecasted transaction that could affect net income, the effective portion of changes in the fair value of derivatives is recognized in other comprehensive income and included in hedging reserve, as an other component of equity. When the cash flows of the hedged transaction affect net income, the balance of the related hedging instrument is reclassified to net income from other comprehensive income in the same line item of the consolidated statements of comprehensive income as the hedged transaction. Any gain or loss relating to the ineffective portion is recognized immediately in net income.

Hedge accounting is discontinued prospectively when the hedge no longer qualifies for hedge accounting or when the hedging instrument expires, or is sold, terminated, or exercised, or the designation is revoked. When hedge accounting is discontinued, the balances of cash flow hedges remain in equity until the forecasted transaction affects net income. When a forecasted transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in net income.

(d) Inventories

Inventories are measured at the lower of cost and net realizable value. Net realizable value represents the estimated selling price for inventories in the ordinary course of business less any estimated cost of completion and the estimated costs necessary to make the sale. The Company does not acquire inventories for the purpose of generating profit from short-term fluctuations in price.

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Inventories of the Company's Tubular Products and Steel and Nonferrous Metal groups and construction equipment sales business are generally valued using the specific-identification method as such inventories are not ordinarily interchangeable and are primarily segregated for specific customers and customer projects based on customer specifications. Although the Company's inventory levels vary from period to period, approximately 85% and 87% of its inventories were valued under the specific identification method as of March 31, 2024 and 2023, respectively. The inventories for the remainder of the Company are valued using a moving average cost basis.

Inventories for which the Company continues to hold the title, but control is transferred to the customer as the inventories are physically located at a customer-controlled facility, are included in prepaid expenses and other current assets in the consolidated statements of financial position.

(e) Property and Equipment

Property and equipment, including those under lease, consist of retail, manufacturing, distribution and administrative facilities, are measured at cost less accumulated depreciation or amortization and accumulated impairment losses. At each reporting date, the Company assesses whether there is any indication that an asset, or asset group, may be impaired and if such an indication exists, estimates the asset, or asset group's, recoverable amount (higher of fair value less costs to sell and value in use). If the recoverable amount is less than the carrying amount, the carrying amount is reduced to the recoverable amount and an impairment loss is recognized.

Depreciation and amortization are determined by applying the straight-line method over the estimated useful lives of the related assets. The asset lives vary and are dependent on the type of facility or equipment, its location and the estimated remaining life at the time of purchase. When the useful life of each part of an item of property and equipment varies, it is treated as a separate item of property and equipment. The straight-line method is used because it is considered to most closely approximate the pattern in which the asset's future economic benefits are expected to be consumed by the Company. Leasehold improvements are depreciated over the shorter of the lease term or their useful lives. The range of estimated useful lives is as follows:

Buildings	9–50 years
Leasehold improvements	Lesser of useful life of asset or lease term
Machinery and equipment	2–45 years
Fixtures	3–10 years
Vehicles	2–20 years

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The depreciation methods, depreciable lives and residual values are reviewed at the end of each reporting period and updated, if necessary. Costs of repairs and maintenance of property and equipment are recognized in net income as incurred.

(f) Leases

At inception of a contract, an assessment is made whether a contract is, or contains, a lease that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The assessment determines whether:

- the contract involves the use of an identified asset;
- the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Company has the right to direct the use of the asset.

At the inception or on reassessment of a contract that contains a lease component, the consideration in the contract is allocated to each lease component on the basis of their relative stand-alone prices.

(i) As a Lessee

A right-of-use asset and a lease liability are recognized at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus an initial indirect costs incurred and an estimate of costs to dismantle and remove the underlying assets or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of the right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced for impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index as of the commencement date;
- amounts expected to be payable under a residual value guarantee; and

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- the exercise price under a purchase option that is reasonably certain to be exercised, lease payments in an optional renewal period that is reasonably certain to be exercised, and penalties for early termination of a lease unless it is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in the future lease payments arising from a change in an index or rate, if there is a change in the estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in net income if the carrying amount of the right-of-use asset has been reduced to zero.

Right-of use assets that do not meet the definition of investment property are presented in property and equipment and lease liabilities in accrued expenses and other current liabilities (current portion) and other long-term liabilities (noncurrent portion) in the consolidated statements of financial position.

The Company does not recognize right-of-use assets and lease liabilities for short-term leases of property and equipment that have a lease term of 12 months or less and leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the term of the lease.

(ii) *As a Lessor*

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance or operating lease by making an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease.

When the Company is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately and assesses the lease classification of the sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

Lease payments received under operating leases are recognized as income on a straight-line basis over the lease term as part of revenues.

(g) Investment Property

Investment property consists of commercial office buildings, or portions thereof, held to earn rental income or for capital appreciation or both. Property held for sale in the ordinary course of business, or use in the production or supply of goods or services or for administrative purposes is not included as investment property. Investment property is measured at cost less any accumulated depreciation and accumulated impairment losses, see note 3 (e) regarding useful lives, depreciation methods and impairment assessments.

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(h) Goodwill and Other Intangible Assets

(i) Goodwill

Goodwill is carried at cost less accumulated impairment losses. For equity-accounted investments, the carrying amount of goodwill is included in the carrying amount of the investment and any impairment loss on such an investment is not allocated to any asset, including goodwill, which forms part of the carrying amount of the equity-accounted investments.

(ii) Other Intangibles

Capitalized Software Costs

The Company incurs certain costs to purchase or develop software for internal use. Capitalized software costs are measured at cost less any accumulated amortization and accumulated impairment losses.

Intangible Assets Acquired in a Business Combination

Intangible assets that are acquired in a business combination including trade names, customer relationships and vendor relationships, are recognized separately from goodwill and are initially recognized at fair value at acquisition date.

Subsequently, intangible assets acquired in a business combination that have finite useful lives are stated at cost less any accumulated amortization and accumulated impairment losses.

Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives. The straight-line method is used because it is considered to most closely approximate the pattern in which the intangible assets' future economic benefits are expected to be consumed by the Company. The estimated useful lives, from the date of initial recognition, for such intangible assets are as follows:

Trade names	1–25 years
Customer relationships	1–25 years
Software and other	3–7 years

The amortization period for intangible assets with finite useful lives is reviewed at least annually and updated, if necessary. Changes in expected useful lives are treated as changes in accounting estimates.

(i) Impairment

(i) Nonderivative Financial Assets

The carrying amount of accounts receivables is reduced through the use of an allowance account. An allowance account is maintained at the level which, in the judgment of management, is adequate to provide for expected credit losses. Management considers individual customers' risk factors such as historical performance, recent developments, changes in original terms, internal

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risk ratings, industry trends and other specific factors applicable to the customer, as well as general risk factors.

(ii) *Nonfinancial Assets*

At each reporting date, the Company assesses whether there is an indication that an asset may be impaired, except for goodwill which is evaluated annually as of September 30th to permit adequate time to complete the impairment test and related analyses prior to the fiscal year end. If a potential triggering event occurs at any time during the reporting period, an impairment test would be required. If an indication of impairment exists, the Company estimates the recoverable amount of the asset. The recoverable amount is determined for each individual asset unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets (cash-generating units). The recoverable amount is the greater of its value in use and fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash flows of other assets or group of assets.

A cash generating unit is the smallest group of assets, which generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. For the purposes of impairment testing for goodwill, each of the Company's cash-generating units or groups of cash-generating units, to which the goodwill is allocated, is aggregated in a manner that impairment is tested reflecting the lowest level in the Company at which the goodwill is monitored for internal management purposes. Such lowest level may not be larger than an operating segment. Goodwill acquired in a business combination is allocated to each unit or group of units that is expected to benefit from the synergies of the combination.

The Company's corporate assets do not generate cash inflows independently. If there is an indication that corporate assets may be impaired, the recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate assets belong.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in net income. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets within the group on a pro rata basis.

An impairment loss in respect of goodwill is not reversed in subsequent periods. For assets other than goodwill, impairment losses recognized in prior periods are assessed as of each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been recorded (net of accumulated depreciation or amortization) if no impairment loss had been recognized in prior years.

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Goodwill that forms part of the carrying value of an equity-accounted investment is not recognized separately, and therefore is not tested for impairment separately. Instead, the entire amount of the equity-accounted investment is tested for impairment as a single asset when there is an objective indication that the investment may be impaired.

(j) Income Taxes

The Company and eligible subsidiaries file a consolidated federal income tax return in the United States. In addition, the Company and subsidiaries also file income tax returns in state, local and foreign jurisdictions as required. Provisions for current income tax liabilities are calculated on income and expense amounts expected to be included in the income tax returns for the current year.

Income taxes in the consolidated statements of comprehensive income include currently payable and deferred taxes that are recognized in net income for the year.

Current taxes are the expected taxes payable (or recoverable) related to taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to taxes payable in respect to prior years.

Deferred tax assets and liabilities are recognized on temporary differences between the accounting carrying amounts of assets and liabilities and the corresponding tax bases. Such deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither taxable income nor accounting income. Deferred tax liabilities are not recognized if the taxable temporary difference arises from goodwill.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates. However, if the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future, deferred taxes are not recognized. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liabilities are settled or the assets realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of reporting period. Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and income taxes are levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax assets and liabilities on a net basis, or to realize the assets and settle the liabilities simultaneously.

Deferred tax assets are recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable income will be available against which they can be utilized. Deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that the related tax benefits will be realized.

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The IASB issued *International Tax Reform – Pillar Two Model Rules (Amendments to IAS 12)* in May 2023. The amendments provide temporary mandatory exception from deferred tax accounting for the top-up tax, which is effective immediately and require disclosures about the Pillar Two exposure.

The mandatory exception applies retrospectively. However, because no new legislation to implement the top-up tax has been enacted, or substantially enacted, in any jurisdiction in which the Company operates, no related deferred tax was recognized and the retrospective application has no impact on the Company's consolidated financial statements.

The Company has adopted Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) from April 1, 2023. The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences – e.g. leases and decommissioning liabilities. For leases and decommissioning liabilities, an entity is required to recognize the associated deferred tax asset and liabilities from the beginning of the earliest comparative period presented, with any cumulative effect recognized as an adjustment to retained earnings or other components of equity at that date. For all other transactions, an entity applies the amendments to transactions that occur on or after the beginning of the earliest period presented.

The Company previously accounted for deferred tax on leases applying the 'integrally linked' approach, resulting in a similar outcome to the amendments, except that the deferred tax asset or liability was recognized on a net basis. Under the amendments, the Company has recognized a separate deferred tax asset in relation to its lease liabilities and a deferred tax liability in relation to its right-of-use assets with no impact on the Company's consolidated statements of financial position and no impact on retained earnings after adoption of the amendments, see note 15.

(k) Foreign Currency Transactions and Translation

Transactions in foreign currencies are translated at the relevant foreign exchange rates prevailing at the transaction date. Subsequent gains and losses from the retranslation of financial assets and liabilities denominated in foreign currencies are recognized in net income.

The assets and liabilities of foreign subsidiaries for which the functional currency is not the United States Dollar are translated into United States Dollars using exchange rates prevailing at the end of the reporting period. Foreign currency exchange differences arising from translation of financial statements of foreign operations are recognized in other comprehensive income as a translation reserve. Income and expenses are translated into United States Dollars using average exchange rates during each reporting period.

On the disposal of the entire interest in a foreign operation, and on the partial disposal of an interest involving loss of control, significant influence or joint control, the cumulative amount of the exchange differences is reclassified to net income for the year as a part of gains or losses on disposal.

(l) Supplemental Cash Flow Information

In March 2024, the Company distributed its interest in The Hartz Mountain Corporation to SC, resulting in a reduction in equity-accounted investments of \$69.

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In August and September 2023, the Company distributed its interest in Cosmotec International Especialidades Cosmeticas Ltda. to SC, resulting in a reduction in equity-accounted investments of \$3 and the currency translation adjustment of \$2 being recycled to additional paid-in capital.

In March 2023, the Company distributed its interest in Sumitomo Corporation do Brasil S.A. to SC, resulting in a reduction in equity-accounted investments of \$6 and the currency translation adjustment of \$7 being recycled to additional paid-in capital.

In August 2022, the Company made an equity investment in Werner Aero, LLC, a supplier to the aviation industry, totaling \$10 comprised of a cash investment of \$3 plus \$7 in accrued earnout and put liabilities. The investment resulted in a 51% equity interest that is accounted for as an equity-method investment as the investee is jointly controlled by the Company and the other investor.

(m) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognized in net income for the year in which they are incurred.

(n) Other Long-Term Liabilities

Other long-term liabilities include liabilities related to natural gas, electric power, interest rate and currency physical contracts, futures contracts, swaps and options and lease liabilities.

(o) Provisions

Provisions are recognized when the Company has present obligations legally or constructively as the result of past events, it is probable that outflows of resources embodying economic benefits will be required to settle the obligations and reliable estimates can be made of the amount of the obligations. Provisions are discounted using future cash flow estimates that reflect current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance expense. Provisions are recorded in other long-term liabilities on the accompanying consolidated statements of financial position.

(p) Employee Benefits – Defined Contribution Plan

A defined contribution plan is a post-retirement benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in net income in the period during which services are rendered by employees.

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(q) New Standards and Interpretations

(i) Classification of Liabilities as Current of Non-Current and Non-Current Liabilities with Covenants (Amendments to IAS 1)

The amendments, as issued in 2020 and 2022, aim to clarify the requirements on determining whether a liability is current or non-current, and require new disclosures for non-current liabilities that are subject to future covenants. The amendments apply for annual reporting periods beginning on or after January 1, 2024.

As disclosed in note 13, the Company has long-term debt that is subject to specific covenants. While such liabilities are classified as non-current at March 31, 2024, a future breach of the related covenants may require the Company to repay the liabilities earlier than the contractual maturity dates. The Company has determined that there is no impact on the classification of these liabilities.

(ii) Other accounting standards

The following new and amended accounting standards are not expected to have a significant impact on the Company's consolidated financial statements.

- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)
- Supplier Financing Arrangements (Amendments to IAS 7 and IFRS 7)
- Lack of Exchangeability (Amendments to IAS 21)

(4) Changes in Subsidiaries and Equity-Accounted Investments

(a) Business Combinations

On June 1, 2023, the Company purchased 100% ownership interest of Saconix LLC, a company that markets and trades sulphuric acid. The acquired assets and assumed liabilities was for approximately \$105, excluding cash on hand at the acquired company.

On August 25, 2023, a wholly owned subsidiary of the Company acquired the assets and assumed the liabilities of a construction equipment dealership for approximately \$13, excluding cash on hand at the acquired company.

On February 16, 2024, a wholly owned subsidiary of the Company acquired the assets and assumed the liabilities of a construction equipment dealership for approximately \$19, excluding cash on hand at the acquired company.

On February 28, 2024, Sunstate Equipment, LLC, a wholly owned subsidiary of the Company acquired the assets and assumed the liabilities of a trench shoring rental equipment business for approximately \$255, excluding cash on hand at the acquired company.

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The acquisitions by the Company fit the strategic objective of the Company to grow its business. The results of operations of the Company's business acquisitions have been included in the consolidated statements of comprehensive income from its acquisition date.

(i) *Identifiable Assets Acquired and Liabilities Assumed*

The determination of the purchase price for the Company's business acquisitions were made on the basis of, among other things, the revenues, profitability and projected growth rates of the acquired businesses.

The net purchase price of Sunstate Equipment, LLC acquisition during the year ended March 31, 2024 was \$255. The Company allocated this amount based on their fair values as follows:

Working capital, including cash	\$	7
Property and equipment		61
Goodwill		119
Other intangible assets		68
Net assets acquired		255
Cash and cash equivalents acquired		
		—
Net cash outflow	\$	255

The fair value of the goodwill acquired as part of the business acquisition is attributable to the synergies expected to be achieved from integrating the acquiree into the existing rental equipment business. The goodwill recognized is expected to be deductible for tax purposes.

The fair value of the trade receivables acquired as part of the business acquisition comprises gross contractual amounts due of \$9 which are expected to be fully collectable at the date of acquisition.

For the Company's remaining acquisitions made during the year ended March 31, 2024, the net purchase price was \$137. The Company allocated this amount based on their fair values as follows:

Working capital, including cash	\$	9
Property and equipment		45
Goodwill		35
Other intangible assets		67
Other long-term liabilities		(17)
Net assets acquired		139
Cash and cash equivalents acquired		
		(2)
Net cash outflow	\$	137

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The fair value of the trade receivables acquired as part of the business acquisitions comprises gross contractual amounts due of \$12 which are expected to be fully collectable at the date of acquisitions.

(b) Equity-Accounted Investments

(i) Distribution to the Owners of the Parent Company

In March 2024, the Company distributed its interest in The Hartz Mountain Corporation to SC, resulting in a reduction in equity-accounted investments of \$69.

In August and September 2023, the Company distributed its interest in Cosmotec International Especialidades Cosmeticas Ltda. to SC, resulting in a reduction in equity-accounted investments of \$3 and the currency translation adjustment of \$2 being recycled to additional paid-in capital.

In March 2023, the Company distributed its interest in Sumitomo Corporation do Brasil S.A. to SC, resulting in a reduction in equity-accounted investments of \$6 and the currency translation adjustment of \$7 being recycled to additional paid-in capital.

(c) Significant Subsidiaries

The Company's significant subsidiaries and ownership interests as of March 31, 2024 and 2023 were as follows:

Segment	Company	Principal place of operation	Ownership interest	
			March 31, 2024	March 31, 2023
Energy	B&L Pipeco Services, Inc.	Houston, TX, USA	100.000 %	100.000 %
	Edgen Group, Inc,	Baton Rouge, LA, USA	100.000	100.000
	P2 Energy Services, LLC	Houston, TX, USA	100.000	100.000
	Perennial Power Holdings, Inc.	New York, NY, USA	100.000	100.000
	Saconix LLC	Roswell, GA, USA	100.000	—
	Sulphuric Acid Trading Company, Inc.	Tampa, FL, USA	100.000	100.000
	Pacific Summit Energy LLC	The Woodlands, TX, USA	100.000	100.000
Automotive	SteelSummit Holdings Inc.	Nashville, TN, USA	80.000	80.000
Social Infrastructure	Sumisho Global Logistics			
	(USA) Corporation	New Hyde Park, NY, USA	80.000	80.000
Construction & Transportation	Sunstate Equipment, LLC	Phoenix, AZ, USA	100.000	100.000
Systems	Linder Industrial Machinery Company	Plant City, FL, USA	100.000	100.000
Agri-food & Life Science	Diversified CPC International, Inc.	Channahon, IL, USA	80.000	80.000
	Presperse Corporation	Somerset, NJ, USA	100.000	100.000
	Summit Agro USA, LLC	Cary, NC, USA	60.000	60.000

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Segment	Company	Principal place of operation	Ownership interest	
			March 31, 2024	March 31, 2023
Real Estate	SCOA Real Estate Partners, LLC	New York, NY, USA	100.000 %	100.000 %
	Atlantic Hills Corporation	Atlanta, GA, USA	—	80.000
	SCOA Commercial, LLC	New York, NY, USA	—	100.000
	TKOS II, LLC	Chicago, IL, USA	100.000	100.000
	USPO Minneapolis, LLC	Minneapolis, MN, USA	100.000	100.000
	USPO Phoenix, LLC	Phoenix, AZ, USA	100.000	100.000
	Presidio Ventures, Inc.	Santa Clara, CA, USA	100.000	100.000
Development & Innovation	Presidio Ventures SCOA Fund, LLC	Santa Clara, CA, USA	100.000	100.000

On April 1, 2023, the ownership interests in Atlantic Hills Corporation and SCOA Commercial, LLC were contributed to SCOA Real Estate Partners, LLC.

(5) Equity-Accounted Investments

The Company has investments in companies that are accounted for using the equity method of accounting. The Company's share of income from equity-accounted investments amounted to \$132 and \$36, for the years ended March 31, 2024 and 2023, respectively. For the years ended March 31, 2024 and 2023, the Company received dividends from these companies of \$85 and \$72, respectively. Accounts payable to related parties, net included amounts payable to these companies of \$20 and \$22 as of March 31, 2024 and 2023, respectively, see note 8.

In the year ended March 31, 2024, the Company recognized an impairment related to its equity-accounted investments totaling \$27 as investor in Sawai America, LLC.

In the year ended March 31, 2024, the Company's recognized a return of capital of \$375 from equity-accounted investment of TBC Holdings, LLC after the sale of substantially all its retail operations.

In the year ended March 31, 2023, the Company recognized an impairment related to its equity-accounted investments totaling \$45 as investor in DS Cornerstone, LLC.

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The summarized combined financial information of associated companies accounted for by the equity method is presented below:

	2024	2023
Current assets	\$ 2,645	3,903
Noncurrent assets	4,295	3,812
Total assets	6,940	7,715
Current liabilities	1,798	2,200
Noncurrent liabilities	1,801	1,351
Total liabilities	3,599	3,551
Total equity	3,341	4,164
Total liabilities and equity	\$ 6,940	7,715

	2024	2023
Revenues	\$ 6,397	6,889
Gross profit	1,166	1,195
Net income	367	206

The summarized combined financial information tables above include the summarized financial information for TBC Holdings, as indicated below, as of and for the years ended March 31, 2024 and 2023:

	2024	2023
Current assets	\$ 1,543	2,465
Noncurrent assets	1,039	1,102
Total assets	2,582	3,567
Current liabilities	1,181	1,781
Noncurrent liabilities	704	589
Total liabilities	1,885	2,370
Total equity	697	1,197
Total liabilities and equity	\$ 2,582	3,567

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	<u>2024</u>	<u>2023</u>
Revenues	\$ 4,575	4,702
Gross profit	864	756
Net income	241	38

As of March 31, 2024 and 2023, the excess of cost over the Company's share of net assets of equity method investees was allocated to underlying assets as follows:

	<u>2024</u>	<u>2023</u>
Property and equipment, net	\$ 8	8
Equity-method goodwill	15	15
Other intangible assets, net	9	10
Total	<u>\$ 32</u>	<u>33</u>

The significant associate companies accounted for by the equity method, which are included in the above summarized combined financial information as of March 31, 2024 and 2023, were as follows:

Segment	Company	Principal place of operation	Ownership percentage	
			March 31, 2024	March 31, 2023
Energy	DS Cornerstone, LLC	Ford & Gray Counties, KS, USA	50.000	50.000
	Stanton Wind Energy, LLC	Chicago, IL, USA	42.500	42.500
	Clean Energy Future Lordstown, LLC	Lordstown, OH, USA	10.000	10.000
	Perennial Renewables, LLC	New Orleans, LA, USA	50.000	—
Automotive	TBC Holdings, LLC	Palm Beach Gardens, FL, USA	50.000	50.000
Social Infrastructure	Arkansas Steel Associates, LLC	Newport, AR, USA	50.000	50.000
	International Crankshaft, Inc.	Georgetown, KY, USA	9.000	9.000
	Standard Steel Holdings, Inc.	Pittsburgh, PA, USA	9.000	9.000
Construction and	MS Engine Leasing LLC	Rocky Hill, CT, USA	24.780	24.770
Transportation Systems	Werner Aero, LLC	Mahwah, NJ, USA	51.000	51.000
Agri-food &	Cosmotec International Especialidades			
Life Science	Cosméticas Ltda.	Guarulhos, Sao Paulo, Brasil	—	16.200
	Sawai America LLC	Maple Grove, MN, USA	20.000	20.000
	The Hartz Mountain Corporation	Secaucus, NJ, USA	—	25.000
Real Estate	USPO Atlanta, LLC	Atlanta, GA, USA	25.560	25.560
	USPO Chicago 1, LLC	Chicago, IL, USA	—	19.740
	USPO Miami, LLC	Miami, FL, USA	—	19.740
Mineral resources	SC Minerals America, Inc.	Denver, CO, USA	15.250	15.250

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In the year ended March 31, 2024, the Company distributed its interest in Cosmotec International Especialidades Cosmeticas Ltda. to SC, resulting in a reduction in equity-accounted investments of \$3 and the currency translation adjustment of \$2 being recycled to additional paid-in capital. The Company also distributed its interest in The Hartz Mountain Corporation to SC, resulting in a reduction in equity-accounted investments of \$69.

The underlying commercial property investments held in USPO Chicago 1, LLC and USPO Miami, LLC were sold during the year ended March 31, 2024. The commercial office property held by USPO Chicago 1, LLC was purchased by TKOS II, LLC, a wholly owned subsidiary of the Company.

On April 1, 2024, the Company sold its interest in Sawai America LLC, resulting in a capital reduction in equity-accounted investments of \$38.

In the year ended March 31, 2023, the Company distributed its interest in Sumitomo Corporation do Brasil S.A. to SC, resulting in a reduction in equity-accounted investments of \$6 and the currency translation adjustment of \$7 being recycled to additional paid-in capital. The Company made an equity investment in Werner Aero, LLC, a supplier to the aviation industry, totaling \$10.

(6) Other Income (Expense)

Other income (expense) in the consolidated statement of comprehensive income for the year ended March 31, 2024 includes:

- A provision of \$47 related to a litigation settlement for Presperse Corporation, see note 22(f),
- impairments of \$31 and \$9 related to investment properties held by USPO Phoenix, LLC and USPO Minneapolis, LLC, respectively, and
- a \$14 gain on sale of Edgen Group, Inc.'s Canadian subsidiary to a wholly owned subsidiary of SC.

Other income (expense) in the consolidated statement of comprehensive income for the year ended March 31, 2023 includes:

- Reversals of impairments of identifiable intangible assets of B&L Pipeco Services, Inc. totaling \$86 and P2 Energy Services, LLC totaling \$6, see note 11,
- a \$46 reversal of an impairment related to an electric generating station owned by Perennial Power Holdings, Inc., see note 9,
- a \$28 impairment of investment property held by TKOS II, LLC, see note 10, and
- impairments totaling \$7 of security investments to real estate funds.

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(7) Inventories

As of March 31, 2024 and 2023, inventories consisted of the following:

	<u>2024</u>	<u>2023</u>
Finished goods	\$ 1,284	1,884
Raw materials	158	185
Work in process	<u>8</u>	<u>9</u>
Total	<u>\$ 1,450</u>	<u>2,078</u>

The Company reports inventories net of allowances of \$7 and \$10 as of March 31, 2024 and 2023, respectively, to adjust inventories to their net realizable values.

Inventories not in the control of the Company that are included in prepaid expenses and other current assets were \$167 and \$183 as of March 31, 2024 and 2023, respectively.

(8) Related Parties

The Company is involved in a significant number of sales and purchase transactions with SC and its affiliates. Included in total revenues are sales to SC and its affiliates for the years ended March 31, 2024 and 2023 of \$357 and \$449, respectively. The Company made approximately \$448 and \$598 in purchases from SC and its affiliates during the years ended March 31, 2024 and 2023, respectively. The Company pays a guarantee fee to SC based on the Company's outstanding third party debt. Such fee was approximately \$5 and \$7 for the each of the years ended March 31, 2024 and 2023 respectively.

The Company has trade accounts receivable from and trade accounts payable to related parties resulting from its related party transactions. In addition, the Company makes short-term loans to certain related parties and acts as a depository for excess cash of other related parties (intracompany cash management receivables and payables).

As of March 31, 2024 and 2023, accounts payable to related parties, net consisted of the following:

	<u>2024</u>	<u>2023</u>
Accounts receivable from:		
SC subsidiaries	\$ 21	14
Associated companies of SC and the Company	4	9
Accounts payable to:		
SC	(128)	(165)
SC subsidiaries	(149)	(106)
Associated companies of SC and the Company	<u>(30)</u>	<u>(37)</u>
	<u>\$ (282)</u>	<u>(285)</u>

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As of March 31, 2024 and 2023, intracompany cash management receivable (payable), net consisted of the following:

	<u>2024</u>	<u>2023</u>
Cash due from:		
SC subsidiaries	99	84
Associated companies of SC and the Company	—	103
Cash due to:		
SC subsidiaries	<u>(69)</u>	<u>(133)</u>
	<u>\$ 30</u>	<u>\$ 54</u>

Compensation of the executive officers of the Company, which was substantially all in the form of short-term employee benefits, totaled \$14 and \$11 for the years ended March 31, 2024 and 2023, respectively.

(9) Property and Equipment

Property and equipment consisted of the following:

	<u>Land</u>	<u>Buildings and improvements</u>	<u>Machinery and equipment</u>	<u>Office furniture and fixtures</u>	<u>Automobiles and trucks</u>	<u>Construction in progress</u>	<u>Total</u>
Cost:							
Balance at March 31, 2022	\$ 30	439	1,680	89	184	36	2,458
Additions	—	54	332	15	56	54	511
Reclassifications	1	24	13	1	1	(40)	—
Disposals	—	(5)	(1)	(11)	(35)	(7)	(59)
(Impairments) reversals	—	(2)	53	—	—	—	51
Other changes	—	(11)	(177)	6	(2)	3	(181)
Balance at March 31, 2023	31	499	1,900	100	204	46	2,780
Acquisitions	3	9	64	2	7	21	106
Additions	3	92	382	11	72	47	607
Reclassifications	2	19	14	1	2	(38)	—
Disposals	—	(3)	(15)	(9)	(50)	—	(77)
(Impairments) reversals	—	8	—	—	—	—	8
Other changes	—	(12)	(227)	2	(1)	1	(237)
Balance at March 31, 2024	<u>\$ 39</u>	<u>612</u>	<u>2,118</u>	<u>107</u>	<u>234</u>	<u>77</u>	<u>3,187</u>
Accumulated depreciation:							
Balance at March 31, 2022	\$ —	177	795	54	99	—	1,125
Additions	—	47	143	10	19	—	219
Disposals	—	(2)	1	(3)	(13)	—	(17)
Impairment reversals	—	—	7	—	—	—	7
Other changes	—	(1)	(119)	2	(2)	—	(120)

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	Land	Buildings and improvements	Machinery and equipment	Office furniture and fixtures	Automobiles and trucks	Construction in progress	Total
Balance at March 31, 2023	\$ —	221	827	63	103	—	1,214
Additions	—	54	170	12	23	4	263
Disposals	—	(3)	(11)	(8)	(23)	—	(45)
Other changes	—	(2)	(160)	1	(1)	—	(162)
Balance at March 31, 2024	\$ —	270	826	68	102	4	1,270
Carrying amount at:							
March 31, 2022	30	262	885	35	85	36	1,333
March 31, 2023	31	278	1,073	37	101	46	1,566
March 31, 2024	39	342	1,292	39	132	73	1,917

Other changes in Machinery and Equipment for the years ended March 31, 2024 and 2023 primarily consist of Sunstate Equipment Co., LLC and Linder Industrial Machinery Company transfers of equipment previously leased to inventory in anticipation of sale of such equipment.

The year ended March 31, 2023 includes the reversal of an impairment related to an electric generating station owned by Perennial Power Holdings, Inc. Based on its estimated fair value, the impairment amount reversed resulted in the electric generating station being restored to its pre-impairment carrying amount less subsequent depreciation that would have been recognized resulting in a net increase of \$46 in the net carrying amount.

Included in the table above, are assets leased by the Company including building and improvements, machinery and equipment and vehicles. Information about leases for which the Company is a lessee is as follows:

	Buildings and improvements	Machinery and equipment	Vehicles	Total
Cost:				
Balance at March 31, 2022	\$ 258	18	93	369
Additions	52	—	28	80
Impairments	(2)	—	—	(2)
Disposals and other changes	(6)	—	(12)	(18)
Balance at March 31, 2023	\$ 302	18	109	429
Acquisitions	—	21	—	21
Additions	85	—	30	115
Impairments	8	—	—	8
Disposals and other changes	(12)	3	(10)	(19)
Balance at March 31, 2024	\$ 383	42	129	554

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	<u>Buildings and improvements</u>	<u>Machinery and equipment</u>	<u>Vehicles</u>	<u>Total</u>
Accumulated depreciation:				
Balance at March 31, 2022	\$ 83	2	40	125
Additions	33	1	11	45
Disposals and other changes	(1)	—	(9)	(10)
Balance at March 31, 2022	\$ 115	3	42	160
Additions	40	5	14	59
Disposals and other changes	(5)	—	(8)	(13)
Balance at March 31, 2024	\$ 150	8	48	206
Carrying amount at:				
March 31, 2022	175	16	53	244
March 31, 2023	187	15	67	269
March 31, 2024	233	34	81	348

(10) Investment Property

	<u>2024</u>	<u>2023</u>
Cost:		
Balance at beginning of year,	\$ 480	477
Additions	45	3
Balance at March 31,	\$ 525	480
Accumulated depreciation and impairment losses:		
Balance at beginning of year,	\$ 148	98
Additions	21	22
Impairment	41	28
Balance at March 31,	\$ 210	148

The Company's investment properties include commercial office buildings located in Phoenix, Arizona and Minneapolis, Minnesota and fifteen floors of rental space and two floors of retail space in a commercial office building in Chicago, Illinois, which were leased to third parties. During the year ended March 31, 2024, the Company purchased seven floors of rental space in the commercial office building in Chicago, Illinois from USPO Chicago 1, LLC. During the years ended March 31, 2024 and 2023, the Company recorded impairments of \$41 related to investment properties located in Phoenix, Arizona and Minneapolis, Minnesota and \$28 related to the investment property located in Chicago, Illinois, respectively.

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Lease terms and subsequent renewals are negotiated with the lessees. See note 22(a) for further information.

	<u>Carrying amount</u>	<u>Fair value</u>
As of March 31, 2024	\$ 315	341
As of March 31, 2023	332	374

Fair value is primarily based on a discounted cash flow approach using discount rates obtained from an independent appraiser.

(11) Intangible Assets and Goodwill

Intangible assets and goodwill consisted of the following:

		Other intangible assets						
		Goodwill	Trade names	Customer relationships	Vendor relationships	Software	Other	Total
Acquisition cost:								
Balance at March 31, 2022	\$	487	349	430	15	75	16	885
Additions		—	—	—	—	8	—	8
Disposals		—	(53)	—	—	(5)	—	(58)
Balance at March 31, 2023		487	296	430	15	78	16	835
Additions		—	—	—	—	7	—	7
Acquisitions		153	4	129	—	—	—	133
Disposals		—	—	—	—	(3)	—	(3)
Balance at March 31, 2024	\$	640	300	559	15	82	16	972
Amortization and impairment losses:								
Balance at March 31, 2022	\$	368	239	334	15	62	16	666
Additions		—	7	8	—	6	—	21
Impairment reversals		—	(19)	(87)	—	—	—	(106)
Disposals		—	(39)	—	—	(5)	—	(44)
Balance at March 31, 2023		368	188	255	15	63	16	537
Additions		—	10	20	—	8	—	38
Disposals		—	—	—	—	(3)	—	(3)
Others		—	—	(1)	—	—	—	(1)
Balance at March 31, 2024	\$	368	198	274	15	68	16	571
Carrying amount at								
March 31, 2022	\$	119	110	96	—	13	—	219
March 31, 2023		119	108	175	—	15	—	298
March 31, 2024		272	102	285	—	14	—	401

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During the year ended March 31, 2024, the Company acquired the assets and assumed the liabilities of a business that markets and trades sulphuric acid, a trench shoring rental equipment business and 2 construction equipment dealerships, see note 4(a).

During the year ended March 31, 2023, the Company had reversed impairments totaling \$92 of tradename and customer relationship intangible assets for two of the Company's subsidiaries in the Energy segment primarily due to economic recovery in the oil & gas markets. The values were determined using the relief of royalty method for tradename and excess earnings approach for customer relationships applying a discount rate of 15.5%.

The significant carrying amounts of trade names as of March 31, 2024 and 2023 were those related to:

	<u>2024</u>	<u>2023</u>
Sunstate Equipment Co., LLC	\$ 63	67
B&L Pipeco Services Inc.	42	38

The weighted average remaining useful lives as of March 31, 2024 was 12 years.

The significant carrying amounts of customer relationships as of March 31, 2024 and 2023 were those related to:

	<u>2024</u>	<u>2023</u>
B&L Pipeco Services Inc.	\$ 86	97
Sunstate Equipment Co., LLC	106	44
Saconix LLC	55	—
P2 Energy Services, LLC	17	18

The weighted average remaining useful lives as of March 31, 2024 was 19 years.

(12) Notes Payable and Commercial Paper

Interest rates on notes payable of \$80 and \$150 as of March 31, 2024 and 2023, respectively, averaged approximately 5.60% and 3.44% during the years ended March 31, 2024 and 2023, respectively.

Commercial paper borrowings of \$0 and \$142 was outstanding as of March 31, 2024 and 2023, respectively. Borrowings during those years had weighted average maturities of 19 days and 14 days, respectively, with interest rates averaging 5.40% and 3.53%, respectively. Under a letter of guarantee, SC guarantees payment of principal and interest of the commercial paper issued by the Company as they become due and payable.

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(13) Long-Term Debt

Long-term debt balances as of March 31, 2024 and 2023 consisted of the following with maturities in the fiscal years as indicated below:

	<u>2024</u>	<u>2023</u>
Third party term and revolver loans:		
2023, floating rates – 4.91% to 6.00%	\$ —	396
2024, floating rates – 5.87% to 6.32%	350	350
2025, floating rates – 6.01% to 6.78%	302	302
2026, floating rates – 6.18% to 6.25%	120	120
2027, floating rates – 6.08% to 6.74%	140	139
2028, floating rate – 6.69%	98	98
2029, floating rate – 6.74%	81	81
2030, floating rate – 6.08%	97	97
2031, floating rate – 6.02%	48	48
2032, floating rate – 6.06%	96	95
Total third party term and revolver loans	<u>1,332</u>	<u>1,726</u>
Medium term note:		
2025, floating rate – 6.14%	68	68
2026, floating rate – 6.13%	30	30
Total long-term debt	<u>1,430</u>	<u>1,824</u>
Less current portion:		
Third party	<u>(350)</u>	<u>(396)</u>
	<u>\$ 1,080</u>	<u>1,428</u>

Principal payments on long-term debt for the years subsequent to March 31, 2024 are as follows:

	<u>Total long-term debt</u>
Fiscal year:	
2025	\$ 350
2026	370
2027	150
2028	140
2029	98
Thereafter	<u>322</u>
	<u>\$ 1,430</u>

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All third party term and revolver loans are covered by support agreements between SC and the Company.

The Company participates in the Euro Medium Term Note Programme (the Programme) along with two related parties. Funds borrowed under the Programme are included in medium term loans. The total borrowing limit under the Programme is \$3,000, of which approximately \$1,598 is outstanding as of March 31, 2024. The Company had \$98 of borrowings outstanding under Programme as of March 31, 2024 and 2023. The Programme is updated and renewed annually. Payment of the borrowings under the Programme is guaranteed by SC.

At March 31, 2024 and 2023, the Company was contingently liable on unused letters of credit in the amount of \$166 and \$237, respectively.

The Company's long-term debt borrowings contain general covenants regarding business operations, requiring compliance with laws and regulations and permissible liens. In addition, financial covenants require the maintenance of a minimum level of shareholder's equity and maintenance of certain financial ratios. At March 31, 2024 and 2023, the Company was in compliance with all debt covenants.

(14) Income Tax Expense

The net income tax expense includes income taxes on the consolidated statements of comprehensive income and the Company's share of income tax amounts included in equity in earnings of affiliates for the years ended March 31, 2024 and 2023, as follows:

	<u>2024</u>	<u>2023</u>
Current:		
Federal	\$ 72	63
State	13	33
Foreign	(1)	(1)
	<u>84</u>	<u>95</u>
Deferred:		
Federal	13	93
State	3	10
	<u>16</u>	<u>103</u>
Income tax expense	100	198
Share of income tax in equity in earnings of affiliates	<u>43</u>	<u>14</u>
Net income tax expense	<u>\$ 143</u>	<u>212</u>

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Income excluding the net income tax expense for the years ended March 31, 2024 and 2023 is as follows:

	<u>2023</u>	<u>2022</u>
Net income	\$ 553	857
Net income tax expense	<u>143</u>	<u>212</u>
Income excluding net income tax expense	<u>\$ 696</u>	<u>1,069</u>

Income excluding the net income tax expense summarized by region for the years ended March 31, 2024 and 2023 is as follows:

	<u>2024</u>	<u>2023</u>
United States	\$ 697	1,066
Foreign	<u>(1)</u>	<u>3</u>
Income excluding net income tax expense	<u>\$ 696</u>	<u>1,069</u>

The reconciliations between the U.S. federal statutory tax rate and the Company's effective tax rate for the years ended March 31, 2024 and 2023 are as follows:

	<u>2024</u>	<u>2023</u>
Statutory U.S. federal income tax rate	21.0 %	21.0 %
State and local income taxes, net of federal income tax benefit	2.4	3.0
Nondeductible and capital loss items	1.4	(2.6)
Credits	(1.3)	(1.6)
Foreign source items	—	(0.1)
Undistributed earnings	0.0	0.2
Derecognition of prior tax attributes	(2.1)	0.1
Other, net	<u>(0.9)</u>	<u>(0.2)</u>
Effective income tax rate	<u>20.5 %</u>	<u>19.8 %</u>

Credits are primarily renewable energy production tax credits generated by the Company's equity investments in qualifying projects.

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(15) Deferred Tax Assets and Liabilities

Deferred tax assets (liabilities) as of March 31, 2024 and 2023 are attributable to the following:

	<u>2024</u>	<u>2023</u>
Property and equipment	\$ (295)	(264)
Right-of-use assets	(66)	(52)
Investments	(16)	(32)
Derivatives	(14)	(8)
Unremitted earnings	(6)	(6)
Acquired intangibles	(6)	(6)
Other comprehensive income (loss)	(1)	(7)
Other	—	4
Post-retirement obligations	1	1
Inventory adjustments	5	6
Accruals and reserves	60	57
Tax loss and credit carryforwards	66	51
Lease liabilities	79	66
Net deferred tax liabilities	\$ <u>(193)</u>	<u>(190)</u>

Deferred tax assets and deferred tax liabilities are offset as the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority or if there is the right to set off current tax assets against current tax liabilities. In the consolidated statements of financial position, the deferred tax assets and liabilities are not classified into current and noncurrent segments.

At March 31, 2024, the Company and certain of its subsidiaries have deferred tax assets related to state and foreign net operating loss (NOL) carryforwards of approximately \$17. These NOL carryforwards are available to offset future state and foreign taxable income.

(16) Equity

(a) Other Components of Equity

(i) Translation Reserve

The translation reserve includes all foreign currency differences arising from the translation of the financial statements of foreign operations, including the Company's investments in associated companies.

(ii) Hedging Reserve

The hedging reserve includes the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedge transactions that have not yet occurred.

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(iii) Fair Value Reserve

The fair value reserve includes the cumulative net change in the fair value of financial assets designated as FVTOCI until the investments are derecognized or impaired.

(b) Dividends

SC implemented a dividend guideline for overseas subsidiaries that required the Company to pay a dividend beginning in the year ended March 31, 2011. The ultimate dividend amount is subject to adjustment depending on the effects of taxation as well as equity and asset levels.

In the year ended March 31, 2024, the Company paid a dividend from retained earnings in the amount of \$400 to SC. In addition, the Company distributed its interests in Cosmotec International Especialidades Cosmeticas Ltda. and in The Hartz Mountain Corporation to SC, resulting in a reduction in equity-accounted investments and retained earnings of \$72 and the currency translation adjustment of \$2 being recycled to additional paid-in capital, see note 4(b).

In the year ended March 31, 2023, the Company paid a dividend from retained earnings in the amount of \$400 to SC. In addition, the Company distributed its interest in Sumitomo Corporation do Brasil S.A. to SC, resulting in reductions in equity-accounted investments and retained earnings of \$6 with the currency translation adjustment of \$7 being recycled to additional paid-in capital.

(c) Reserves Recognized Directly in Equity

The following table shows the changes in reserves directly recognized in equity:

Balance – March 31, 2022, net of taxes of (\$11)	\$	4
Unrealized changes in fair value of securities, net of taxes of \$7		(28)
Unrealized losses on derivatives, net of taxes of (\$6)		(5)
Foreign currency translation adjustment, net of taxes of \$0		19
Balance – March 31, 2023, net of taxes of (\$10)		(10)
Unrealized changes in fair value of securities, net of taxes of \$11		(26)
Unrealized gains on derivatives, net of taxes of (\$6)		5
Foreign currency translation adjustment, net of taxes of \$0		6
Balance – March 31, 2024, net of taxes of (\$7)	\$	(25)

(17) Defined Contribution Savings Plans

The Company and certain of its subsidiaries sponsor defined contribution 401(k) savings plans (the Savings Plans) for eligible employees. The Company at its discretion matches employees' contributions up to specific limitations and made contributions to the Savings Plans of \$13 and \$11 in the years ended March 31, 2024 and 2023, respectively.

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(18) Fair Value of Financial Instruments

For the Company's financial instruments classified as current in the consolidated statements of financial position (cash and cash equivalents, accounts receivable, commercial paper, notes payable, current portion of long-term debt and accounts payable), the carrying values approximate fair value based on the relatively short period of time between the origination of the instruments, their expected realization or the frequent repricing of the instrument to market price.

The Company's long-term receivables and long-term debt primarily bear floating rates of interest and their carrying values approximate their fair values.

The fair value hierarchy described below reflects the significance of inputs used to determine the valuation of derivative assets and liabilities measured at fair value:

Level 1 – quoted market prices in active markets for identical assets or liabilities that the Company has the ability to access

Level 2 – quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities

Level 3 – inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The tables below include financial instruments carried at fair value as of March 31, 2024 and 2023.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
2024:			
Derivative assets:			
Physical commodity contracts	\$ —	285	9
Futures, swaps and options	527	33	—
Total assets	<u>\$ 527</u>	<u>318</u>	<u>9</u>
Derivative liabilities:			
Physical commodity contracts	\$ —	(192)	(35)
Futures, swaps and options	(540)	(20)	—
Loan deals	—	(7)	—
	<u>\$ (540)</u>	<u>(219)</u>	<u>(35)</u>

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	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
2023:			
Derivative assets:			
Physical commodity contracts	\$ —	221	90
Futures, swaps and options	1,098	29	—
Loan deals	—	1	—
Total assets	<u>\$ 1,098</u>	<u>251</u>	<u>90</u>
Derivative liabilities:			
Physical commodity contracts	\$ —	(210)	(88)
Futures, swaps and options	(1,097)	(12)	—
Loan deals	—	(3)	—
	<u>\$ (1,097)</u>	<u>(225)</u>	<u>(88)</u>

The derivative financial instruments in the above table include those of PSE, which are carried at fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. In the tables above, when the fair value of derivatives listed on an organized exchange market (futures, options on futures, and swaps) is offset with the margin call received or paid on the balance sheet, this fair value is presented on a net basis. Fair value is based on assumptions that market participants would use, including consideration of nonperformance risk. However, in situations where there is little, if any, market activity for the asset or liability at the measurement date, the fair value measurement reflects the Company's own judgments about the assumptions that market participants would use in pricing the asset or liability. Those judgments are developed by the Company based on the best information available in the circumstances, including expected cash flows and risk-adjusted discount rates, and available observable and unobservable inputs.

Fair value of the Company's Level 2 assets and liabilities is determined using the income approach through various models and techniques that require significant unobservable inputs. Level 3 assets and liabilities include the Company's physical commodity contracts where the valuations utilize significant unobservable inputs related to tenor and volatility. Inputs used and the fair value of Level 3 instruments are reviewed period over period and compared with market conditions to determine reasonableness.

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The following table sets forth the Company valuation techniques and significant unobservable inputs used to determine fair value for Level 3 assets and liabilities:

	<u>Assets</u>	<u>Liabilities</u>	<u>Valuation Technique</u>	<u>Significant unobservable input</u>	<u>Range (weighted average) ¹</u>
March 31, 2024:					
Physical commodity contract	\$ —	(25.4)	Linear regression model	Historical and forecasted load	\$ (24.7) – \$(26.0)
March 31, 2023:					
Physical commodity contract	\$ 1.5	—	Linear regression model	Historical and forecasted load	\$ (1.6) – \$4.5
	1.0	—	Proxy spread model	Forecasted pricing	\$ 0.8 – \$1.1

¹ Change in fair value with a +/-10% change in underlying unobservable input

The following table sets forth a summary of changes in the Company's fair value of Level 3 net derivative assets and liabilities:

	<u>2024</u>	<u>2023</u>
Fair value of net assets at beginning of year	\$ 2	(5)
Net change in fair value	(27)	7
Fair value of net assets at end of year	<u>\$ (25)</u>	<u>2</u>
Changes during the period in unrealized gains (losses) related to assets and liabilities, net held at the end of year recognized in the net trading gains profit	\$ (13)	2

The fair values of the Company's physical commodity contract contain intrinsic value and time value. Intrinsic value is the difference between the market price and strike price of the underlying commodity. Time value is made up of several extrinsic components, including volatility, time to expiration and interest rates.

For physical commodity contracts where the Company is supplier of energy, increases in volatility of the underlying commodity prices would result in increases to fair value as it represents greater price movement risk. As power and gas prices decrease where the Company is the supplier of energy, the fair value of the arrangement tends to decrease. As power and gas prices increase where the Company is the purchaser of energy, the fair value of the arrangement tends to increase. The value of the arrangement is also impacted by the correlation between gas and power prices.

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The Company and certain of its subsidiaries make financial investments in operating entities and early-stage to initial public offering entities to facilitate strategic business partnerships and to realize long-term capital appreciation and are included in noncurrent other assets. The table below includes the balances of such investments accounted at FVTOCI and FVTPL and the related pretax gains recognized.

	<u>2024</u>	<u>2023</u>
Carrying values:		
FVTOCI	\$ 123	160
FVTPL	<u>192</u>	<u>157</u>
Total included in noncurrent other assets	<u>\$ 315</u>	<u>317</u>
Net gains (losses) recognized:		
FVTOCI	\$ (37)	(34)
FVTPL	—	7

(19) Derivatives and Hedge Accounting

Derivative Financial Instruments Not Designated as Hedges

In the normal course of business, the Company is exposed to foreign exchange rate fluctuation risks due to transactions originally denominated in foreign currencies. To manage these risks, the Company routinely enters into foreign currency forward contracts. The change in fair value of these foreign currency forward contracts is recorded in the Company's consolidated statements of comprehensive income.

As of March 31, 2024 and 2023, the Company held certain cross-currency swaps that did not qualify as hedges for accounting purposes to manage foreign currency exposures. Gains and losses for changes in the fair value of these derivatives, which were recorded in the Company's consolidated statements of comprehensive income, were not significant.

The derivative instruments of PSE include a variety of commodity instruments to purchase or supply natural gas (NG) and electric power at specified delivery points and at specified future dates. The derivative commodity instruments are offered to customers and suppliers in the marketplace as a marketing and risk management service. PSE also trades crude oil derivative commodity instruments. Under some circumstances, the open positions expose the Company to risk that fluctuating market prices may adversely impact its financial condition or results of operations. However, the net open positions are actively managed with policies designed to limit the exposure to market risk.

Occasionally, PSE enters into loan agreements, whereby NG is effectively loaned or borrowed to and from utility companies, involving a receipt of physical gas and an obligation to return the same quantity of physical gas at a specified later date. Commodity derivative positions are used to economically hedge loan activity. Loan transactions are treated as financing arrangements with an embedded derivative.

PSE loaned 2,642 MMBtu with a fair value of \$(7) as of March 31, 2024 and 560 MMBtu with a fair value of \$(3) as of March 31, 2023.

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Derivatives not designated as hedges as of March 31, 2024 were as follows:

	Physical NG commodity contracts	Physical power commodity contracts	Futures, swaps and options	Loan deals	Offsetting	Cash collateral	Total derivatives not designated as hedges
Current derivative assets	\$ 103	92	539	—	(582)	(21)	131
Noncurrent derivative assets	33	67	4	—	(52)	—	52
Total derivative assets	<u>\$ 136</u>	<u>159</u>	<u>543</u>	<u>—</u>	<u>(634)</u>	<u>(21)</u>	<u>183</u>
Current derivative liabilities	\$ (47)	(95)	(554)	(7)	582	32	(89)
Noncurrent derivative liabilities	(16)	(69)	(5)	—	52	—	(38)
Total derivative liabilities	<u>\$ (63)</u>	<u>(164)</u>	<u>(559)</u>	<u>(7)</u>	<u>634</u>	<u>32</u>	<u>(127)</u>

Derivatives not designated as hedges as of March 31, 2023 were as follows:

	Physical NG commodity contracts	Physical power commodity contracts	Futures, swaps and options	Loan deals	Offsetting	Cash collateral	Total derivatives not designated as hedges
Current derivative assets	\$ 124	39	1,122	—	(1,085)	(86)	114
Noncurrent derivative assets	72	76	4	—	(59)	—	93
Total derivative assets	<u>\$ 196</u>	<u>115</u>	<u>1,126</u>	<u>—</u>	<u>(1,144)</u>	<u>(86)</u>	<u>207</u>
Current derivative liabilities	\$ (130)	(29)	(1,106)	(3)	1,085	86	(97)
Noncurrent derivative liabilities	(44)	(95)	(4)	—	59	—	(84)
Total derivative liabilities	<u>\$ (174)</u>	<u>(124)</u>	<u>(1,110)</u>	<u>(3)</u>	<u>1,144</u>	<u>86</u>	<u>(181)</u>

Derivative Financial Instruments Designated as Hedges

The Company enters into cross-currency swaps related to debt denominated in Japanese Yen, Euro, Canadian Dollar and British Pound. The Company designates these derivatives as fair value hedges. Gains and losses resulting from changes in the fair value of these derivatives were recorded in the Company's consolidated statements of comprehensive income.

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The following table presents the Company's outstanding derivative contracts designated as hedges as of March 31, 2024 and 2023:

	2024		2023	
	Notional amount	Carrying amount at fair value	Notional amount	Carrying amount at fair value
Derivative assets:				
Cross-currency and interest rate swaps	\$ 200	16	200	18
Foreign currency forward contracts and other	47	1	46	1
Derivative liabilities:				
Foreign currency forward contracts	1	—	1	—

The current and long-term portions of derivative assets are recorded in accounts receivable and long-term receivables, respectively, and the current and long-term portions of derivative liabilities are recorded in accrued expenses and other current liabilities and other long-term liabilities, respectively, in the accompanying consolidated statements of financial position. Gains and losses are included in revenue, cost of sales and interest expense in the accompanying consolidated statements of comprehensive income and other components of equity.

(20) Capital and Financial Risk Management

(a) Capital Management

The Company's capital management philosophy is guided by SC policies. The fundamental principles of SC's capital management are to maintain appropriate capital levels by optimizing debt and equity balances to manage business risks in order to maintain management soundness and efficiency and to promote continuous growth. The key metrics used for capital management are risk-adjusted assets and equity balances along with a net debt-to-equity ratio.

Management reviews the strategies for earnings and investments and the metrics on a semi-annual planning and assessment basis.

(b) Financial Risk Management

The Company's operations expose it to the risk of changes in foreign exchange rates and interest rates. Derivative financial instruments are used by the Company to reduce these risks. The Company assesses foreign currency exchange rate risk and interest rate risk by continuously monitoring changes in these exposures and by evaluating hedging opportunities. The Company is also exposed to credit related losses in the event of nonperformance by counterparties to financial assets, but it is not expected that any counterparties will fail to meet their obligations because most of the counterparties

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are internationally recognized financial institutions. The Company's basic policy for fund raising activities is to secure stable, short to long-term funds and liquidity for operations.

(i) *Foreign Currency Exchange Rate Risk*

The Company operates internationally and is exposed to foreign currency risks related to purchasing, selling, financing and investing in currencies other than the U.S. dollar. The Company's strategy to manage foreign currency risks is mainly to preserve the economic value of cash flows in its functional currency by using foreign currency forward contracts, cross-currency swaps, considering the netting effect of foreign currency exposures on recognized assets, liabilities and unrecognized firm commitments. The net of foreign currency risk exposure as of March 31, 2024 and 2023 were insignificant.

An analysis of a hypothetical impact on income (loss) before income taxes as reported in the consolidated statements of comprehensive income that would result from a 1% appreciation of the U.S. Dollar against all foreign currencies as of the end of the fiscal year indicated that the effects would be insignificant. The analysis is based on the assumption that other factors such as outstanding balance and interest rates are constant.

(ii) *Interest Rate Risk Management*

The Company is exposed to risks arising from changes in interest rates while financing its business activities. In particular, interest rate fluctuations affect borrowing costs because a major part of the outstanding debt instruments are floating rate instruments and short-term borrowings are refinanced from time to time.

However, the impact on borrowing costs are partially offset by returns on certain assets which may also be impacted by interest rate fluctuations. In addition, the Company is engaged in financing activities, which could be affected by interest rate fluctuations. The Company monitors interest rate risk arising from its assets and liabilities and the Company's risk management structure utilizes derivative contracts, such as interest rate swaps, to manage fluctuations of earnings or losses due to the fluctuations of interest rates.

The following table represents the hypothetical impact on the Company's income (loss) before income taxes that is attributable to financial instruments exposed to the fluctuation risk of interest rates in the case where interest rates would increase by 1%. The analysis is calculated by multiplying 1% by the net amounts of floating rate interest bearing financial assets and liabilities as of March 31, 2024 and 2023, without considering changes in balances, currency fluctuations and the dispersing effect for floating rate borrowings derived from the timing differences to refund and revise the rate in the future and is based on the assumption that other variable factors are held constant.

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A sensitivity analysis to fluctuations of market interest rates is performed for the potential cash flow exposures from interest rate bearing debt and loans with a floating rate. The floating rate loans include those with fixed rates, which are converted to floating rate with interest rate swap contracts.

	<u>2024</u>	<u>2023</u>
Income before income taxes	\$ (14)	(17)

(iii) Market Risk Management

The Company is exposed to the risk fluctuations in the market price of the commodities being traded (NG and electric power) and the associated commodity derivative instruments, which is influenced by supply and demand. Market risk is also influenced to the extent that the performance or nonperformance by market participants of their contractual obligations and commitments affect the supply and demand of the commodity. The Company manages the market risks inherent in its commodity trading business according to risk policies established by the Company.

(iv) Credit Risk Management

The Company's receivables are from a large number of customers and counterparties, spread across diverse industries and geographical areas. Ongoing credit evaluations are performed on the financial condition of accounts receivable. The Company may also seek contractual or other forms of protection or mitigation, including cash collateral, letters of credit or parent company guarantees.

(v) Liquidity Risk Management

The Company's basic policy for financing operations is to secure stable short to long-term funds and sufficient liquidity for its operations. The Company secures liquidity from the cash flows from operations, borrowing from financial institutions and issuance of commercial paper. The Company deposits these funds at highly creditable financial institutions to which generally high credit ratings are given by the credit rating agencies.

(21) Segment and Related Information

The Company's reportable business segments are organized in a manner that reflects how management views those business activities. The Company reports for each segment a measure of revenues, profit or loss and segment assets. The Company's principal business activities have been classified into the following reportable segments:

The Energy Division includes:

- Tubular Products group that supplies a wide variety of high grade oil country tubular goods, line pipe, specialty steel products;
- Power Infrastructure group that invests in and operates electric generating stations;
- Basic Chemicals group that imports and distributed sulfuric acid; and
- Energy group that trades and markets natural gas and power.

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The Automotive Division includes:

- Metal Products group that supplies flat-rolled products and specialty steel products;
- Automotive group that supplies tires and automotive parts to the automotive industry; and
- Electronics group that provides electronic manufacturing services.

The Social Infrastructure Division includes:

- Infrastructure Metal Products group that manufactures steel wheels and axles for railcars, billets and hot-rolled tie-plates and flat bars for the railroad industry;
- Social Infrastructure group that operates and maintains automated people mover systems; and
- Logistics group that provides full-service global transportation services.

The Construction & Transportation Division includes:

- Construction & Transportation group rents and sells construction and mining equipment; and
- Aerospace & Defense group supplies airframe and aircraft equipment and space environment systems.

The Agri-food & Life Science Division include:

- Life Science group produces and distributes aerosol propellants and hydrocarbon refrigerants, personal care ingredients, pet care products, supplies various raw materials and agricultural products.
- Food & Lifestyle group grows and supplies food products and provides latest technology in crop science.

The Real Estate Division invests in and develops commercial and residential real estate.

The Mineral Resources Division develops, invests, produces and trades mineral resources.

Development & Innovation Division pursues new business opportunities, including investments in start-ups and developing businesses.

The Treasury and corporate segment includes finance-related activities such as derivatives transactions and consumer and business financing and logistics services. Also included, is the Company's interests in Sumitomo Corporation do Brazil through March 31, 2023.

The Company evaluates segment performance based on net income (loss) attributable to the owners of the parent company.

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Information on the Company's reportable segments as of and for the years ended March 31, 2024 and 2023, respectively, is as follows:

Segment / Division	2024				2023			
	Revenues	Gross profit	Income (loss)	Segment assets	Revenues	Gross profit	Income (loss)	Segment assets
Energy	\$ 7,216	850	376	3,148	8,405	1,081	677	4,003
Automotive	860	68	123	886	1,143	89	16	1,217
Social infrastructure	65	25	30	422	78	28	31	414
Construction and transportation	1,576	525	55	2,782	1,450	499	89	2,172
Agri-food & life science	289	65	(66)	301	359	89	36	381
Real estate	53	4	(50)	734	46	2	(27)	652
Mineral resources	9	9	2	196	8	8	4	161
Development & innovation	—	—	(9)	19	—	—	(5)	10
Treasury and corporate	13	13	89	2,524	8	8	37	2,181
Intersegment eliminations	(55)	(19)	3	(2,459)	(39)	(20)	(1)	(1,864)
Total	\$ 10,026	1,540	553	8,553	11,458	1,784	857	9,327

The Company has changed the composition of its reportable business segments and accordingly restated the previously reported information for the year ended March 31, 2023.

Changes in the carrying amount of goodwill for the years ended March 31, 2024 and 2023 are as follows:

	Energy	Construction and transportation	Agri-food and life science	Total
March 31, 2023	\$ —	103	16	119
Acquisitions	27	126	—	153
March 31, 2024	\$ 27	229	16	272

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(22) Commitments and Contingencies

(a) Leases as lessee

The Company leases assets including building and improvements, machinery and equipment and vehicles. Future minimum annual rental payments and the related liabilities included in the consolidated statements of financial position as of March 31, 2024 and 2023 were as follows:

	<u>2024</u>	<u>2023</u>
Undiscounted cash flows:		
Less than one year	\$ 83	70
Between one and five years	241	195
More than five years	<u>193</u>	<u>104</u>
Total undiscounted cash flows	\$ <u>517</u>	<u>369</u>
Lease liabilities:		
Current	\$ 66	57
Long-term	<u>328</u>	<u>257</u>
Total	\$ <u>394</u>	<u>314</u>

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases of property and equipment that have a lease term of 12 months or less and leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the term of the lease. The future minimum annual rental payments of leases under which the Company as a lessee is immaterial with rent expense of \$4 for each of the years ended March 31, 2024 and 2023.

Interest expense related to lease liabilities totaled \$18 and \$13 for the years ended March 31, 2024 and 2023. Current and long-term lease liabilities are included in Accrued expenses and other current liabilities and Other long-term liabilities, respectively, in the Consolidated Statements of Financial Position.

(b) Leases as lessor

The Company leases out its investment property under long-term operating leases. The minimum annual rentals as of March 31, 2024 for the next five years and thereafter were as follows:

Less than one year	\$ 32
Between one and five years	98
More than five years	<u>56</u>
	\$ <u>186</u>

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(c) Indemnification and Guarantee Agreements

In the normal course of business, the Company secures certain obligations with Performance and Labor, and Material Bonds (performance bonds). In certain situations, the ability to obtain performance bonds is directly related to the Company's credit rating. As such, the Company may arrange for issuance of performance bonds through third parties. As of March 31, 2024 and 2023, the Company had \$371 and \$278, respectively, of such performance bonds outstanding, of which \$35 and \$50, respectively, were at risk in ongoing projects. These amounts are expected to decrease over time as the Company completes the work in process or transfers ownership to other companies.

The Company believes that it is not reasonably likely that it will be required to perform under the performance bonds or that any performance requirement would have a material impact on its consolidated financial statements. As a result, the estimated fair value of these agreements is considered to be immaterial to the consolidated financial statements.

As of March 31, 2024, the Company has commitments to make additional equity investments totaling approximately \$6.

(d) Performance Obligations under Long-term Sales Contracts

The aggregate amount of the revenue expected to be recognized in the future related to the Company's performance obligations (unsatisfied or partially unsatisfied) resulting from long-term sales contracts was \$12,928 as of March 31, 2024. The amount of revenue expected from the PSE LNG long-term sales agreement represented approximately 96% of the aggregate amount and is based on Henry Hub prices multiplied by an estimated fuel factor plus amounts for fixed costs, annual unit charges and a risk premium.

(e) Natural Gas Purchase and Liquefied Natural Gas Sale Commitments

The Company has a definitive gas purchase agreement, which commenced in 2018, with an unrelated party to purchase 350,000 MMBtu of NG per day for approximately 20 years, which will be utilized for LNG production to fulfill its sales commitments. In order to convert the NG into LNG, the Company entered into a 20-year terminal service agreement with another unrelated party. To facilitate LNG sales, an LNG sales agreement was entered into, which is also for approximately 20 years.

Although it is foreseeable that the PSE will be required to sell unavoidable excess gas acquired under the contract rather than use it for the intended purpose of converting it into LNG, management believes that it is appropriate to account for the contract as an executory contract rather than report it at its fair value.

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(f) Litigation

The Company is involved in several lawsuits and regulatory inquiries and investigations incidental to its business.

Presperse, a wholly owned subsidiary, is a supplier and manufacturer of specialty raw materials for the cosmetic and personal care industry. Presperse is periodically involved in lawsuits, investigations and claims in the ordinary course of business and has been named in the context of being a being a pass-through distributor of cosmetic talc products.

On March 30, 2024, Presperse and the Company have reached an agreement with over 80% of current plaintiffs and a Future Claims Representative on a term sheet for the reorganization of Presperse and for the funding of a trust to assume all current and future liabilities related to such alleged claims.

Presperse and the Company have the intention and ability to fulfill the agreed-upon terms outlined in the term sheet and management is confident that court approval of this settlement is likely, see note 6.

(23) Selling, General and Administrative Expenses

The components of selling, general and administrative expenses were as follows for the years ended March 31, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Employee benefits expenses	\$ 480	462
Depreciation and amortization	124	92
Service fees	87	66
Travel and communication expenses	43	40
Office expenses and supplies	40	34
Taxes, other than income taxes	18	15
Rent expense	4	4
Other	<u>74</u>	<u>69</u>
Selling, general and administrative expenses	\$ <u>870</u>	<u>782</u>

(24) Subsequent Event

The Company has evaluated subsequent events from the consolidated statement of financial position date through May 14, 2024, the date at which the consolidated financial statements were available to be issued. On May 9, 2024, the Company declared and paid a dividend of \$800 from retained earnings to SC.