Consolidated Financial Statements

NAGASE & CO., LTD.

Year ended March 31, 2023
with Independent Auditor's Report

Financial Section

CONTENTS

Consolidated Balance Sheet

Year ended March 31, 2023

Assets	Millions of yen 2023	Millions of yen 2022	Thousands of U.S. dollars (Note 1) 2023
Current assets:			
Cash and time deposits (Notes 19 and 25)	**¥ 40,897**	¥ 54,211	**$ 306,276**
Notes and accounts receivable (Note 19)	**302,105**	289,862	**2,262,450**
Inventories (Notes 7 and 8)	**169,721**	157,525	**1,271,033**
Other current assets	**18,429**	13,935	**138,014**
Less allowance for doubtful accounts	**(1,021)**	(1,248)	**(7,646)**
Total current assets	**530,132**	514,286	**3,970,134**
Non-current assets			
Property, plant and equipment, at cost (Notes 9 and 10):			
Land	**18,839**	20,398	**141,084**
Buildings and structures	**64,095**	61,430	**480,004**
Machinery, equipment and vehicles	**93,845**	90,748	**702,801**
Leased assets	**11,439**	2,337	**85,666**
Construction in progress	**2,135**	2,027	**15,989**
	190,355	176,942	**1,425,560**
Less accumulated depreciation	**(108,290)**	(104,387)	**(810,979)**
Property, plant and equipment, net (Note 26)	**82,064**	72,554	**614,574**
Investments and other assets:			
Investments in securities (Notes 11 and 19):			
Unconsolidated subsidiaries and affiliates	**9,341**	9,017	**69,954**
Other	**60,402**	66,583	**452,348**
	69,743	75,600	**522,302**
Long-term loans receivable	**17**	24	**127**
Goodwill (Note 26)	**29,004**	29,492	**217,210**
Technology-based assets	**4,337**	5,912	**32,480**
Retirement benefit asset (Note 14)	**2,645**	3,139	**19,808**
Deferred tax assets (Note 15)	**3,857**	3,572	**28,885**
Other assets (Note 10)	**41,063**	35,248	**307,519**
Less allowance for doubtful accounts	**(176)**	(112)	**(1,318)**
Total investments and other assets	**150,491**	152,879	**1,127,020**
Total non-current assets	**232,556**	225,434	**1,741,601**
Total assets (Note 26)	**¥ 762,688**	¥ 739,720	**$ 5,711,735**

Liabilities and Net Assets	Millions of yen 2023	2022	Thousands of U.S. dollars (Note 1) 2023
Current liabilities:			
Notes and accounts payable (Note 19)	**¥ 140,438**	¥ 149,036	**$ 1,051,734**
Short-term loans (Notes 12 and 19)	**66,117**	73,121	**495,147**
Current portion of long-term loans and lease obligations (Notes 12 and 19)	**3,120**	9,152	**23,366**
Commercial papers (Notes 12 and 19)	**38,000**	25,000	**284,580**
Current portion of bonds payable (Note 12)	**—**	10,000	**—**
Accrued income taxes (Note 15)	**2,913**	7,100	**21,815**
Accrued expenses	**6,300**	6,479	**47,180**
Accrued bonuses for employees	**6,985**	7,648	**52,310**
Accrued bonuses for directors and executive officers	**371**	497	**2,778**
Other current liabilities	**21,957**	19,799	**164,435**
Total current liabilities	**286,203**	307,836	**2,143,361**
Long-term liabilities:			
Bonds (Notes 12 and 19)	**30,000**	20,000	**224,669**
Long-term loans and lease obligations (Notes 12 and 19)	**42,460**	29,256	**317,981**
Deferred tax liabilities (Note 15)	**10,360**	12,310	**77,586**
Retirement benefit liability (Note 14)	**13,197**	13,238	**98,832**
Provision for directors' stock benefit	**65**	—	**487**
Other long-term liabilities	**2,012**	1,987	**15,068**
Total long-term liabilities	**98,097**	76,791	**734,644**
Contingent liabilities (Note 23)			
Net assets:			
Shareholders' equity (Note 17):			
Common stock:			
Authorized — 346,980,000 shares			
Issued — 117,908,285 shares in 2023 and 120,908,285 shares in 2022	**9,699**	9,699	**72,635**
Capital surplus	**10,636**	10,639	**79,653**
Retained earnings (Notes 24 and 28)	**290,279**	280,015	**2,173,886**
Treasury stock, at cost (Note 18) — 786,718 shares in 2023 and 881,767 shares in 2022	**(1,550)**	(1,534)	**(11,608)**
Total shareholders' equity	**309,064**	298,820	**2,314,566**
Accumulated other comprehensive income:			
Net unrealized holding gain on securities (Note 11)	**28,928**	31,732	**216,640**
Deferred (loss) gain on hedges (Note 20)	**(7)**	178	**(52)**
Translation adjustments	**30,414**	13,690	**227,769**
Retirement benefit liability adjustments (Note 14)	**(726)**	(161)	**(5,437)**
Total accumulated other comprehensive income	**58,610**	45,441	**438,928**
Non-controlling interests	**10,713**	10,830	**80,229**
Total net assets	**378,388**	355,092	**2,833,730**
Total liabilities and net assets	**¥ 762,688**	¥ 739,720	**$ 5,711,735**

See notes to consolidated financial statements.

Consolidated Statement of Income

Year ended March 31, 2023

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Net sales (Note 26)	¥ 912,896	¥ 780,557	$ 6,836,636
Cost of sales (Note 8)	757,486	641,062	5,672,778
Gross profit	155,410	139,494	1,163,858
Selling, general and administrative expenses (Notes 21 and 22)	122,038	104,231	913,937
Operating income (Note 26)	33,371	35,263	249,914
Other income (expenses):			
Interest and dividend income	1,734	1,551	12,986
Interest expense	(3,211)	(1,176)	(24,047)
Equity in earnings of affiliates	318	—	2,381
Equity in losses of affiliates	—	(1,031)	—
Gain on sales of shares of subsidiaries and affiliates	52	—	389
Gain on sales of investments in securities (Note 11)	6,587	7,037	49,330
Loss on sales of shares of subsidiaries and affiliates	(466)	(59)	(3,490)
Gain on sales of investments in capital of subsidiaries and affiliates	147	314	1,101
Loss on sales of investment securities	(7)	(6)	(52)
Loss on devaluation of investments in securities (Note 11)	(2,120)	(1,436)	(15,877)
Gain on sales of property, plant and equipment	144	16	1,078
Gain on donation of property, plant and equipment	—	719	—
Loss on sales of property, plant and equipment	(87)	(177)	(652)
Loss on disposal of property, plant and equipment	(998)	(453)	(7,474)
Loss on impairment of fixed assets (Notes 10 and 26)	(2,838)	(2,974)	(21,254)
Gain on change in equity	449	—	3,363
Subsidy income	25	75	187
Other, net	37	1,895	277
Profit before income taxes	33,137	39,557	248,161
Income taxes (Note 15):			
Current	9,621	12,826	72,051
Deferred	(694)	(141)	(5,197)
Profit	24,210	26,872	181,308
Profit attributable to:			
Non-controlling interests	(584)	(932)	(4,374)
Owners of parent	¥ 23,625	¥ 25,939	$ 176,927

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Year ended March 31, 2023

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	**2022**	**2023**
Profit	**¥ 24,210**	¥ 26,872	**$ 181,308**
Other comprehensive income (Note 13):			
Net unrealized holding loss on securities	**(2,794)**	(11,844)	**(20,924)**
Deferred (loss) gain on hedges	**(186)**	106	**(1,393)**
Translation adjustments	**16,852**	13,623	**126,204**
Retirement benefit liability adjustments	**(564)**	(430)	**(4,224)**
Share of other comprehensive income of affiliates accounted for by the equity method	**477**	282	**3,572**
	13,784	1,736	**103,228**
Comprehensive income	**¥ 37,994**	¥ 28,608	**$ 284,535**
Total comprehensive income attributable to:			
Owners of parent	**¥ 36,838**	¥ 26,482	**$ 275,878**
Non-controlling interests	**¥ 1,156**	¥ 2,126	**$ 8,657**

See notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

Year ended March 31, 2023

	Millions of yen											
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gain on securities	Deferred gain (loss) on hedges	Translation adjustments	Retirement benefit liability adjustments (Note 13)	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at April 1, 2021	¥ 9,699	¥ 10,646	¥ 265,920	¥ (1,503)	¥ 284,763	¥ 43,576	¥ 72	¥ 1,006	¥ 268	¥ 44,924	¥ 8,743	¥ 338,431
Profit attributable to owners of parent	–	–	25,939	–	25,939	–	–	–	–	–	–	25,939
Cash dividends	–	–	(5,876)	–	(5,876)	–	–	–	–	–	–	(5,876)
Purchases of treasury stock	–	–	–	(6,006)	(6,006)	–	–	–	–	–	–	(6,006)
Disposition of treasury stock	–	0	–	0	0	–	–	–	–	–	–	0
Retirement of treasury stock	–	(0)	(5,975)	5,975	–	–	–	–	–	–	–	–
Changes in parent's ownership interest due to transactions with non-controlling interests	–	(0)	–	–	(0)	–	–	–	–	–	–	(0)
Decrease in retained earnings resulting from changes in scope of consolidation	–	(6)	–	–	(6)	–	–	–	–	–	–	(6)
Increase in retained earnings resulting from changes in scope of equity method	–	–	7	–	7	–	–	–	–	–	–	7
Other changes	–	–	–	–	–	(11,843)	106	12,684	(430)	516	2,086	2,603
Balance at April 1, 2022	**9,699**	**10,639**	**280,015**	**(1,534)**	**298,820**	**31,732**	**178**	**13,690**	**(161)**	**45,441**	**10,830**	**355,092**
Profit attributable to owners of parent	**–**	**–**	**23,625**	**–**	**23,625**	**–**	**–**	**–**	**–**	**–**	**–**	**23,625**
Cash dividends	**–**	**–**	**(7,150)**	**–**	**(7,150)**	**–**	**–**	**–**	**–**	**–**	**–**	**(7,150)**
Purchases of treasury stock	**–**	**–**	**–**	**(5,662)**	**(5,662)**	**–**	**–**	**–**	**–**	**–**	**–**	**(5,662)**
Retirement of treasury stock	**–**	**–**	**(5,645)**	**5,645**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Changes in parent's ownership interest due to transactions with non-controlling interests	**–**	**(0)**	**–**	**–**	**(0)**	**–**	**–**	**–**	**–**	**–**	**–**	**(0)**
Decrease in retained earnings resulting from changes in scope of consolidation	**–**	**(3)**	**–**	**–**	**(3)**	**–**	**–**	**–**	**–**	**–**	**–**	**(3)**
Decrease in retained earnings resulting from changes in scope of equity method	**–**	**–**	**(330)**	**–**	**(330)**	**–**	**–**	**–**	**–**	**–**	**–**	**(330)**
Changes in accounting period of consolidated subsidiaries			**(234)**		**(234)**	**–**	**–**	**–**	**–**	**–**	**–**	**(234)**
Other changes	**–**	**–**	**–**	**–**	**–**	**(2,804)**	**(186)**	**16,723**	**(564)**	**13,169**	**(117)**	**13,051**
Balance at March 31, 2023	**¥ 9,699**	**¥ 10,636**	**¥ 290,279**	**¥ (1,550)**	**¥ 309,064**	**¥ 28,928**	**¥ (7)**	**¥ 30,414**	**¥ (726)**	**¥ 58,610**	**¥ 10,713**	**¥ 378,388**

See notes to consolidated financial statements.

	Thousands of U.S. dollars (Note 1)											
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gain on securities	Deferred gain (loss) on hedges	Translation adjustments	Retirement benefit liability adjustments (Note 13)	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at April 1, 2022	$72,635	$79,675	$2,097,019	$(11,488)	$2,237,849	$237,639	$1,333	$102,524	$(1,206)	$340,306	$81,105	$2,659,268
Profit attributable to owners of parent	–	–	176,927	–	176,927	–	–	–	–	–	–	176,927
Cash dividends	–	–	(53,546)	–	(53,546)	–	–	–	–	–	–	(53,546)
Purchases of treasury stock	–	–	–	(42,402)	(42,402)	–	–	–	–	–	–	(42,402)
Retirement of treasury stock	–	–	(42,275)	42,275	–	–	–	–	–	–	–	–
Changes in parent's ownership interest due to transactions with non-controlling interests	–	(0)	–	–	(0)	–	–	–	–	–	–	(0)
Decrease in retained earnings resulting from changes in scope of consolidation	–	(22)	–	–	(22)	–	–	–	–	–	–	(22)
Decrease in retained earnings resulting from changes in scope of equity method	–	–	(2,471)	–	(2,471)	–	–	–	–	–	–	(2,471)
Changes in accounting period of consolidated subsidiaries	–	–	(1,752)	–	(1,752)	–	–	–	–	–	–	(1,752)
Other changes	–	–	–	–	–	(20,999)	(1,393)	125,238	(4,224)	98,622	(876)	97,738
Balance at March 31, 2023	$72,635	$79,653	$2,173,886	$(11,608)	$2,314,566	$216,640	$(52)	$227,769	$(5,437)	$438,928	$80,229	$2,833,730

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Year ended March 31, 2023

	Millions of yen 2023	Millions of yen 2022	Thousands of U.S. dollars (Note 1) 2023
Operating activities:			
Profit before income taxes	**¥ 33,137**	¥ 39,557	**$ 248,161**
Adjustments to reconcile profit before income taxes to net cash provided by operating activities:			
Depreciation and amortization other than amortization of goodwill	**12,377**	11,216	**92,691**
Loss on impairment of fixed assets	**2,838**	2,974	**21,254**
Amortization of goodwill	**2,545**	2,478	**19,059**
Subsidy income	**(25)**	(75)	**(187)**
Share of (gain) loss of entities accounted for using equity method	**(318)**	1,031	**(2,381)**
Gain on change in equity	**(449)**	—	**(3,363)**
Decrease in retirement benefit liability	**(609)**	(599)	**(4,561)**
Increase in retirement benefit asset	**(55)**	(869)	**(412)**
Interest and dividend income	**(1,734)**	(1,551)	**(12,986)**
Interest expense	**3,211**	1,176	**24,047**
Exchange gain, net	**(891)**	(778)	**(6,673)**
Gain on sales of investments in securities	**(6,312)**	(7,285)	**(47,270)**
Loss on valuation of investment securities	**2,120**	1,436	**15,877**
Changes in operating assets and liabilities:			
Notes and accounts receivable	**(5,171)**	(34,234)	**(38,725)**
Inventories	**(1,275)**	(49,346)	**(9,548)**
Notes and accounts payable	**(13,584)**	20,465	**(101,730)**
Other, net	**(1,462)**	4,859	**(10,949)**
Subtotal	**24,341**	(9,544)	**182,289**
Interest and dividends received	**2,418**	1,926	**18,108**
Interest paid	**(3,058)**	(1,202)	**(22,901)**
Income taxes paid	**(14,286)**	(8,956)	**(106,987)**
Net cash provided by (used in) operating activities	**9,414**	(17,776)	**70,501**
Investing activities:			
Purchases of property, plant and equipment	**(12,029)**	(8,830)	**(90,085)**
Proceeds from sales of property, plant and equipment	**540**	326	**4,044**
Purchases of intangible fixed assets included in other assets	**(4,888)**	(1,624)	**(36,606)**
Purchases of investments in securities	**(437)**	(1,317)	**(3,273)**
Proceeds from sales of investments in securities	**7,474**	7,736	**55,972**
Proceeds from sales of investments in capital	**178**	890	**1,333**
Purchase of shares of subsidiaries resulting in change in scope of consolidation	**—**	(3,848)	**—**
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	**2,040**	587	**15,277**
Increase in short-term loans receivable included in other current assets, net	**(623)**	(83)	**(4,666)**
Decrease (increase) in time deposits, net	**337**	(137)	**2,524**
Subsidy income	**25**	75	**187**
Payments of leasehold and guarantee deposits	**—**	(1,352)	**—**
Other, net	**(650)**	(86)	**(4,868)**
Net cash used in investing activities	**(8,031)**	(7,664)	**(60,144)**
Financing activities:			
(Decrease) increase in short-term loans, net	**(11,961)**	33,325	**(89,575)**
Increase in commercial papers, net	**13,000**	17,000	**97,356**
Proceeds from long-term loans	**5,000**	1,900	**37,445**
Repayments of long-term loans	**(8,623)**	(12,039)	**(64,577)**
Proceeds from issuance of bonds	**10,000**	—	**74,890**
Redemption of bonds	**(10,000)**	—	**(74,890)**
Purchase of treasury stock	**(5,662)**	(6,006)	**(42,402)**
Cash dividends paid	**(7,150)**	(5,876)	**(53,546)**
Cash dividends paid to non-controlling interests	**(1,133)**	(543)	**(8,485)**
Other, net	**(716)**	(477)	**(5,362)**
Net cash (used in) provided by financing activities	**(17,247)**	27,282	**(129,162)**
Effects of exchange rate changes on cash and cash equivalents	**3,064**	2,942	**22,946**
Net (decrease) increase in cash and cash equivalents	**(12,800)**	4,783	**(95,859)**
Cash and cash equivalents at beginning of the year	**53,336**	48,553	**399,431**
Decrease in cash and cash equivalents resulting from changes in fiscal year-end of consolidated subsidiaries	**(204)**	—	**(1,528)**
Cash and cash equivalents at end of the year (Note 24)	**¥ 40,331**	¥ 53,336	**$ 302,037**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Year ended March 31, 2023

1. BASIS OF PREPARATION

The accompanying consolidated financial statements of NAGASE & CO., LTD. (the "Company") and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a format which is more familiar to readers outside Japan.

Certain amounts in the prior year's consolidated financial statements have been reclassified to conform to the current year's presentation. Such reclassifications had no effect on consolidated profit or net assets.

The U.S. dollar amounts in the accompanying consolidated financial statements have been translated from yen amounts solely for the convenience of the reader, as a matter of arithmetic computation only, at ¥133.53 = U.S.$1.00, the rate of exchange prevailing on March 31, 2023. This translation should not be construed as a representation that the yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

As permitted by the Financial Instruments and Exchange Act of Japan, amounts of less than one million yen have been omitted. Consequently, the totals shown in the accompanying consolidated financial statements (both in yen and in U.S. dollars) do not necessarily agree with the sum of the individual amounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and companies that it controls directly or indirectly. Affiliates over which the Company exercises significant influence in terms of their operating and financial policies have been accounted for by the equity method. All significant intercompany balances and transactions have been eliminated in consolidation.

Certain subsidiaries were excluded from the scope of consolidation because the effect of their sales, net profit or loss, total assets and retained earnings on the accompanying consolidated financial statements was immaterial. The unconsolidated subsidiaries and affiliates not accounted for by the entity method were excluded from the scope of application of the equity method, because their profit or loss and retained earnings attributable to the Company's interest were not material to the consolidated financial statements.

Of the Company's subsidiaries, 33 have a December 31 year end, which is different from that of the Company. The financial statements of 11 subsidiaries have been included in consolidation based on a provisional statement of accounts for a full fiscal year ending March 31. As for the other 22 subsidiaries, adjustments have been made for any significant intercompany transactions that took place during the period between the year end of these subsidiaries and the year end of the Company.

Interfacial Consultants LLC and Infinite Material Solutions, LLC whose fiscal year-end date used to be December 31 had been consolidated as of each of their year-end date and necessary adjustments had been made for major transactions that occurred between the companies' fiscal year-end date and the consolidated closing date. From the current fiscal year, their fiscal-year end date was changed to March 31. With this change in the accounting period, a 12-month period from April 1, 2022 to March 31, 2023 was consolidated for the current fiscal year. Income during the period from January 1, 2022 to March 31, 2022 of those consolidated subsidiaries has been recognized as a change in retained earnings.

Unrealized intercompany gains among the Company and the consolidated subsidiaries have been entirely eliminated and the portion attributable to non-controlling interests has been charged to non-controlling interests.

(b) Foreign Currency Translation

All monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date, except that receivables and payables hedged by qualified foreign currency forward exchange contracts are translated at the corresponding contract rates. All other assets and liabilities denominated in foreign currencies are translated at their historical rates. Gain or loss on each translation is credited or charged to income.

Revenue and expense items arising from transactions denominated in foreign currencies are generally translated into yen at the rates in effect at the respective transaction dates. Foreign exchange gain or loss is credited or charged to income in the period in which such gain or loss is recognized for financial reporting purposes.

The balance sheet accounts of the overseas consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date, except that the components of net assets excluding non-controlling interests, net unrealized holding gain on securities, and deferred gain or loss on hedges are translated at their historical exchange rates. Revenue and expense accounts are translated at the average rates of exchange in effect during the year. Adjustments resulting from translating financial statements whose accounts are denominated in foreign currencies are not included in the determination of profit but are reported as "Translation adjustments" as a component of accumulated other comprehensive income or loss in the accompanying consolidated balance sheets.

(c) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments which are readily convertible to cash and subject to an insignificant risk of any change in their value, which were purchased with an original maturity of three months or less.

(d) Inventories

Inventories are stated at the lower of cost or the net selling value, cost being determined primarily by the moving-average method.

(e) Investments in Securities

Securities are classified into three categories: trading securities, held-to-maturity debt securities or other securities. Trading securities, consisting of debt and marketable equity securities, are stated at fair value. Gain and loss, both realized and unrealized, are credited or charged to income. Held-to-maturity debt securities are stated at their amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of accumulated other comprehensive income or loss. Non-marketable securities classified as other securities are carried at cost determined by the moving-average method.

(f) Property, Plant and Equipment and Depreciation (except for leased assets)

Property, plant and equipment are stated at cost.

Depreciation of property, plant and equipment is calculated by the straight-line method based on the estimated useful lives of the respective assets.

The estimated useful lives of the principal assets are as follows:

Buildings (other than structures attached to the buildings)	15 to 50 years
Machinery and equipment	2 to 20 years

(g) Intangible Assets (except for leased assets)

Technology-based assets recognized upon acquisition are amortized on a straight-line basis over 13 to 17 years.

Costs incurred for computer software obtained for internal use are capitalized and amortized on a straight-line basis over an estimated useful life of 5 years.

(h) Goodwill

Goodwill is amortized over a period not exceeding 20 years on a straight-line basis. When immaterial, goodwill is charged to income as incurred.

(i) Leased Assets

Leased assets under finance lease contracts which do not transfer ownership to the lessee are depreciated to a residual value of zero by the straight-line method over the respective lease terms.

(j) Allowance for Doubtful Accounts

The Company and its consolidated subsidiaries provide allowances for doubtful accounts based on their historical experience of bad debts on ordinary receivables plus an additional estimate of probable specific doubtful accounts from customers experiencing financial difficulties.

(k) Income Taxes

Income taxes are calculated based on taxable income and charged to income on an accrual basis. Deferred tax assets and liabilities are computed based on the temporary differences between the financial reporting and the tax bases of the assets and liabilities that will result in taxable or deductible amounts in the future. Computations of deferred tax assets and liabilities are based on the tax rates which have been enacted as of the balance sheet date. The Company and certain subsidiaries shifted to the stand-alone taxation system in the current fiscal year in conjunction with the abolishment of the consolidated taxation system.

(l) Accrued Bonuses for Employees

Accrued bonuses for employees are provided based on the estimated amount of bonuses to be paid to employees in the following fiscal year which is attributable to the current fiscal year.

(m) Accrued Bonuses for Directors and Executive Officers

Accrued bonuses for directors and executive officers are provided based on the estimated amount of bonuses to be paid to directors and executive officers in the following fiscal year which is attributable to the current fiscal year.

(n) Provision for Directors' Stock Benefit

In order to provide for the payment of shares, etc. of the Company to Directors (excluding Outside Directors) and executive officers, the estimated amount of stock-based compensation payable in accordance with the Stock-Grant Rules for Directors (internal rules) is recorded.

(o) Retirement Benefit Liability

Retirement benefit liability is provided based on the amount of the retirement benefit obligation less estimated pension plan assets at the end of the fiscal year. The estimated benefit is attributed to each period based on the plan's benefit formula.

Prior service cost is charged to income in the fiscal year in which such cost is recognized for financial reporting purposes. Actuarial differences are principally credited or charged to income in the fiscal year following the fiscal year in which such differences are recognized for financial reporting purposes.

(p) Accounting for Significant Revenues and Expenses

The following is a description of the principal performance obligations of the Company and its consolidated subsidiaries' principal businesses relating to revenue from contracts with customers and the usual timing at which point such performance obligations are satisfied (the usual time at which revenue is recognized).

Sales of merchandise and products are classified based on the reportable segments and revenue is recognized primarily at the time the merchandise and products are delivered to the customer, since the risks and economic value of ownership of the products are transferred and the right to receive payment is established at that time. In addition, the Group may act as an agent in certain transactions. The consideration from the customer is received primarily within one year of satisfying the performance obligation and does not include a significant financing component.

When the Group is acting as a principal in a transaction, revenue is recognized at the gross amount of consideration received from the customer, and when the Group is acting as an agent for a third party, revenue is presented in a net amount of fees received, which is the gross amount of consideration received from the customer less the amount collected for the third party.

(q) Derivatives and Hedging Activities

Derivatives positions are carried at fair value with any changes in unrealized gain or loss charged or credited to income, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss is deferred as a component of net assets. Foreign currency receivables and payables hedged by qualified foreign currency forward exchange contracts are translated at the corresponding foreign exchange contract rates ("allocation method"). Interest-rate swaps which meet certain conditions are accounted for as if the interest rates applied to the swaps had originally applied to the underlying loans.

Derivative financial instruments are utilized principally in order to manage the risk arising from adverse fluctuation in foreign currency exchange rates and interest-rate swaps are also utilized to mitigate the risk of fluctuation in interest rates on loans. Hedging instruments are foreign currency forward exchange contracts, foreign currency deposits, foreign currency loans and interest-rate swaps. Hedged items are foreign currency receivables and payables, forecast transactions and interest rates on loans from financial institutions.

The Company and its consolidated subsidiaries (collectively, the "Group") manage derivative transactions in accordance with internal management rules. Under these rules, the Group conducts foreign currency forward exchange contracts within a range of actual demand of accounts receivable, accounts payable and actual transactions in foreign currencies. Execution and management of interest-rate swaps are based on internal management rules and hedged items of interest-rate swaps are identified by individual contracts.

The Company and certain consolidated subsidiaries assess the effectiveness of the hedging activities based on a comparison of the accumulated fluctuations of the hedged items and those of the hedging instruments in the period from the start of the hedging activities to the assessment date. However, with regard to interest-rate swaps which meet certain conditions, the evaluation of effectiveness is omitted.

(r) Research and Development Costs

Research and development costs are charged to income when incurred.

(s) Distributions of Retained Earnings

Dividends and other distributions of retained earnings are approved by the shareholders at a meeting held subsequent to the end of the fiscal year to which such distributions are applicable. The accompanying consolidated financial statements do not, however, reflect the applicable distributions of retained earnings as approved by the shareholders subsequent to the fiscal year end. (Refer to Note 28(a).)

3. ACCOUNTING CHANGES

(a) Application of Accounting Standard for Fair Value Measurement

As of the beginning of the current fiscal year, the Company has adopted Implementation Guidance on Accounting Standard for Fair Value Measurement (Accounting Standards Board of Japan ("ASBJ") Guidance No. 31, June 17, 2021). In accordance with the transitional treatment prescribed in Paragraph 27-2 of ASBJ Guidance No.31, new accounting policies prescribed by the guidance have been adopted prospectively. This change in accounting treatment has no effect on the consolidated financial statements.

(b) Application of FASB Accounting Standards Codification ("ASC") 842, "Leases"

Certain foreign consolidated subsidiaries that adopted U.S. GAAP apply ASC 842, Leases, beginning with the current fiscal year. As a result, these subsidiaries, as lessees, generally recognize all leases as assets and liabilities on their balance sheets.

In applying this accounting standard, the subsidiaries recognized the cumulative effect as of the date of adoption, which is permitted under the transitional provisions.

As a result, Other assets under Non-current assets, Current portion of long-term loans and lease obligations in Current liabilities, and Long-term loans and lease obligations under Long-term liabilities increased ¥8,206 million, ¥1,391 million and ¥7,875 million, respectively, as of the end of the current fiscal year. The impact of this accounting treatment on operating income, profit before income taxes, and profit for the current fiscal year is immaterial.

4. SIGNIFICANT ACCOUNTING ESTIMATES

Assessment of impairment of property, plant and equipment and intangible fixed assets

(a) Amounts recorded in the consolidated financial statements as of March 31, 2023 and 2022, and for the years then ended are as follows.

	Millions of yen		Thousands of U.S. dollars
	2023	**2022**	**2023**
Property, plant and equipment	**¥ 82,064**	¥ 72,554	**$ 614,574**
Intangible fixed assets	**68,928**	65,070	**516,199**
Impairment losses	**2,838**	2,974	**21,254**

(b) Information about significant accounting estimates pertaining to identified items

(i) Method of calculation

Non-current assets are grouped into the smallest units that generate cash flows, and are measured for impairment if any indication of impairment exists and, if so, whether an impairment loss should be recognized.

For the grouping of non-current assets, idle assets are grouped individually, and business assets are grouped mainly by company or plant. Goodwill is principally allocated to larger unit that includes related business-use assets.

Undiscounted future cash flows used to determine whether impairment losses need to be recognized are calculated in consideration of main assets' economic useful lives, etc., based on future business plans.

Impairment losses are measured by calculating the recoverable amount of the relevant asset or asset group as the higher of net selling value or the value in use, and the difference between the book value and the recoverable amount is recorded as an impairment loss for the current fiscal year. The discount rate used for the calculation of the value in use is basically determined using the time value of money taking into account the risk related to the business.

(ii) Key assumptions used in the calculation

The key assumptions are the projected sales and costs of sales included in future business plans, and the discount rate used to calculate the value in use.

(iii) Effects on consolidated financial statements for the next fiscal year

If the actual profit or loss of each asset or asset group falls below the business plan, or if there is a significant change in the assumptions on which future business plans are based, the recoverable amount may fall below the book value and an impairment loss may be recognized in the next fiscal year.

5. CHANGE IN PRESENTATION

As a result of our adoption of ASC842, certain subsidiaries generally recognize all leases as assets and liabilities on their balance sheets. Therefore, "Long-term loans and finance lease obligations" presented in the previous fiscal year has been changed to "Long-term loans and lease obligations" from the current fiscal year in line with the new accounting treatment.

6. ADDITIONAL INFORMATION

Stock-Based Compensation Plan

Effective from the current fiscal year, the Company has adopted a stock-based compensation plan (the "Plan") for directors (excluding outside directors) and executive officers (collectively, "Eligible Individuals"). The purpose of the Plan is to establish a clear link between compensation for the Eligible Individuals and the Company's performance and share value, as well as for the Eligible Individuals to share the benefits and risks associated with fluctuations in the share price with NAGASE shareholders. In this way, the NAGASE Group intends to raise awareness about contributing to improvement of business performance and increase in corporate value over the medium to long term.

(i) Overview

The Plan is a stock-based compensation plan under which a trust (the "Trust") established by monetary contribution from the Company acquires Company shares. The Company grants points to each Eligible Individual, and the Trust delivers the number of Company shares equivalent to the points earned by each Eligible Individual. In principle, the delivery is made at the time of the retirement of Eligible Individual.

(ii) Company shares remaining in the Trust
Company shares remaining in the Trust are recorded as treasury stock under net assets in the consolidated balance sheet based on the carrying value in the Trust (excluding-related expenses). The carrying value of treasury stock as of the end of the current fiscal year was ¥619 million and the corresponding number of shares of treasury stock amounted to 292,200 shares.

7. INVENTORIES

Inventories at March 31, 2023 and 2022 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Merchandise and finished goods	**¥ 152,504**	¥ 142,590	**$ 1,142,095**
Work in process	**2,446**	2,401	**18,318**
Raw materials and supplies	**14,770**	12,533	**110,612**
Total	**¥ 169,721**	¥ 157,525	**$ 1,271,033**

8. LOSS ON DEVALUATION OF INVENTORIES INCLUDED IN COST OF SALES

The balance of inventories at the end of the year is the amount after writing down book values due to decline in profitability and following loss on devaluation of inventories is included in cost of sales for the year ended March 31, 2023 and 2022:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Loss on devaluation of inventories included in cost of sales	**¥ 2,010**	¥ 622	**$ 15,053**

9. REDUCTIONS IN ACQUISITION COSTS DUE TO SUBSIDIES

The amounts of subsidies received from the Japanese national government and deducted from the acquisition costs of property, plant and equipment at March 31, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Buildings and structures	**¥ 403**	¥ 433	**$ 3,018**
Machinery, equipment and vehicles	**730**	774	**5,467**
Land	**190**	190	**1,423**
Total	**¥ 1,324**	¥ 1,398	**$ 9,915**

10. LOSS ON IMPAIRMENT OF FIXED ASSETS

Loss on impairment of fixed assets for the years ended March 31, 2023 and 2022 was as follows:

Major use	Classification	Area	Millions of yen 2023	Thousands of U.S. dollars 2023
Business-use assets for product and manufacturing process development in the resin field	Machinery, equipment and vehicles, Leased assets and other assets included in Investments and other assets	Wisconsin, USA	**¥ 2,285**	**$ 17,112**
Business-use assets for development and manufacturing of water-soluble support materials for 3D printing	Machinery, equipment and vehicles and other assets included in Investments and other assets	Wisconsin, USA	**539**	**4,037**
Idle assets	Buildings and structures, and Land	Kanto	**12**	**90**
Total			**¥ 2,838**	**$ 21,254**

Major use	Classification	Area	Millions of yen 2022
Goodwill, business-use assets for product and manufacturing process development in the resin field	Goodwill, machinery, equipment and vehicles, and other	Wisconsin, USA	¥ 2,911
Goodwill related to water soluble support materials for 3D printing production and development business	Goodwill	Wisconsin, USA	63
Total			¥ 2,974

The Company and its consolidated subsidiaries group fixed assets for business use principally based on business management segments. Fixed assets to be disposed of and idle assets are grouped individually as the smallest cash-generating units.

For the year ended March 31, 2022, the book value was reduced to the recoverable amount because the Company no longer expects to generate the initially anticipated earnings.

The recoverable amounts were measured at the net selling value or the value in use. Net selling value is based on the assessed value for property tax purposes or the appraised value of real estate. Goodwill related to the product and manufacturing process development business in the resin segment was measured based in the value in use.

The future cash flows are discounted at a rate of 19.0%.

For the year ended March 31, 2023, the book values of certain fixed assets for business-use were reduced to their recoverable amounts, because the future cash flows fell below the book value as a result of reviewing the future business plans. As for idle assets, due to a declining fair value, the carrying values were reduced to their recoverable amounts.

The recoverable amounts were measured at the net selling value or the value in use. Net selling value is based on the assessed value for property tax purposes or the appraised value of real estate. The recoverable amounts for business-use assets were measured at the net selling value.

11. INVESTMENTS IN SECURITIES

(a) Marketable securities classified as other securities at March 31, 2023 and 2022 are summarized as follows:

	Millions of yen					
	2023			2022		
	Carrying value	Acquisition costs	Unrealized gain (loss)	Carrying value	Acquisition costs	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:						
Equity securities	**¥ 53,460**	**¥ 12,004**	**¥ 41,456**	¥ 57,951	¥ 13,108	¥ 44,842
Securities whose carrying value does not exceed their acquisition costs:						
Equity securities	**2,389**	**3,056**	**(667)**	2,560	2,810	(249)
Total	**¥ 55,849**	**¥ 15,061**	**¥ 40,788**	¥ 60,511	¥ 15,918	¥ 44,592

	Thousands of U.S. dollars		
	2023		
	Carrying value	Acquisition costs	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	**$ 400,359**	**$ 89,897**	**$ 310,462**
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	**17,891**	**22,886**	**(4,995)**
Total	**$ 418,251**	**$ 112,791**	**$ 305,459**

"Acquisition costs" in the above table represent the carrying value after recognizing impairment losses.

(b) Securities classified as other securities whose market value is not available and not included in the table (a) at March 31, 2023 and 2022 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
	Carrying value	Carrying value	Carrying value
Market value not available:			
Unlisted equity securities	**¥ 4,552**	¥ 6,071	**$ 34,090**
Total	**¥ 4,552**	¥ 6,071	**$ 34,090**

(c) Proceeds from sales of, and gross realized gain and loss on, other securities for the years ended March 31, 2023 and 2022 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Proceeds from sales	**¥ 7,448**	¥ 7,736	**$ 55,778**
Gain on sales	**6,584**	7,037	**49,307**
Loss on sales	**7**	6	**52**

(d) A breakdown of loss on devaluation of investments in securities for the years ended March 31, 2023 and 2022 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Loss on devaluation of investments in securities (*)			
Securities classified as other securities	¥ 2,028	¥ 1,436	$ 15,188
Other investments in capital	81	—	607
Investments in capital of subsidiaries and affiliates	10	—	75
Total loss on devaluation of investments in securities	¥ 2,120	¥ 1,436	$ 15,877

(*) Loss on devaluation of investments in securities is recorded on securities with market value whose market value at the end of the fiscal year has declined by 50% or more from its acquisition cost, or whose market value has declined by 30% or more but less than 50% based on the amount deemed unrecoverable.

In addition, loss on devaluation of investments in securities is recorded on securities whose market value is not available by writing down the carrying value to fair value when the decline in fair value is deemed to be unrecoverable considering the financial position of the issuers, etc., of the securities.

12. SHORT-TERM LOANS, BONDS, LONG-TERM LOANS, COMMERCIAL PAPERS AND LEASE OBLIGATIONS

Short-term loans at March 31, 2023 and 2022 principally represented loans and commercial papers in the form of deeds at weighted-average annual interest rates of 5.06% and 1.14% per annum, respectively.

Long-term loans, bonds and lease obligations at March 31, 2023 and 2022 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Unsecured loans from banks and insurance companies, payable in Yen, U.S. dollars, and Euros due through 2032, at rates from 0.18% to 5.50%	¥ 33,754	¥ 36,997	$ 252,782
Unsecured bonds in Yen, due 2022, at a rate of 0.539%	—	10,000	—
Unsecured bonds in Yen, due 2024, at a rate of 0.150%	10,000	10,000	74,890
Unsecured bonds in Yen, due 2029, at a rate of 0.290%	10,000	10,000	74,890
Unsecured bonds in Yen, due 2032, at a rate of 0.640%	10,000	—	74,890
Lease obligations	11,826	1,411	88,564
	75,580	68,408	566,015
Less current portion	(3,120)	(19,152)	(23,366)
Total	¥ 72,460	¥ 49,256	$ 542,650

The aggregate annual maturities of bonds, long-term loans and lease obligations subsequent to March 31, 2023 are summarized as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2024	¥ 3,120	$ 23,366
2025	19,053	142,687
2026	6,982	52,288
2027	16,307	122,122
2028	6,185	46,319
2029 and thereafter	23,932	179,226
Total	¥ 75,580	$ 566,015

In order to achieve more efficient and flexible financing, the Company has concluded line-of-credit agreements with certain financial institutions. The status of these lines of credit at March 31, 2023 and 2022 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Lines of credit	**¥ 20,000**	¥ 20,000	**$ 149,779**
Credit utilized	**—**	—	**—**

13. OTHER COMPREHENSIVE INCOME

Reclassification adjustments and tax effects allocated to each component of other comprehensive income for the years ended March 31, 2023 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Net unrealized holding loss on securities:			
Amount arising during the year	**¥ 2,840**	¥ (10,058)	**$ 21,269**
Reclassification adjustments for gains and losses realized in the statement of income	**(6,671)**	(6,800)	**(49,959)**
Amount before tax effect	**(3,830)**	(16,858)	**(28,683)**
Tax effect	**1,036**	5,013	**7,759**
Net unrealized holding loss on securities	**(2,794)**	(11,844)	**(20,924)**
Deferred (loss) gain on hedges:			
Amount arising during the year	**(460)**	125	**(3,445)**
Reclassification adjustments for gains and losses realized in the statement of income	**192**	27	**1,438**
Amount before tax effect	**(268)**	152	**(2,007)**
Tax effect	**82**	(46)	**614**
Deferred (loss) gain on hedges	**(186)**	106	**(1,393)**
Translation adjustments:			
Amount arising during the year	**16,852**	13,623	**126,204**
Reclassification adjustments for gains and losses realized in the statement of income	**—**	—	**—**
Amount before tax effect	**16,852**	13,623	**126,204**
Tax effect	**—**	—	**—**
Translation adjustments	**16,852**	13,623	**126,204**
Retirement benefit liability adjustments:			
Amount arising during the year	**(1,042)**	(218)	**(7,803)**
Reclassification adjustments for gains and losses realized in the statement of income	**229**	(396)	**1,715**
Amount before tax effect	**(813)**	(614)	**(6,089)**
Tax effect	**248**	184	**1,857**
Retirement benefit liability adjustments	**(564)**	(430)	**(4,224)**
Share of other comprehensive income of affiliates accounted for by the equity method:			
Amount arising during the year	**477**	282	**3,572**
Total other comprehensive income	**¥ 13,784**	¥ 1,736	**$ 103,228**

14. RETIREMENT BENEFIT PLANS

(a) Outline of retirement benefit plans for employees

The Company and its domestic consolidated subsidiaries have defined benefit plans, i.e., defined benefit pension plans and lump-sum payment plans. Certain overseas consolidated subsidiaries also have defined benefit plans. Also, the Company and certain consolidated subsidiaries have defined contribution pension plans. In addition to the retirement benefit plans described above, the Company and its consolidated subsidiaries pay additional retirement benefits under certain conditions.

(b) Defined benefit plans

The changes in the retirement benefit obligation for the years ended March 31, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Balance at the beginning of the year	**¥ 34,218**	¥ 34,457	**$ 256,257**
Service cost	**1,272**	1,299	**9,526**
Interest cost	**232**	257	**1,737**
Actuarial differences	**45**	20	**337**
Retirement benefits paid	**(1,743)**	(1,750)	**(13,053)**
Changes in scope of consolidation	**(262)**	(94)	**(1,962)**
Other	**23**	28	**172**
Balance at the end of the year	**¥ 33,786**	¥ 34,218	**$ 253,022**

The changes in plan assets for the years ended March 31, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Balance at the beginning of the year	**¥ 24,119**	¥ 24,093	**$ 180,626**
Expected return on plan assets	**502**	484	**3,759**
Actuarial differences	**(989)**	(198)	**(7,407)**
Contributions by the Company and its consolidated subsidiaries	**595**	761	**4,456**
Retirement benefits paid	**(1,001)**	(1,043)	**(7,496)**
Other	**8**	21	**60**
Balance at the end of the year	**¥ 23,234**	¥ 24,119	**$ 173,998**

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets as of March 31, 2023 and 2022 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Funded retirement benefit obligation	**¥ 21,168**	¥ 21,481	**$ 158,526**
Plan assets at fair value	**(23,234)**	(24,119)	**(173,998)**
	(2,065)	(2,637)	**(15,465)**
Unfunded retirement benefit obligation	**12,618**	12,736	**94,496**
Net retirement benefit liability in the balance sheet	**10,552**	10,098	**79,023**
Retirement benefit liability	**13,197**	13,238	**98,832**
Retirement benefit asset	**(2,645)**	(3,139)	**(19,808)**
Net retirement benefit liability in the balance sheet	**¥ 10,552**	¥ 10,098	**$ 79,023**

The components of retirement benefit expenses for the years ended March 31, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Service cost	¥ 1,272	¥ 1,299	$ 9,526
Interest cost	232	257	1,737
Expected return on plan assets	(502)	(484)	(3,759)
Amortization of actuarial differences	229	(396)	1,715
Retirement benefit expense	¥ 1,232	¥ 676	$ 9,226

Actuarial differences included in other comprehensive income (loss) (before tax effect) for the years ended March 31, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Actuarial differences	¥ (813)	¥ (614)	$ (6,089)

Unrecognized actuarial differences included in accumulated other comprehensive income (before tax effect) as of March 31, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Unrecognized actuarial differences	¥ (1,032)	¥ (218)	$ (7,729)

The allocation of plan assets, by major category, as a percentage of total plan assets at fair value as of March 31, 2023 and 2022 is as follows:

	2023	2022
Bonds	64%	59%
Equity securities	18	23
Alternative investments (*)	17	16
Other	1	2
Total	100%	100%

(*) "Alternative investments" consist of insurance-linked securities and private REITs.

The expected long-term rate of return on plan assets is determined as a result of consideration of both the portfolio allocation at present and in the future, and expected long-term rate of return from multiple plan assets at present and in the future.

The assumptions used in accounting for the above plans were as follows:

	2023	2022
Discount rate	0.7%	0.8%
Expected long-term rate of return on plan assets	2.0%	2.0%

(c) Defined contribution plans

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Contributions to defined contribution plans by the Company and its consolidated subsidiaries	¥ 740	¥ 592	$ 5,549

15. INCOME TAXES

Income taxes applicable to the Company and its domestic consolidated subsidiaries consist of corporation, inhabitants' and enterprise taxes, which, in the aggregate, resulted in statutory tax rates of approximately 30.6% for the years ended March 31, 2023 and 2022.

The effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2023 and 2022 differ from the statutory tax rates for the following reasons:

	2023	2022
Statutory tax rates	**30.6%**	30.6%
Adjustments for:		
Expenses not deductible for income tax purposes	**2.0**	1.7
Dividends and other income deductible for income tax purposes	**(8.4)**	(5.5)
Net adjustment resulting from elimination of dividend income upon consolidation	**9.6**	5.5
Different tax rates applied at overseas subsidiaries	**(4.1)**	(3.8)
Tax credit	**(2.7)**	(1.1)
Amortization of goodwill	**2.4**	1.9
Loss on impairment of goodwill	**—**	0.8
Adjustment of book value of shares of subsidiaries for consolidated taxation system	**0.5**	(0.1)
Equity in losses (gains) of affiliates	**(0.3)**	0.8
Valuation allowance	**(3.2)**	0.8
Other, net	**0.6**	0.5
Effective tax rates	**26.9%**	32.1%

The significant components of the Company's and its consolidated subsidiaries' deferred tax assets and liabilities at March 31, 2023 and 2022 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Deferred tax assets:			
Accrued bonuses for employees	**¥ 1,680**	¥ 1,888	**$ 12,581**
Allowance for doubtful accounts	**119**	110	**891**
Unrealized gain on inventories	**717**	728	**5,370**
Accrued enterprise taxes	**145**	345	**1,086**
Tax loss carryforwards	**2,441**	3,034	**18,281**
Retirement benefit liability	**3,161**	3,018	**23,673**
Investments in securities	**3,428**	2,298	**25,672**
Loss on impairment of fixed assets	**672**	941	**5,033**
Other	**6,807**	3,731	**50,977**
Gross deferred tax assets	**19,174**	16,098	**143,593**
Valuation allowance	**(6,691)**	(6,370)	**(50,109)**
Total deferred tax assets	**12,482**	9,727	**93,477**
Deferred tax liabilities:			
Technology-based assets	**(1,321)**	(1,801)	**(9,893)**
Deferred capital gain on property	**(936)**	(1,055)	**(7,010)**
Reserve for special depreciation	**(49)**	(99)	**(367)**
Undistributed earnings of subsidiaries and affiliates	**(373)**	(406)	**(2,793)**
Revaluation of land	**(292)**	(291)	**(2,187)**
Net unrealized holding gain on securities	**(12,214)**	(13,276)	**(91,470)**
Other	**(3,798)**	(1,534)	**(28,443)**
Total deferred tax liabilities	**(18,985)**	(18,464)	**(142,178)**
Net deferred tax liabilities	**¥ (6,503)**	¥ (8,737)	**$ (48,701)**

16. REVENUE RECOGNITION

(a) Information on disaggregation of revenue from contracts with customers

Information on disaggregation of revenue from contracts with customers is presented in the Segment Information. (Refer to Note 26.)

(b) Information that forms the basis for understanding revenues from contracts with customers

The information that forms the basis for understanding revenues is presented in the Summary of significant accounting policies. (Refer to Note 2(p).)

(c) Information about the relationship between the fulfillment of performance obligations based on the contract with the customer and the cash flow generated from the contract, and the amount and recognition timing of revenue from the contract with the customer existing at the end of the current fiscal year expected to be recognized in the following fiscal year

(i) Contract balances

The following is a breakdown of contract balances of the Company and its consolidated subsidiaries for the current fiscal year. In the consolidated balance sheets, receivables from contracts with customers are included in "Notes and accounts receivable" and contract liabilities are included in "Other current liabilities." At the end of the previous fiscal year and the end of the current fiscal year, the beginning balance of contract liabilities were transferred to revenue by the end of the fiscal year, and the amount carried forward from the next fiscal year onward is not significant.

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Receivables from contracts with customers	**¥ 302,105**	¥ 289,862	**$ 2,262,450**
Contract liabilities	**4,822**	3,789	**36,112**

As of March 31, 2023, Accounts receivable and Notes receivable from contracts with customers included in the table above are ¥261,375 million ($1,957,425 thousand) and ¥40,730 million ($305,025 thousand), respectively.

(ii) Transaction price allocated to remaining performance obligations

Since there are no transactions with individual expected contract terms exceeding one year, the practical expedient method is applied and information on remaining performance obligations is omitted. There is no material consideration with respect to contracts with customers that is not included in the transaction price.

17. SHAREHOLDERS' EQUITY

The Corporation Law of Japan (the "Law") provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account.

Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

The Company's capital reserve included in capital surplus at March 31, 2023 amounted to ¥9,634 million ($72,149 thousand). In addition, the Company's legal reserve included in retained earnings at March 31, 2023 amounted to ¥2,424 million ($18,153 thousand).

Under the Law, upon the issuance and sale of new shares of common stock, the entire amount of the proceeds is required to be accounted for as common stock, although a company may, by resolution of the Board of Directors, account for an amount not exceeding 50% of the proceeds of the sale of new shares as additional paid-in capital.

Movements in common stock during the years ended March 31, 2023 and 2022 are summarized as follows:

	Number of shares			
	2023			
	April 1, 2022	Increase	Decrease	March 31, 2023
Common stock	**120,908,285**	**—**	**3,000,000**	**117,908,285**

	2022			
	April 1, 2021	Increase	Decrease	March 31, 2022
Common stock	124,408,285	—	3,500,000	120,908,285

18. TREASURY STOCK

Movements in treasury stock during the years ended March 31, 2023 and 2022 are summarized as follows:

	Number of shares			
	2023			
	April 1, 2022	Increase	Decrease	March 31, 2023
Treasury stock	**881,767**	**2,904,951**	**3,000,000**	**786,718**
	2022			
	April 1, 2021	Increase	Decrease	March 31, 2022
Treasury stock	933,995	3,447,833	3,500,061	881,767

(*) Treasury stock at the end of the current fiscal year does include 292,200 shares of the Company's shares held by the Stock-Granting Trust for Directors

The increase in treasury stock includes 2,612,300 shares resulting from the purchases of treasury stock by resolution of the Board of Directors, 292,200 shares resulting from the purchases of treasury stock by the Stock-Granting Trust for Directors and 451 shares resulting from the purchase of shares less than one voting unit for the year ended March 31, 2023. The decrease in treasury stock includes 3,000,000 shares resulting from the retirement of treasury stock by resolution of the Board of Directors for the year ended March 31, 2023.

The increase in treasury stock includes 3,447,500 shares resulting from the purchases of treasury stock by resolution of the Board of Directors and 333 shares resulting from the purchase of shares less than one voting unit for the year ended March 31, 2022. The decrease in treasury stock includes 3,500,000 shares resulting from the retirement of treasury stock by resolution of the Board of Directors and 61 shares resulting from the disposition of shares less than one voting unit for the year ended March 31, 2022.

19. FINANCIAL INSTRUMENTS

(a) Policy for financial instruments

With regard to the Group's financing policy, short-term working funds are raised by bank borrowings or issuance of commercial papers and long-term funds are raised by bank borrowings and the issuance of bonds. The policy for derivative transactions is that those are utilized to mitigate the fluctuation risk related to foreign currency exchange rates arising from the receivables and payables denominated in foreign currencies, and fluctuation risk related to interest rates with respect to loans payable, and derivative transactions are not carried out for speculative purposes.

(b) Types of financial instruments, related risk and risk management for financial instruments

Receivables such as trade notes and accounts receivable are exposed to customers' credit risks. With regard to this risk, the Group manages the settlement date by each customer, and establishes credit limits by each customer based on the Group's internal credit rating policy and monitors outstanding balances. The Group establishes system under which the credit status by each customer is reviewed at least once a year and the sales limit amount updated as necessary.

In the cases of notes and accounts receivable or payable denominated in foreign currencies, foreign currency forward exchange contracts are used to hedge the risk of fluctuation. However, for foreign currency transactions denominated in the same currency involving either payables or receivables, foreign currency forward exchange contracts are used solely for the netted position.

Investments in securities are subject to market price fluctuation risk. However, these are mainly equity securities of other companies with which the Group has business relationships. The Group regularly monitors both their fair value and the financial condition of the issuer. The Group also reviews as needed the condition of its holdings with concern to the status of business and financial transactions.

Short-term loans are raised primarily in connection with business activities. Long-term loans and bonds are taken out principally for the purpose of making capital spending, investments and financing. Loans with variable interest rates are subject to the risk of fluctuating interest rates. However, to reduce such risk, the Group utilizes derivatives (interest-rate swap transactions) as a hedging instrument.

Derivatives include foreign currency forward exchange contracts to manage fluctuation risk in foreign currency exchange rates and interest-rate swaps to manage fluctuation risk of interest rates related to the interest payments for bank loans.

In addition, notes and accounts payable and bank loans are exposed to liquidity risk. However, the Group manages such risk by monitoring the balance of inflow and outflow of cash and establishing liquidity on hand in excess of half of the amount of monthly net sales.

(c) Fair value of financial instruments

The carrying value of financial instruments on the consolidated balance sheets, fair value and the differences as of March 31, 2023 and 2022, are shown in the following table. Financial instruments for which fair value is deemed extremely difficult to determine are not included.

	Millions of yen		
	2023		
	Carrying value	Fair value	Difference
Assets			
Notes and accounts receivable	**¥ 302,105**	**¥ 302,105**	**¥ —**
Investments in securities (*2)			
Other securities	**55,849**	**55,849**	**—**
Total assets	**¥ 357,955**	**¥ 357,955**	**¥ —**
Liabilities			
Notes and accounts payable	**¥ 140,438**	**¥ 140,438**	**¥ —**
Bonds	**30,000**	**29,580**	**(420)**
Long-term loans	**32,697**	**32,286**	**(410)**
Total liabilities	**¥ 203,135**	**¥ 202,304**	**¥ (830)**
Derivatives (*3)			
Not subject to hedge accounting	**¥ (405)**	**¥ (405)**	**¥ —**
Subject to hedge accounting	**(11)**	**(11)**	**—**
Total derivative transactions	**¥ (416)**	**¥ (416)**	**¥ —**

	Millions of yen		
	2022		
	Carrying value	Fair value	Difference
Assets			
Notes and accounts receivable	¥ 289,862	¥ 289,862	¥ —
Investments in securities (*2)			
Other securities	60,511	60,511	—
Total assets	¥ 350,374	¥ 350,374	¥ —
Liabilities			
Notes and accounts payable	¥ 149,036	¥ 149,036	¥ —
Bonds	20,000	19,820	(180)
Long-term loans	28,244	27,992	(251)
Total liabilities	¥ 197,280	¥ 196,849	¥ (431)
Derivatives (*3)			
Not subject to hedge accounting	¥ (133)	¥ (133)	¥ —
Subject to hedge accounting	266	266	—
Total derivative transactions	¥ 132	¥ 132	¥ —

	Thousands of U.S. dollars		
	2023		
	Carrying value	Fair value	Difference
Assets			
Notes and accounts receivable	$ 2,262,450	$ 2,262,450	$ —
Investments in securities (*2)			
Other securities	418,251	418,251	—
Total assets	$ 2,680,708	$ 2,680,708	$ —
Liabilities			
Notes and accounts payable	$ 1,051,734	$ 1,051,734	$ —
Bonds	224,669	221,523	(3,145)
Long-term loans	244,866	241,788	(3,070)
Total liabilities	$ 1,521,269	$ 1,515,045	$ (6,216)
Derivatives (*3)			
Not subject to hedge accounting	$ (3,033)	$ (3,033)	$ —
Subject to hedge accounting	(82)	(82)	—
Total derivative transactions	$ (3,115)	$ (3,115)	$ —

(*1) Cash is omitted from the notes. Time deposits, short-term loans, current portion of long-term loans, commercial papers, and current portion of bonds are omitted from the notes because their fair values approximate their carrying amounts due to their short maturities.
(*2) Stocks and other securities without market quotations are not included in "Investment securities (*2)". The carrying amount of such financial instruments on the consolidated balance sheet is as follows.

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Unlisted equity securities	¥ 4,552	¥ 6,071	$ 34,090
Investments in unconsolidated subsidiaries and affiliates	9,341	9,017	69,954
Total	¥ 13,893	¥ 15,089	$ 104,044

(*3) Receivables and payables arising from derivative transactions are presented as a net value with the amount in parentheses representing a net liability position.

The redemption schedule for time deposits and notes and accounts receivable with maturity dates at March 31, 2023 is summarized as follows:

	Millions of yen	
	Within 1 year	Over 1 year and less than 5 years
Time deposits	¥ 40,045	¥ —
Notes and accounts receivable	302,105	—
Total	¥ 342,151	¥ —

	Thousands of U.S. dollars	
	Within 1 year	Over 1 year and less than 5 years
Time deposits	$ 299,895	$ —
Notes and accounts receivable	2,262,450	—
Total	$ 2,562,353	$ —

With respect to the redemption schedule of bonds, long-term loans and finance lease obligations, please refer to Note 12.

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

Level 1 fair value:

In the inputs related to the calculation of observable fair value, fair value is calculated based on quoted market prices for assets or liabilities whose fair value are formed in an active market.

Level 2 fair value:

In the inputs related to the calculation of observable fair value, fair value is calculated by using inputs related to the calculation of fair value other than Level 1 input.

Level 3 fair value:

Fair value is calculated using inputs related to the calculation of unobservable fair value.

When multiple inputs that have a significant effect on fair value are used, fair value is classified into the level with the lowest priority in the fair value calculation among the levels to which those inputs belong.

Financial instruments recorded on the consolidated balance sheet at fair value.

	Millions of yen			
	2023			
	Level 1	Level 2	Level 3	Total
Investments in securities				
Other securities				
Shares	¥ 55,849	¥ —	¥ —	¥ 55,849
Derivatives				
Forward exchange contracts	—	(416)	—	(416)
Total assets	¥ 55,849	¥ (416)	¥ —	¥ 55,432

	Millions of yen			
	2022			
	Level 1	Level 2	Level 3	Total
Investments in securities				
Other securities				
Shares	¥ 60,511	¥ —	¥ —	¥ 60,511
Derivatives				
Forward exchange contracts	—	132	—	132
Total assets	¥ 60,511	¥ 132	¥ —	¥ 60,644

	Thousands of U.S. dollars			
	2023			
	Level 1	Level 2	Level 3	Total
Investments in securities				
Other securities				
Shares	$ 418,251	$ —	$ —	$ 418,251
Derivatives				
Forward exchange contracts	—	(3,115)	—	(3,115)
Total assets	$ 418,251	$ (3,115)	$ —	$ 415,128

Financial instruments other than those recorded on the consolidated balance sheets at fair value

	Millions of yen			
	2023			
	Level 1	Level 2	Level 3	Total
Notes and accounts receivable	¥ —	¥ 302,105	¥ —	¥ 302,105
Total assets	¥ —	¥ 302,105	¥ —	¥ 302,105
Notes and accounts payable	—	140,438	—	140,438
Bonds	—	29,580	—	29,580
Long-term loans	—	32,286	—	32,286
Total liabilities	¥ —	¥ 202,304	¥ —	¥ 202,304

	Millions of yen			
	2022			
	Level 1	Level 2	Level 3	Total
Notes and accounts receivable	¥ —	¥ 289,862	¥ —	¥ 289,862
Total assets	¥ —	¥ 289,862	¥ —	¥ 289,862
Notes and accounts payable	—	149,036	—	149,036
Bonds	—	19,820	—	19,820
Long-term loans	—	27,992	—	27,992
Total liabilities	¥ —	¥ 196,849	¥ —	¥ 196,849

	Thousands of U.S. dollars			
	2023			
	Level 1	Level 2	Level 3	Total
Notes and accounts receivable	**$ —**	**$ 2,262,450**	**$ —**	**$ 2,262,450**
Total assets	**$ —**	**$ 2,262,450**	**$ —**	**$ 2,262,450**
Notes and accounts payable	**—**	**1,051,734**	**—**	**1,051,734**
Bonds	**—**	**221,523**	**—**	**221,523**
Long-term loans	**—**	**241,788**	**—**	**241,788**
Total liabilities	**$ —**	**$ 1,515,045**	**$ —**	**$ 1,515,045**

Explanation of valuation techniques used, and inputs related to the calculation of fair value.

(i) Notes and accounts receivable
The fair value of notes and accounts receivable is calculated based on the present values classified by the certain period of times which are discounted respectively by the interest rate determined taking into account the remaining period to maturity and is classified as Level 2.

(ii) Investment securities
Listed stocks are valued by using quoted market prices. Since listed stocks are traded in active markets, their fair value is classified as Level 1.

(iii) Derivative
Fair value is calculated based on prices, etc., provided by counterparty financial institutions and is classified as Level 2.

The fair value of foreign currency forward exchange contracts and other derivatives that applied the allocation method is included in the fair value of the underlying accounts receivable and payable.

The fair value of interest rate swaps that applied the exceptional accounting treatment is included in the long-term loans because it is accounted for as if the interest rates applied to the swaps had originally applied to the underlying long-term loans.

(iv) Notes and accounts payable
The fair value of notes and accounts payable is calculated based on the present values classified by the certain period of times which are discounted respectively by the interest rate determined taking into account the remaining period to maturity and is classified as Level 2.

(v) Bonds
The fair value of bonds issued by the Company is calculated based on quoted market prices and classified as Level 2.

(vi) Long-term loans
The fair value of long-term loans payable is calculated based on the present value of the total of principal and interest discounted by the incremental borrowing rate and is classified as Level 2.

20. DERIVATIVES AND HEDGING ACTIVITIES

The currency-related derivatives positions outstanding for which hedge accounting has not been applied at March 31, 2023 and 2022 are as follows:

		Millions of yen			
		2023			
Classification	Transaction	Contract value (notional principal amount)	Contract value (notional principal amount over one year)	Fair value	Valuation gain (loss)
	Foreign currency forward exchange contracts:				
	Selling:				
	U.S. dollars	¥ 5,287	¥ —	¥ (61)	¥ (61)
	Yen	226	—	(2)	(2)
	Euro	13,918	—	(283)	(283)
Over-the-counter transactions	RMB	311	—	0	0
	IDR	2,002	—	(37)	(37)
	Others	152	—	(2)	(2)
	Buying:				
	U.S. dollars	4,770	—	(20)	(20)
	Yen	3,045	—	(2)	(2)
	Euro	186	—	5	5
	Others	165	—	(0)	(0)
Total		¥ 30,066	¥ —	¥ (405)	¥ (405)

		Millions of yen			
		2022			
Classification	Transaction	Contract value (notional principal amount)	Contract value (notional principal amount over one year)	Fair value	Valuation gain (loss)
	Foreign currency forward exchange contracts:				
	Selling:				
	U.S. dollars	¥ 11,953	¥ —	¥ (373)	¥ (373)
	Yen	566	—	24	24
	Euro	13,154	—	298	298
Over-the-counter transactions	RMB	706	—	(45)	(45)
	IDR	1,835	—	(14)	(14)
	Others	161	—	(11)	(11)
	Buying:				
	U.S. dollars	4,679	—	98	98
	Yen	3,130	—	(127)	(127)
	Euro	251	—	10	10
	Others	185	—	7	7
Total		¥ 36,626	¥ —	¥ (133)	¥ (133)

Classification	Transaction	Thousands of U.S. dollars 2023 Contract value (notional principal amount)	Contract value (notional principal amount over one year)	Fair value	Valuation gain (loss)
	Foreign currency forward exchange contracts:				
	Selling:				
	U.S. dollars	$ 39,594	$ –	$ (457)	$ (457)
	Yen	1,693	–	(15)	(15)
	Euro	104,231	–	(2,119)	(2,119)
Over-the-counter transactions	RMB	2,329	–	0	0
	IDR	14,993	–	(277)	(277)
	Others	1,138	–	(15)	(15)
	Buying:				
	U.S. dollars	35,722	–	(150)	(150)
	Yen	22,804	–	(15)	(15)
	Euro	1,393	–	37	37
	Others	1,236	–	(1)	(1)
Total		$ 225,163	$ –	$ (3,033)	$ (3,033)

The currency-related derivatives positions outstanding for which hedge accounting has been applied at March 31, 2023 and 2022 are as follows:

Method for hedge accounting	Transaction	Major hedged item	Millions of yen 2023 Contract value (notional principal amount)	Contract value (notional principal amount over one year)	Fair value
	Foreign currency forward exchange contracts:				
	Selling:				
	U.S. dollars		¥ –	¥ –	¥ –
	Euro	Accounts receivable	335	–	(8)
Deferral hedge accounting	RMB		72	–	0
	Others		17	–	(0)
	Buying:				
	U.S. dollars		5,480	–	(13)
	Euro	Accounts payable	359	–	11
	RMB		57	–	0
	Others		67	–	0
Allocation method for foreign currency forward exchange contracts (Note 2(p))	Foreign currency forward exchange contracts:				
	Selling				
	Euro	Accounts receivable	110	–	(*)
	Others		12	–	(*)
	Buying:				
	Euro	Accounts payable	202	–	(*)
	THB		122	–	(*)
	Others		12	–	(*)
Total			¥ 6,850	¥ –	¥ (11)

Method for hedge accounting	Transaction	Major hedged item	Millions of yen 2022 Contract value (notional principal amount)	Millions of yen 2022 Contract value (notional principal amount over one year)	Millions of yen 2022 Fair value
Deferral hedge accounting	Foreign currency forward exchange contracts:				
	Selling:				
	U.S. dollars	Accounts receivable	¥ —	¥ —	¥ —
	Euro		342	—	(16)
	RMB		99	—	(6)
	Others		10	—	(0)
	Buying:				
	U.S. dollars	Accounts payable	4,879	—	274
	Euro		352	—	14
	RMB		7	—	0
	Others		36	—	1
Allocation method for foreign currency forward exchange contracts (Note 2(p))	Foreign currency forward exchange contracts:				
	Selling				
	Euro	Accounts receivable	41	—	(*)
	Others		11	—	(*)
	Buying:				
	Euro	Accounts payable	86	—	(*)
	THB		81	—	(*)
	Others		7	—	(*)
Total			¥ 5,956	¥ —	¥ 266

Method for hedge accounting	Transaction	Major hedged item	Thousands of U.S. dollars 2023 Contract value (notional principal amount)	Thousands of U.S. dollars 2023 Contract value (notional principal amount over one year)	Thousands of U.S. dollars 2023 Fair value
Deferral hedge accounting	Foreign currency forward exchange contracts:				
	Selling:				
	U.S. dollars	Accounts receivable	**$ —**	**$ —**	**$ —**
	Euro		**2,509**	**—**	**(60)**
	RMB		**539**	**—**	**0**
	Others		**127**	**—**	**(1)**
	Buying:				
	U.S. dollars	Accounts payable	**41,039**	**—**	**(97)**
	Euro		**2,689**	**—**	**82**
	RMB		**427**	**—**	**0**
	Others		**502**	**—**	**0**
Allocation method for foreign currency forward exchange contracts (Note 2(p))	Foreign currency forward exchange contracts:				
	Selling				
	Euro	Accounts receivable	**824**	**—**	**(*)**
	Others		**90**	**—**	**(*)**
	Buying:				
	Euro	Accounts payable	**1,513**	**—**	**(*)**
	THB		**914**	**—**	**(*)**
	Others		**90**	**—**	**(*)**
Total			**$ 51,299**	**$ —**	**$ (82)**

(*): The fair value of foreign currency forward exchange contracts that qualify for the allocation method is included in the fair value of the underlying accounts receivable and payable.

The interest-related derivatives positions outstanding for which hedge accounting has been applied at March 31, 2022 are as follows.

			Millions of yen		
			2022		
Method for hedge accounting	Transaction	Hedged item	Contract value (notional principal amount)	Contract value (notional principal amount over one year)	Fair value
Swap rates applied to underlying long-term loans	Interest-rate swap transactions (pay-fixed, receive-variable)	Long-term loans	¥ 4,000	¥ —	(*)

(*): Since interest-rate swap agreements are accounted for as if the interest rates applied to the swaps had originally applied to the underlying long-term loans, their fair values were included in the fair value of the long-term loans.

21. RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in selling, general and administrative expenses for the years ended March 31, 2023 and 2022 totaled ¥5,755 million ($43,099 thousand) and ¥5,539 million, respectively.

22. OPERATING LEASES

Future minimum lease payments subsequent to March 31, 2023 under noncancelable operating leases are as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2024	¥ 269	$ 2,015
2025 and thereafter	177	1,326
Total	¥ 447	$ 3,348

(*): Since consolidated subsidiaries outside Japan that adopt U.S. accounting standards have applied ASC842, "Leases," from the current fiscal year, future minimum lease payments at the end of the current fiscal year under noncancelable operating leases have decreased.

23. CONTINGENT LIABILITIES

At March 31, 2023, the Company and its consolidated subsidiaries had contingent liabilities as guarantors of loans of customers and other in the aggregate amount of ¥54 million ($404 thousand).

In addition, at March 31, 2023, the Company and its consolidated subsidiaries had contingent liabilities arising from notes discounted with banks in the amount of ¥355 million ($2,659 thousand).

24. AMOUNTS PER SHARE

Amounts per share at March 31, 2023 and 2022 and for the years then ended are as follows:

	Yen		U.S. dollars
	2023	2022	2023
Profit attributable to owners of parent:			
Basic	¥ 199.54	¥ 213.46	$ 1.49
Diluted	—	—	—
Net assets	3,139.26	2,868.22	23.51
Cash dividends applicable to the year	70.00	54.00	0.52

Basic profit attributable to owners of parent per share has been computed based on the profit attributable to owners of parent available for distribution to the shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year.

Diluted profit attributable to owners of parent per share for the years ended March 31, 2023 and 2022 has not been presented because no potentially dilutive shares of common stock were outstanding.

Net assets per share have been computed based on the number of shares of common stock outstanding at the year end.

Cash dividends per share represent the cash dividends proposed by the Board of Directors as applicable to the respective years together with the interim cash dividends paid.

The Company's shares held by the Stock-Granting Trust for Directors are included in treasury stock in shareholders' equity. These are excluded from the total number of issued shares at the end of the period when calculating net assets per share. Also, these are excluded from the calculation of average number of shares during the period when calculating profit attributable to owners of parent per share.

The number of such shares at the end of the period excluded from the calculation of net assets per share was 292,200 shares, while the average number of shares during the period excluded from the calculation of profit attributable to owners of parent per share was 22,477 shares.

The financial data used in the computation of basic profit attributable to owners of parent per share for the years ended March 31, 2023 and 2022 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Profit attributable to owners of parent	**¥ 23,625**	¥ 25,939	**$ 176,927**
Profit available for distribution to shareholders of common stock	**23,625**	25,939	**176,927**
Weighted-average number of shares	**118,398,261**	121,522,286	

25. CASH AND TIME DEPOSITS

A reconciliation of cash and time deposits in the accompanying consolidated balance sheets at March 31, 2023 and 2022 and cash and cash equivalents in the accompanying consolidated statements of cash flows for the years then ended is as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Cash and time deposits	**¥ 40,897**	¥ 54,211	**$ 306,276**
Time deposits with maturities of more than three months	**(565)**	(874)	**(4,231)**
Cash and cash equivalents	**¥ 40,331**	¥ 53,336	**$ 302,037**

26. SEGMENT INFORMATION

(a) Overview of reportable segments

The Company's reportable segments are those units comprising the NAGASE Group for which separate financial information is available and for which the board of directors makes regular decisions regarding resource allocation and reviews operating performance.

The Company classifies the reportable segments according to the position of the business in the value chain and the target market(s). Accordingly, the Company has defined five segment categories: Functional Materials (positioned in the upstream value chain), Advanced Materials & Processing (positioned in the next stage of the value chain), Electronics & Energy, Mobility, and Life & Healthcare (these last three segments functioning across all industries).

The following describes the major products and services handled by each reportable segment.

The Functional Materials segment is engaged in the sales of materials for paints/inks, and adhesives, urethane materials and auxiliary materials, plastic materials, plastic additives, industrial oil solutions, water processing raw materials, surfactant raw materials, fluorochemicals, encapsulant materials, 5G materials, silicone materials, environmental solutions and environment-related commercial products, sintered metal filters, and more for the paints/inks, resins, urethane foam, organic synthesis, surfactants, electronics chemicals, communications equipment, water processing, metal processing, plastic and film processing, and other industries.

The Advanced Materials & Processing Segment is engaged in the sales of dyestuffs, pigments, additives, processed pigments, dispersing elements, functional pigments, thermal paper materials, toner and inkjet materials, thermoplastic resins, thermosetting resins, automobile refinish paints, conductive coatings, synthetic rubber, inorganic materials, plastics products, resin molding tools/dies, and more for the dye/additive, coatings, ink, plastic compounds, masterbatch, stationery, digital print processing material, digital printing, fiber processing, raw resin material, resin molding, functional film and sheet, appliance and office automation device, electronics, packaging material, daily commodities, household goods, hygiene materials, construction material, and other industries.

The Electronics & Energy Segment is engaged in the sales of formulated epoxy resins, fluorine products, precision abrasives, semiconductor assembly materials and devices, adhesives and encapsulant materials, display panel components and devices, chemical management equipment for display manufacturing processes, low-temperature/vacuum equipment, liquid state analysis equipment, LEDs, 3D printing products, design and manufacture of storage battery systems, solar panels, optical wireless communication equipment, and other products for the semiconductor, electronic component, AR/VR, environmental energy, 3D printing, heavy electrical and light electrical, HDD, automotive and aircraft, display, touch panel, housing, lighting, storage battery, energy, renewable energy, security device, large-scale commercial facility, and other industries. Its main services include energy management system proposals, battery assessments, and health care services.

The Mobility Segment is engaged in the sales of plastic products in general, materials for secondary batteries, interior and exterior materials and components, materials for functional components, products for electrification, sensor components, in-vehicle electronics products, in-vehicle display-related components, self-driving-related products, and other products for the overall mobility industry and related industries.

The Life & Healthcare segment is engaged in the sale of pharmaceutical/agricultural chemicals and materials, research products, in vitro diagnostics, enzymes, food additives, food ingredients, sports nutrition products, nutrient premixes, additives for cosmetics, feeds, surfactants, and medical appliances for the pharmaceutical, food and beverage, cosmetics, agricultural, toiletries, and health care industries. The segment offers radiation measurement and sleep measurement as one of its main services. In addition, this segment sells cosmetics, health foods, and beauty foods directly to consumers.

(b) Calculation methods of net sales, income or loss, assets, and other items by reportable segments

The accounting policies of reportable segments are generally identical to those described in Note 2. Reportable segment income corresponds to operating income in the consolidated statements of income. Intersegment internal income and transfers are determined based on the values of transactions at actual market prices.

(c) Information on net sales, income or loss, assets and other items for each reportable segment

Information by reportable segments for the year ended March 31, 2023 and 2022 are as follows:

	Millions of yen										
	2023										
	Reportable Segments										
	Functional Materials	Advanced Materials & Processing	Electronics & Energy	Mobility	Life & Healthcare	Total	Others	Total	Corporate	Adjustments	Consolidated
Sales to customers	¥112,092	¥265,024	¥136,975	¥125,560	¥273,161	¥912,815	¥ 81	¥912,896	¥ –	¥ –	¥912,896
Intersegment sales and transfers	853	755	2,580	2,257	490	6,936	7,439	14,376	–	(14,376)	–
Net sales	112,946	265,779	139,555	127,817	273,651	919,751	7,521	927,273	–	(14,376)	912,896
Segment income	8,810	9,342	9,273	4,794	10,581	42,802	108	42,910	(9,932)	394	33,371
Segment assets	87,094	156,840	77,666	74,739	240,442	636,782	3,221	640,004	189,535	(66,850)	762,688
Other items											
Depreciation and amortization other than amortization of goodwill	477	1,440	1,608	468	6,536	10,531	19	10,551	1,826	–	12,377
Amortization of goodwill	134	–	51	–	2,359	2,545	–	2,545	–	–	2,545
Unamortized balance of goodwill	1,890	–	442	–	26,671	29,004	–	29,004	–	–	29,004
Investments in affiliates accounted for by the equity method	1,334	1,920	2,562	1,259	3,268	10,344	104	10,449	–	(0)	10,448
Increase in property, plant and equipment, net and intangible assets	421	2,177	1,908	279	5,737	10,524	7	10,531	6,642	–	17,174

	Millions of yen										
	2022										
	Reportable Segments										
	Functional Materials	Advanced Materials & Processing	Electronics & Energy	Mobility	Life & Healthcare	Total	Others	Total	Corporate	Adjustments	Consolidated
Sales to customers	¥ 99,874	¥257,283	¥128,131	¥103,389	¥191,634	¥780,313	¥ 244	¥780,557	¥ –	¥ –	¥780,557
Intersegment sales and transfers	711	777	2,319	2,389	452	6,649	4,649	11,298	–	(11,298)	–
Net sales	100,585	258,060	130,450	105,778	192,087	786,962	4,893	791,856	–	(11,298)	780,557
Segment income	7,823	10,858	10,278	4,131	9,429	42,521	100	42,621	(7,690)	331	35,263
Segment assets	83,793	164,249	77,163	68,492	218,060	611,759	2,838	614,598	190,048	(64,926)	739,720
Other items											
Depreciation and amortization other than amortization of goodwill	465	1,447	1,479	342	5,959	9,694	16	9,711	1,505	–	11,216
Amortization of goodwill	111	178	42	–	2,145	2,478	–	2,478	–	–	2,478
Unamortized balance of goodwill	1,853	–	452	–	27,186	29,492	–	29,492	–	–	29,492
Investments in affiliates accounted for by the equity method	1,300	1,828	2,761	1,403	3,139	10,432	95	10,528	–	(0)	10,528
Increase in property, plant and equipment, net and intangible assets	562	1,742	1,610	558	2,435	6,909	25	6,934	3,791	–	10,725

	Thousands of U.S. dollars										
	2023										
	Reportable Segments										
	Functional Materials	Advanced Materials & Processing	Electronics & Energy	Mobility	Life & Healthcare	Total	Others	Total	Corporate	Adjustments	Consolidated
Sales to customers	**$ 839,452**	**$1,984,752**	**$1,025,799**	**$ 940,313**	**$2,045,690**	**$6,836,029**	**$ 607**	**$6,836,636**	**$ –**	**$ –**	**$6,836,636**
Intersegment sales and transfers	**6,388**	**5,654**	**19,322**	**16,903**	**3,670**	**51,943**	**55,710**	**107,661**	**–**	**(107,661)**	**–**
Net sales	**845,847**	**1,990,407**	**1,045,121**	**957,216**	**2,049,360**	**6,887,973**	**56,324**	**6,944,305**	**–**	**(107,661)**	**6,836,636**
Segment income	**65,978**	**69,962**	**69,445**	**35,902**	**79,241**	**320,542**	**809**	**321,351**	**(74,380)**	**2,951**	**249,914**
Segment assets	**652,243**	**1,174,568**	**581,637**	**559,717**	**1,800,659**	**4,768,831**	**24,122**	**4,792,960**	**1,419,419**	**(500,637)**	**5,711,735**
Other items											
Depreciation and amortization other than amortization of goodwill	**3,572**	**10,784**	**12,042**	**3,505**	**48,948**	**78,866**	**142**	**79,016**	**13,675**	**–**	**92,691**
Amortization of goodwill	**1,004**	**–**	**382**	**–**	**17,666**	**19,059**	**–**	**19,059**	**–**	**–**	**19,059**
Unamortized balance of goodwill	**14,154**	**–**	**3,310**	**–**	**199,738**	**217,210**	**–**	**217,210**	**–**	**–**	**217,210**
Investments in affiliates accounted for by the equity method	**9,990**	**14,379**	**19,187**	**9,429**	**24,474**	**77,466**	**779**	**78,252**	**–**	**(0)**	**78,245**
Increase in property, plant and equipment, net and intangible assets	**3,153**	**16,303**	**14,289**	**2,089**	**42,964**	**78,814**	**52**	**78,866**	**49,742**	**–**	**128,615**

(d) Geographical information

Net sales by country or region for the years ended March 31, 2023 and 2022 are summarized as follows:

	Millions of yen							
	2023							
	Reportable Segments							
	Functional Materials	Advanced Materials & Processing	Electronics & Energy	Mobility	Life & Healthcare	Others (Note) 3	Total	Composition (%)
Japan	¥ 44,808	¥ 61,641	¥ 51,955	¥ 39,817	¥ 67,103	¥ 81	¥265,407	29.1
Greater China	13,288	115,304	56,943	33,499	3,276	—	222,312	24.4
ASEAN	29,358	73,801	7,540	36,541	5,507	—	152,750	16.7
Americas	20,969	6,893	6,929	14,039	122,538	—	171,370	18.8
Europe	2,660	5,606	4,712	1,321	74,386	—	88,686	9.7
Other	1,007	1,775	8,893	342	349	—	12,368	1.3
Revenues from contracts with customers	112,092	265,024	136,975	125,560	273,161	81	912,896	100.0
Net sales to customers	112,092	265,024	136,975	125,560	273,161	81	912,896	100.0

1. Net sales are categorized by country or region, according to the location of the customer.
2. Major countries and regions in each category other than Japan
   (1) Greater China..... China, Hong Kong, Taiwan
   (2) ASEAN .... Thailand, Vietnam, Indonesia
   (3) Americas............. U.S., Mexico
   (4) Europe.................. U.K., Germany
   (5) Other..................... Korea
3. "Others" is a business segment consisting of businesses not included in Reportable Segments, and includes information processing services, and professional service.

	Millions of yen							
	2022							
	Reportable Segments							
	Functional Materials	Advanced Materials & Processing	Electronics & Energy	Mobility	Life & Healthcare	Others (Note) 3	Total	Composition (%)
Japan	¥ 40,971	¥ 69,123	¥ 50,640	¥ 31,555	¥ 57,825	¥ 244	¥250,360	32.1
Greater China	11,987	117,092	54,354	30,534	3,594	—	217,562	27.9
ASEAN	26,580	58,949	7,267	29,416	3,493	—	125,707	16.1
Americas	16,703	6,172	5,221	10,249	79,243	—	117,589	15.1
Europe	2,634	4,598	4,071	1,466	47,083	—	59,855	7.7
Other	996	1,347	6,575	167	394	—	9,481	1.1
Revenues from contracts with customers	99,874	257,283	128,131	103,389	191,634	244	780,557	100.0
Net sales to customers	99,874	257,283	128,131	103,389	191,634	244	780,557	100.0

1. Net sales are categorized by country or region, according to the location of the customer.
2. Major countries and regions in each category other than Japan
   (1) Greater China..... China, Hong Kong, Taiwan
   (2) ASEAN .... Thailand, Vietnam, Singapore
   (3) Americas............. U.S., Mexico
   (4) Europe.................. U.K., Germany
   (5) Other..................... Korea
3. "Others" is a business segment consisting of businesses not included in Reportable Segments, and includes information processing services, and professional service.

	Thousands of U.S. dollars							
	2023							
	Reportable Segments							
	Functional Materials	Advanced Materials & Processing	Electronics & Energy	Mobility	Life & Healthcare	Others (Note) 3	Total	Composition (%)
Japan	**$ 335,565**	**$ 461,627**	**$ 389,089**	**$ 298,188**	**$ 502,531**	**$ 607**	**$1,987,621**	**29.1**
Greater China	**99,513**	**863,506**	**426,443**	**250,872**	**24,534**	**—**	**1,664,884**	**24.4**
ASEAN	**219,861**	**552,692**	**56,467**	**273,654**	**41,242**	**—**	**1,143,938**	**16.7**
Americas	**157,036**	**51,621**	**51,891**	**105,137**	**917,681**	**—**	**1,283,382**	**18.8**
Europe	**19,921**	**41,983**	**35,288**	**9,893**	**557,073**	**—**	**664,165**	**9.7**
Other	**7,541**	**13,293**	**66,599**	**2,561**	**2,614**	**—**	**92,623**	**1.3**
Revenues from contracts with customers	**839,452**	**1,984,752**	**1,025,799**	**940,313**	**2,045,690**	**607**	**6,836,636**	**100.0**
Net sales to customers	**839,452**	**1,984,752**	**1,025,799**	**940,313**	**2,045,690**	**607**	**6,836,636**	**100.0**

1. Net sales are categorized by country or region, according to the location of the customer.
2. Major countries and regions in each category other than Japan
   (1) Greater China..... China, Hong Kong, Taiwan
   (2) ASEAN .... Thailand, Vietnam, Indonesia
   (3) Americas............. U.S., Mexico
   (4) Europe.................. U.K., Germany
   (5) Other..................... Korea
3. "Others" is a business segment consisting of businesses not included in Reportable Segments, and includes information processing services, and professional service.

Information of major customers not presented here, since no single customer accounts for 10% or more of consolidated net sales.

Property, plant and equipment by country or region as of March 31, 2023 and 2022 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Japan	**¥ 59,807**	¥ 62,185	**$ 447,892**
Other	**22,257**	10,369	**166,682**
Total	**¥ 82,064**	¥ 72,554	**$ 614,574**

(e) Information on loss on impairment of fixed assets per reportable segments

Loss on impairment of fixed assets for the years ended March 31, 2023 and 2022 is as follows:

	Millions of yen								
	2023								
	Reportable Segments								
	Functional Materials	Advanced Materials & Processing	Electronics & Energy	Mobility	Life & Healthcare	Total	Others	Eliminations or corporate	Total
Loss on impairment of fixed assets	**¥ —**	**¥ 2,825**	**¥ 12**	**¥ —**	**¥ —**	**¥ 2,838**	**¥ —**	**¥ —**	**¥ 2,838**

The Company conducted a review of the future business plans for the business assets for the products and manufacturing process development business related to resins and for the development and manufacturing business in connection with water-soluble support materials for 3D printing, both in the Advanced Materials & Processing segment. As a result, the Company determined that future cash flows fell below book value. Therefore, the Company wrote down the book value of these assets to their recoverable amounts and recorded impairment losses of ¥2,285 million ($17,122 thousand) and ¥539 million ($4,037 thousand), respectively.

	Millions of yen								
	2022								
	Reportable Segments								
	Functional Materials	Advanced Materials & Processing	Electronics & Energy	Mobility	Life & Healthcare	Total	Others	Eliminations or corporate	Total
Loss on impairment of fixed assets	¥ —	¥ 2,974	¥ —	¥ —	¥ —	¥ 2,974	¥ —	¥ —	¥ 2,974

The Company no longer expects the profitability originally anticipated for the product and manufacturing process development business related to resins in the Advanced Materials & Processing segment. Therefore, the Company has written down the book value of goodwill and other intangible fixed assets related to this business to their recoverable amounts, recording impairment losses in the amount of ¥2,911 million.

	Thousands of U.S. dollars								
	2023								
	Reportable Segments								
	Functional Materials	Advanced Materials & Processing	Electronics	Mobility & Energy	Life & Healthcare	Total	Others	Eliminations or corporate	Total
Loss on impairment of fixed assets	**$ —**	**$ 21,156**	**$ 90**	**$ —**	**$ —**	**$ 21,254**	**$ —**	**$ —**	**$ 21,254**

27. RELATED PARTY TRANSACTION

A consolidated subsidiary of the Company recorded the following related-party transactions for the years ended March 31, 2023 and 2022:

Name of related party	Relationship with the related party	Description of the transaction	Account	Millions of yen 2023	Millions of yen 2022	Thousands of U.S. dollars 2023
315 Fullerton LLC (*1)	A director of a consolidated subsidiary of the Company owns a majority of the voting rights of the company.	Rental of real estate (*2)	Rent payment for real estate	**¥ 45**	¥ 36	**$ 337**
LivPure LLC (*3)	A close family member of a director of a consolidated subsidiary of the Company owns a majority of the voting rights of the company.	Sale of products (*4)	Sale of sports nutrition products	**26**	—	**$ 195**
			Accounts receivable	**21**	—	**$ 157**
Total				**¥ 92**	¥ 36	**$ 689**

(*1): Mr. Donald K. Thorp, a director of Prinova Group, LLC, which is a consolidated subsidiary of the Company, owns 77% of the voting rights.
(*2): Rent is determined taking the transactions in the neighboring area into consideration.
(*3): A close family member of Mr. Donald K. Thorp, a director of Prinova Group, LLC, which is a consolidated subsidiary of the Company, owns 67% of the voting rights.
(*4): Transaction terms relating to sale of products, and policies on determination of transaction terms are determined in the same manner as general transactions.

28. SUBSEQUENT EVENTS

(a) Cash Dividends

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2023, was approved at a meeting of the shareholders held on June 20, 2023:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥40.0 = U.S.$ 0.3 per share)	**¥ 4,696**	**$ 35,168**

(*): Total amount of dividends for common stock of 4,696 million yen includes dividends of 11 million yen in relation to the Company's shares held by the Stock-Granting Trust for Directors.

(b) Acquisition of treasury stock

The Company resolved matters relating to the acquisition of treasury stock at the meeting of its Board of Directors held on May 9, 2023 as follows, pursuant to the provision of Article 156, as applied pursuant to Article 165, paragraph (3) of the Companies Act.

(1) Reason for the acquisition of treasury stock

The Company will acquire treasury stock with the aim of improving the corporate value through further improvement in capital efficiency as a result of taking into consideration comprehensively the current valuation of the Company's shares in the market, the status of financial soundness, surplus investment capacity for growth, and others, as part of efforts to improve capital efficiency from both business and financial aspects under the Medium-term Management Plan ACE 2.0.

(2) Details of matters relating to the acquisition

(i) Type of shares to be acquired	Common stock of the Company
(ii) Total number of shares that can be acquired	Up to 6,000,000 (5.11% of total number of issued shares (excluding treasury stock))
(iii) Total value of shares that can be acquired	Up to ¥8 billion
(iv) Acquisition period	From May 10, 2023 to December 22, 2023
(v) Acquisition method	To be purchased on the market

* Reference: Treasury stock held as of April 30, 2023

Total number of issued shares (excluding treasury stock)	117,413,767 shares
Number of shares of treasury stock	494,518 shares

(*) The number of treasury stock above does not include 292,200 shares of the Company's stock held by the Stock-Granting Trust for Directors.

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Independent Auditor's Report

The Board of Directors
NAGASE & CO., LTD.

Opinion

We have audited the accompanying consolidated financial statements of NAGASE & CO., LTD. and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2023, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

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

Basis for Opinion

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

Key Audit Matters

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

Ernst & Young ShinNihon LLC

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<table>
<tr><th colspan="2">Impairment loss on tangible and intangible fixed assets (business-use assets) held by Interfacial Consultants LLC</th></tr>
<tr><th>Description of Key Audit Matter</th><th>Auditor's Response</th></tr>
<tr><td>As described in Note 10, "Loss on Impairment of Fixed Assets" and Note 26, "Segment Information, (e) "Information on loss on impairment of fixed assets per reportable segments" in the notes to consolidated financial statements, for the fiscal year ended March 31, 2023, NAGASE & CO., LTD. (the Company) recorded loss on impairment of fixed assets of ¥2,285 million on tangible and intangible fixed assets (business-use assets) for product and manufacturing process development in the resin field held by Interfacial Consultants LLC ("IFC").

As described in Note 4, "Significant Accounting Estimates, (b) Information about significant accounting estimates pertaining to identified items" in the notes to consolidated financial statements, when any indications of impairment exist, the Company assesses whether an impairment loss should be recognized, and if so, the carrying amount of the asset or asset group is reduced to its recoverable amount and an impairment loss is recorded. The recoverable amount is the higher of net selling value or value-in-use.

【Background until the fiscal year ended March 2022】

In March 2020, the Company acquired IFC, which has an innovative technology platform in the field of resins and other products, and develops products, technologies, and manufacturing processes tailored to customer needs, and made it a consolidated subsidiary. However, IFC's operating results for the fiscal years ended December 31, 2020 and 2021 were affected by the coronavirus pandemic in North America and the resulting semiconductor supply shortages, which resulted in operating losses; therefore, an impairment loss was recorded in the fiscal year ended December 31, 2022 because the total estimated future cash flows fell below the carrying amount of the asset group, including goodwill and other intangible assets. In measuring the impairment loss on goodwill and other intangible assets, the value-in-use was used as the recoverable amount based on the business plan developed by IFC in 2022.</td><td>We performed the following audit procedures with respect to the impairment loss on tangible and intangible fixed assets (business-use assets) held by IFC.

(1) Assessment of internal control

・ Assessed the effectiveness of design and operation of internal control established by the Company with respect to the assessment of indications of impairment and for recognizing and measuring impairment loss on tangible and intangible fixed assets;

(2) Evaluation and verification of management's estimates

・ Examined the consistency of the future cash flows underlying the value-in-use estimates with the business plan approved by IFC's management and the parent company's Board of Directors;

・ Compared the business plan with the actual results of previous years and analysis of factors that may cause deviations from the plan in order to assess the effectiveness of the estimation process for the business plan development;

・ Inquired of the person in charge of developing the business plan and the management of the parent company's Corporate Management Division to determine whether any key assumptions have been changed from prior years and the reasonableness of such changes;

・ Evaluated most recent R&D activities and negotiations with customers regarding the development and sales plans for the specific customer in the business plan;

・ Inquired of IFC's management about future development and sales plans for the specific customer, and evaluated their responses;

・ Inquired of IFC's management and the person in charge of developing the business plan regarding their methods for estimating net selling value, and evaluated their responses;</td></tr>
</table>

【Background for the fiscal year ended March 2023】 Subsequently, IFC revised its business plan developed in 2022 again, as it became clear that estimated sales to some of its customers in 2022 would not progress as expected and that it would continue to post operating losses for the fiscal year ended March 31, 2023, deviating downward from the above-mentioned business plan. As a result, the Company recorded an impairment loss on tangible and intangible fixed assets (business-use assets) in the fiscal year ended March 31, 2023, as the total estimated future cash flow was less than the book value of the asset group. In measuring the impairment loss, the net selling value was used as the recoverable amount, based on a comparison of value-in-use and net selling value. The value-in-use is calculated as the discounted present value of future cash flows. The future cash flows are estimated based on business plan developed by IFC in 2023, taking into account further future uncertainties. Key assumptions used in such estimates are the progress of development activities for a specific customer and the resulting sales volume of products to that customer, as well as sales (including service revenues) to other customers. Because changes in these key assumptions could result in changes in the amount of impairment loss recorded and because the recoverable amount calculation is subject to uncertainty and requires management judgment, we determined that the impairment loss on tangible and intangible fixed assets (business-use assets) held by IFC was a key audit matter.	・ Compared the value-in-use with the net selling value and reviewed the appropriateness of the recoverable amount calculated by the Company. ・ Communicated with IFC's auditor regarding their work and results, and reviewed their report to ensure that the results were consistent with our work.

Other Information

Other information comprises the information included in disclosure documents that contains audited consolidated financial statements, but does not include the consolidated financial statements and our auditor's report thereon.

We have concluded that other information does not exist. Accordingly, we have not performed any work related to other information.

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

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

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

The Corporate Auditor and the Board of Corporate Auditors are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the Corporate Auditor and the Board of Corporate Auditors with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the consolidated financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

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

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

Convenience Translation

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

Ernst & Young ShinNihon LLC
Tokyo, Japan

July 7, 2023

三ッ木　最　文

Yoshifumi Mitsugi
Designated Engagement Partner
Certified Public Accountant

鈴　木　拓　也

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