Detailed Consolidated Financial Statements

Years ended March 31, 2023 and 2022

ASAHI KASEI CORPORATION

Contents

Consolidated Balance Sheets

Asahi Kasei Corporation and Consolidated Subsidiaries

March 31, 2023 and 2022

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS:	2023	2022	2023
Current assets:			
Cash and deposits (Notes 9 and 11)	¥251,181	¥244,641	$1,880,942
Notes, accounts receivable - trade, and contract assets(Note 5(c))	442,692	434,595	3,315,052
Merchandise and finished goods	310,380	252,521	2,324,247
Work in process	162,255	146,120	1,215,029
Raw materials and supplies	169,918	141,608	1,272,413
Other	154,335	117,195	1,155,721
Allowance for doubtful accounts	(2,567)	(2,471)	(19,223)
Total current assets	1,488,195	1,334,209	11,144,189
Noncurrent assets:			
Property, plant and equipment			
Buildings and structures (Note 5(e))	663,642	646,311	4,969,612
Accumulated depreciation	(347,877)	(333,966)	(2,605,040)
Buildings and structures, net	315,765	312,344	2,364,572
Machinery, equipment and vehicles (Note 5(e))	1,611,495	1,569,782	12,067,508
Accumulated depreciation	(1,313,694)	(1,288,462)	(9,837,457)
Machinery, equipment and vehicles, net	297,801	281,320	2,230,051
Land (Note 5(e))	69,232	69,567	518,436
Lease assets (Note 10)	12,017	8,679	89,988
Accumulated depreciation	(6,457)	(6,814)	(48,353)
Lease assets, net	5,560	1,865	41,635
Construction in progress	120,299	102,284	900,846
Other (Note 5(e))	188,994	159,312	1,415,261
Accumulated depreciation	(125,950)	(121,477)	(943,163)
Other, net	63,045	37,834	472,106
Subtotal	871,701	805,215	6,527,640
Intangible assets			
Goodwill	368,089	431,335	2,756,395
Other	368,695	405,508	2,760,933
Subtotal	736,784	836,843	5,517,328
Investments and other assets			
Investment securities (Notes 5(a), (b), 11 and 12)	212,611	246,701	1,592,115
Long-term loans receivable (Note 11)	8,466	6,227	63,397
Long-term advance payments-trade (Note 5(f))	28,267	30,432	211,674
Net defined benefit asset	25,836	1,193	193,470
Deferred tax assets (Note 15)	45,916	54,276	343,837
Other	37,248	34,404	278,928
Allowance for doubtful accounts	(498)	(426)	(3,729)
Subtotal	357,846	372,808	2,679,691
Total noncurrent assets	1,966,332	2,014,866	14,724,667
Total assets	¥3,454,526	¥3,349,075	$25,868,848

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS	Millions of yen 2023	Millions of yen 2022	Thousands of U.S. dollars (Note 1) 2023
Liabilities:			
Current liabilities:			
Notes and accounts payable–trade (Note 11)	¥180,560	¥178,092	$1,352,104
Short-term loans payable (Notes 11 and 22)	196,032	239,491	1,467,965
Commercial paper (Notes 11 and 22)	124,000	113,000	928,561
Current portion of bonds payable	40,000	—	299,536
Lease obligations (Notes 10, 11 and 22)	6,766	2,224	50,666
Accrued expenses	147,163	146,275	1,102,014
Income taxes payable (Note 11)	17,491	58,115	130,979
Advances received	72,948	62,476	546,263
Provision for grant of shares	80	208	599
Provision for periodic repairs	8,410	4,738	62,977
Provision for product warranties	4,240	4,007	31,751
Provision for removal cost of property, plant and equipment	3,788	4,445	28,366
Other	110,683	110,778	828,838
Total current liabilities	912,163	923,850	6,830,635
Noncurrent liabilities:			
Bonds payable (Notes 11 and 22)	170,000	160,000	1,273,027
Long-term loans payable (Notes 11 and 22)	409,424	253,785	3,065,928
Lease obligations (Notes 10, 11 and 22)	28,526	8,715	213,614
Deferred tax liabilities (Note 15)	27,767	52,017	207,930
Provision for grant of shares	339	490	2,539
Provision for periodic repairs	4,309	5,396	32,267
Provision for removal cost of property, plant and equipment	15,910	12,298	119,140
Net defined benefit liability (Note 14)	128,708	152,081	963,816
Long-term guarantee deposits (Note 11)	22,703	22,490	170,009
Other	38,671	39,139	289,584
Total noncurrent liabilities	846,355	706,410	6,337,839
Total liabilities	1,758,517	1,630,260	13,168,466
Net assets:			
Shareholders' equity			
Capital stock			
Authorized—4,000,000,000 shares			
Issued and outstanding—1,393,932,032 shares	103,389	103,389	774,217
Capital surplus	79,841	79,887	597,881
Retained earnings (Note 8(b) (ii))	1,142,325	1,282,325	8,554,179
Treasury stock	(7,426)	(6,219)	(55,609)
(2023— 7,864,299 shares, 2022—6,640,935 shares)			
Total shareholders' equity	1,318,129	1,459,381	9,870,668
Accumulated other comprehensive income			
Net unrealized gain on other securities	52,310	66,287	391,718
Deferred gains or losses on hedges	72	(341)	539
Foreign currency translation adjustment	265,013	167,225	1,984,521
Remeasurements of defined benefit plans	25,397	(5,142)	190,183
Total accumulated other comprehensive income	342,793	228,029	2,566,969
Non-controlling interests	35,087	31,405	262,745
Total net assets	1,696,009	1,718,815	12,700,382
Commitments and contingent liabilities (Notes 5(d) and 10)			
Total liabilities and net assets	¥3,454,526	¥3,349,075	$25,868,848

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income

Asahi Kasei Corporation and Consolidated Subsidiaries

Years Ended March 31, 2023 and 2022

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Net sales (Notes 17 and 18)	¥2,726,485	¥2,461,317	$20,416,991
Cost of sales (Note 6(c))	1,952,709	1,691,549	14,622,652
Gross profit	773,776	769,769	5,794,339
Selling, general and administrative expenses (Note 6(b))	645,424	567,122	4,833,189
Operating income (Note 18)	128,352	202,647	961,150
Non-operating income:			
Interest income	3,896	1,364	29,175
Dividends income	4,021	4,332	30,111
Equity in earnings of affiliates	923	8,878	6,912
Other	5,210	7,088	39,015
Total non-operating income	14,050	21,663	105,212
Non-operating expenses:			
Interest expense	5,907	3,643	44,234
Foreign exchange loss	2,287	—	17,126
Costs associated with idle portion of facilities	3,300	850	24,712
Other	9,371	7,764	70,174
Total non-operating expenses	20,867	12,257	156,260
Ordinary income	121,535	212,052	910,102
Extraordinary income:			
Gain on sales of investment securities	32,201	26,545	241,134
Gain on sales of noncurrent assets (Note 6(d))	729	912	5,459
Insurance income	8,814	3,777	66,003
Gain on step acquisitions	—	1,700	—
Total extraordinary income	41,744	32,934	312,595
Extraordinary loss:			
Loss on valuation of investment securities	2,805	511	21,005
Loss on disposal of noncurrent assets (Note 6(e))	12,517	7,526	93,732
Impairment loss (Note 6(f))	189,446	6,811	1,418,646
Loss on fire at plant facilities (Note 6(g))	7,092	—	53,108
Business structure improvement expenses (Notes 6(h))	13,326	15,017	99,790
Total extraordinary loss	225,186	29,866	1,686,281
Income (loss) before income taxes	(61,906)	215,121	(463,576)
Income taxes (Note 15) — current	56,118	93,046	420,234
Income taxes (Note 15) — deferred	(28,654)	(41,759)	(214,572)
Total income taxes	27,464	51,287	205,661
Net income (loss)	(89,370)	163,834	(669,238)
Net income (loss) attributable to non-controlling interests	1,942	1,954	14,542
Net income (loss) attributable to owners of the parent	¥(91,312)	¥161,880	$(683,780)

The accompanying notes are an integral part of these statements.

Consolidated Statements of Comprehensive Income

Asahi Kasei Corporation and Consolidated Subsidiaries

Years Ended March 31, 2023 and 2022

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Net income (loss)	¥(89,370)	¥163,834	$(669,238)
Other comprehensive income			
Net increase (decrease) in unrealized gain on other securities	(13,706)	(25,746)	(102,636)
Deferred gains or losses on hedges	414	5	3,100
Foreign currency translation adjustment	95,343	114,406	713,966
Remeasurements of defined benefit plans	30,593	5,403	229,092
Share of other comprehensive income of affiliates accounted for using equity method	2,544	3,599	19,050
Total other comprehensive income (Note 7)	115,188	97,668	862,573
Comprehensive income	¥25,818	¥261,502	$193,335
Comprehensive income attributable to:			
Owners of the parent	¥23,452	¥258,322	$175,618
Non-controlling interests	2,367	3,180	17,725

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Net Assets

Asahi Kasei Corporation and Consolidated Subsidiaries

Years Ended March 31, 2023 and 2022

Millions of yen

	Shareholders' equity					Accumulated other comprehensive income						
	Capital stock	Capital surplus	Retained earnings (Note 8(b))	Treasury stock	Total shareholders' equity	Net unrealized gain on other securities	Deferred gains (losses) on hedges	Foreign currency translation adjustment	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at March 31, 2022	¥103,389	¥79,887	¥1,282,325	¥(6,219)	¥1,459,381	¥66,287	¥(341)	¥167,225	¥(5,142)	¥228,029	¥31,405	¥1,718,815
Changes during the fiscal year												
Dividends from surplus			(48,575)		(48,575)							(48,575)
Net income (loss) attributable to owners of the parent			(91,312)		(91,312)							(91,312)
Purchase of treasury stock				(1,414)	(1,414)							(1,414)
Disposal of treasury stock		0		208	208							208
Change of scope of consolidation			(139)		(139)							(139)
Change of scope of equity method			25		25							25
Capital increase of consolidated subsidiaries		(46)			(46)							(46)
Net changes of items other than shareholders' equity						(13,977)	414	97,789	30,538	114,764	3,682	118,446
Total changes of items during the period	—	(46)	(140,000)	(1,207)	(141,253)	(13,977)	414	97,789	30,538	114,764	3,682	(22,806)
Balance at March 31, 2023	¥103,389	¥79,841	¥1,142,325	¥(7,426)	¥1,318,129	¥52,310	¥72	¥265,013	¥25,397	¥342,793	¥35,087	¥1,696,009

	Millions of yen											
	Shareholders' equity					Accumulated other comprehensive income						
	Capital stock	Capital surplus	Retained earnings (Note 8(b))	Treasury stock	Total shareholders' equity	Net unrealized gain on other securities	Deferred gains (losses) on hedges	Foreign currency translation adjustment	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at March 31, 2021	¥103,389	¥79,641	¥1,158,792	¥(5,932)	¥1,335,890	¥91,887	¥(347)	¥50,462	¥(10,416)	¥131,586	¥27,058	¥1,494,535
Cumulative effects of changes in accounting policies			9,212		9,212							9,212
Restated balance	103,389	79,641	1,168,004	(5,932)	1,345,102	91,887	(347)	50,462	(10,416)	131,586	27,058	1,503,747
Changes during the fiscal year												
Dividends from surplus			(47,187)		(47,187)							(47,187)
Net income (loss) attributable to owners of the parent			161,880		161,880							161,880
Purchase of treasury stock				(412)	(412)							(412)
Disposal of treasury stock		0		125	125							125
Change of scope of consolidation			(371)		(371)							(371)
Capital increase of consolidated subsidiaries		245			245							245
Net changes of items other than shareholders' equity						(25,600)	5	116,763	5,274	96,443	4,347	100,789
Total changes of items during the period	–	245	114,321	(287)	114,279	(25,600)	5	116,763	5,274	96,443	4,347	215,069
Balance at March 31, 2022	¥103,389	¥79,887	¥1,282,325	¥(6,219)	¥1,459,381	¥66,287	¥(341)	¥167,225	¥(5,142)	¥228,029	¥31,405	¥1,718,815

	Thousands of U.S. dollars (Note 1)											
	Shareholders' equity					Accumulated other comprehensive income						
	Capital stock	Capital surplus	Retained earnings (Note 8(b))	Treasury stock	Total shareholders' equity	Net unrealized gain on other securities	Deferred gains (losses) on hedges	Foreign currency translation adjustment	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at March 31, 2022	$774,217	$598,225	$9,602,554	$(46,570)	$10,928,418	$496,383	$(2,554)	$1,252,247	$(38,505)	$1,707,571	$235,173	$12,871,162
Changes during the fiscal year												
Dividends from surplus			(363,749)		(363,749)							(363,749)
Net income (loss) attributable to owners of the parent			(683,780)		(683,780)							(683,780)
Purchase of treasury stock				(10,589)	(10,589)							(10,589)
Disposal of treasury stock		0		1,558	1,558							1,558
Change of scope of consolidation			(1,041)		(1,041)							(1,041)
Change of scope of equity method			187		187							187
Capital increase of consolidated subsidiaries		(344)			(344)							(344)
Net changes of items other than shareholders' equity						(104,665)	3,100	732,282	228,681	859,398	27,572	886,970
Total changes of items during the period	—	(344)	(1,048,375)	(9,038)	(1,057,758)	(104,665)	3,100	732,282	228,681	859,398	27,572	(170,780)
Balance at March 31, 2023	$774,217	$597,881	$8,554,179	$(55,609)	$9,870,668	$391,718	$539	$1,984,521	$190,183	$2,566,969	$262,745	$12,700,382

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Asahi Kasei Corporation and Consolidated Subsidiaries

Years Ended March 31, 2023 and 2022

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Cash flows from operating activities:			
Income (loss) before income taxes	¥(61,906)	¥215,121	$(463,576)
Depreciation and amortization	138,956	119,738	1,040,557
Impairment loss	189,446	6,811	1,418,646
Amortization of goodwill	37,695	28,391	282,275
Increase (decrease) in provision for grant of shares	(279)	60	(2,089)
Increase (decrease) in provision for periodic repairs	2,585	(502)	19,357
Increase (decrease) in provision for product warranties	198	233	1,483
Increase (decrease) in provision for removal cost of property, plant and equipment	2,951	(1,562)	22,098
Increase (decrease) in net defined benefit liability	(5,838)	(2,939)	(43,717)
Interest and dividend income	(7,917)	(5,696)	(59,286)
Interest expense	5,907	3,643	44,234
Equity in (earnings) losses of affiliates	(923)	(8,878)	(6,912)
(Gain) loss on sales of investment securities	(32,201)	(26,545)	(241,134)
(Gain) loss on valuation of investment securities	2,805	511	21,005
(Gain) loss on sale of property, plant and equipment	(729)	(912)	(5,459)
(Gain) loss on disposal of noncurrent assets	12,517	7,526	93,732
(Increase) decrease in notes, accounts receivable-trade, and contract assets	8,405	(45,911)	62,940
(Increase) decrease in inventories	(84,053)	(73,257)	(629,422)
Increase (decrease) in notes and accounts payable–trade	(7,949)	21,392	(59,525)
Increase (decrease) in accrued expenses	(5,167)	10,184	(38,693)
Increase (decrease) in advances received	8,040	10,546	60,207
Other, net	(8,982)	(19,112)	(67,261)
Subtotal	193,563	238,843	1,449,476
Interest and dividend income~~,~~ received	13,666	7,212	102,336
Interest expense paid	(5,859)	(3,647)	(43,874)
Income taxes (paid) refund	(110,565)	(59,137)	(827,954)
Net cash provided by (used in) operating activities	90,804	183,271	679,976
Cash flows from investing activities:			
Payments into time deposits	(5,209)	(3,267)	(39,007)
Proceeds from withdrawal of time deposits	3,702	7,224	27,722
Purchase of property, plant and equipment	(151,973)	(142,256)	(1,138,034)
Proceeds from sales of property, plant and equipment	7,796	1,280	58,380
Purchase of intangible assets	(20,185)	(27,452)	(151,153)
Purchase of investment securities	(7,352)	(5,805)	(55,055)
Proceeds from sales of investment securities	43,200	33,437	323,499
Purchase of shares in subsidiaries resulting in change in scope of consolidation (Note 9(b))	(78,420)	(80,912)	(587,240)
Payments of loans receivable	(6,661)	(6,102)	(49,880)
Collection of loans receivable	2,132	2,782	15,965
Other, net	(613)	52	(4,590)
Net cash provided by (used in) investing activities	¥(213,584)	¥(221,019)	$(1,599,401)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	(29,778)	65,632	(222,989)
Increase (decrease) in commercial paper	11,000	29,000	82,372
Proceeds from long-term loans payable	209,648	896	1,569,927
Repayment of long-term loans payable	(75,461)	(51,094)	(565,082)
Proceeds from issuance of bonds payable	50,000	50,000	374,420
Repayments of lease obligations	(3,665)	(2,298)	(27,445)
Purchase of treasury stock	(1,415)	(412)	(10,596)
Proceeds from disposal of treasury stock	208	125	1,558
Cash dividends paid	(48,575)	(47,187)	(363,749)
Proceeds from share issuance to non-controlling interests	1,499	—	11,225
Cash dividends paid to non-controlling interests	(1,371)	(2,190)	(10,267)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(163)	—	(1,221)
Other, net	(149)	(152)	(1,116)
Net cash provided (used in) by financing activities	111,780	42,321	837,053
Effect of exchange rate change on cash and cash equivalents	15,744	21,027	117,897
Net increase (decrease) in cash and cash equivalents	4,744	25,600	35,525
Cash and cash equivalents at beginning of year	242,948	216,235	1,819,290
Increase (decrease) in cash and cash equivalents resulting from changes in scope of consolidation	212	1,112	1,588
Cash and cash equivalents at end of year (Note 9(a))	¥247,903	¥242,948	$1,856,395

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

Asahi Kasei Corporation and Consolidated Subsidiaries

1. Major policies for preparing the consolidated financial statements

The consolidated financial statements, which are filed with the prime minister of Japan as required by the Financial Instruments and Exchange Act in Japan, are prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Financial Reporting Standards. The accompanying consolidated financial statements are a translation of those filed with the prime minister of Japan and incorporate certain modifications to enhance foreign readers' understanding of the consolidated financial statements. In addition, the notes to the consolidated financial statements include certain financial information which is not required under the disclosure regulations in Japan, but is presented herein as additional information.

The U.S. dollar amounts presented in the consolidated financial statements are included solely for the convenience of readers. These translations should not be construed as representations that the Japanese yen amounts actually represent, have been, or could be converted into U.S. dollars. As the amounts shown in U.S. dollars are for convenience only, and are not intended to be computed in accordance with generally accepted translation procedures, the approximate current exchange rate of ¥133.54=US$1 prevailing on March 31, 2023, has been used.

Consolidation and investments in affiliated companies

The consolidated financial statements consist of the accounts of the parent company and 285 subsidiaries (273 subsidiaries at March 31, 2022, hereinafter collectively referred to as the "Company") which, with minor exceptions due to immateriality, represent all of the parent company's majority or wholly owned companies, including 7 core operating companies (Asahi Kasei Homes Corp., Asahi Kasei Construction Materials Corp., Asahi Kasei Microdevices Corp., Asahi Kasei Pharma Corp., Asahi Kasei Medical Co., Ltd., ZOLL Medical Corporation, and Veloxis Pharmaceuticals, Inc.). Material inter-company transactions and accounts have been eliminated.

Investments in unconsolidated subsidiaries and 20% to 50% owned companies in which the Company exercises significant influence are accounted for, with minor exceptions due to immateriality, using the equity method of accounting. There were 43 such unconsolidated subsidiaries and 20% to 50% owned companies to which the equity method is applied at March 31, 2023 (45 at March 31, 2022), including Asahi Kasei Networks Corporation and Asahi Yukizai Corporation.

The financial results of certain subsidiaries with fiscal year ending December 31 are included in the consolidated financial statements. Material differences in inter-company transactions and accounts through to March 31 are appropriately adjusted for as part of the consolidation process.

All assets and liabilities of acquired companies are measured at their fair values and any difference between the net assets and the cost of investment is recognized as goodwill. Goodwill is amortized using the straight-line method over a reasonable period during which its effects would last, with the exception of minor amounts which are charged to income as incurred.

2. Significant accounting policies

(a) Cash and cash equivalents

For cash flow statement purposes, cash and cash equivalents include all highly liquid investments, generally with original maturities of three months or less, which are readily convertible to known amounts of cash, and therefore present an insignificant risk of changes in value.

(b) Inventories

Inventories held for sale in the ordinary course of business are stated at the lower of cost or net realizable value. Residential lots and dwellings for sale are stated at specifically identified costs.

(c) Noncurrent assets and depreciation/amortization

Property, plant and equipment (except for lease assets) are stated at cost. Significant renewals and improvements are capitalized at cost, while maintenance and repairs are charged to expense as incurred. Depreciation is provided for under the straight-line method, at rates based on estimated useful lives of the assets, principally ranging from 7 to 60 years for buildings and from 2 to 22 years for machinery and equipment and vehicles.
Intangible fixed assets (except for lease assets), including software for internal use, are mainly amortized using the straight-line method over the

estimated useful lives of the assets. The estimated useful life of software for internal use is mainly 5 years.
Lease assets (financing lease transactions without title transfer) are depreciated/amortized on a straight-line basis over the period of the lease with no residual value.

(d) Significant allowances

i) Allowance for doubtful accounts

Estimates of the unrecoverable portion of receivables, generally based on historical rates and for specific receivables of particular concern based on individual estimates of recoverability, are recognized as allowance for doubtful accounts.

ii) Provision for grant of shares

To record the grant of shares to Directors, etc., in accordance with Share Grant Regulations, the provision for grant of shares is recorded based on an estimate of grant of shares liabilities as of the closing date of the fiscal year.

iii) Provision for periodic repairs

The portion of foreseeable periodic repair expenses deemed to correspond to normal wear and tear of plant and equipment as of the closing date of the fiscal year is recognized as provision for periodic repairs.

iv) Provision for product warranties

Estimates of product warranty expenses based on historical rates are recognized as provision for product warranties.

v) Provision for removal cost of property, plant and equipment

Provision for removal cost of property, plant and equipment is recorded based on estimated future removal cost of property, plant and equipment at the end of each fiscal year.

(e) Accounting for retirement benefits

i) Method of attributing expected retirement benefits to each period

In calculating retirement benefit obligations, the Company applies a method of attributing expected retirement benefits to each period based on a benefit formula basis.

ii) Accounting for actuarial gains/losses and prior service costs

Actuarial gains/losses are amortized using the straight-line method from the fiscal year following their accrual over a certain period (mainly 10 years) within the average remaining service period of employees at the time of accrual. Prior service costs are amortized using the straight-line method over a certain period (mainly 10 years) within the average remaining service period of employees at the time of accrual.

iii) Adoption of the simplified method

In calculating expected defined benefit liability and periodic retirement benefit expenses, certain consolidated subsidiaries have adopted the simplified method. Under this method, the expected defined benefit liability is recorded at the severance payment amount to be required should all employees retire voluntarily at fiscal year end.

(f) Significant revenue and expense recognition

The Company's main operations are the sale of products, undertaking of construction, and provision of services, etc., in the Material, Homes, and Health Care segments. Regarding the sale of products, performance obligations are satisfied when the customer gains control of the product at the time the product is transferred to the customer, so revenue is recognized at such time. However, in the case of domestic sale when there is a normal period between the time of shipment and the time of transfer of control of the product to the customer, revenue is recognized at the time of shipment. Regarding the undertaking of construction and the provision of services, in the case of performance obligations being satisfied by meeting conditions over a certain period of time, revenue is recognized over such period of time. Measurement of the progress toward satisfaction of performance obligations of contracted construction is based on the proportion of the total foreseen construction cost which is incurred by the closing date of each financial period. Revenue is determined as the amount within the scope where there is a high probability that there will be no significant decrease from the consideration promised in a contract with the customer due to deduction by product return, discount, rebate, etc. As consideration for transactions are mainly collected within 1 year from fulfillment of performance obligations, no significant financing components are included.

(g) Financial instruments

i) Securities

Securities are classified into four categories: trading securities, held-to-maturity debt securities, equity securities of unconsolidated subsidiaries and affiliates, and other securities. At March 31, 2023 and 2022, the Company did not have trading securities or held-to-maturity debt securities. Equity securities of unconsolidated subsidiaries and affiliates are accounted for, with minor exceptions due to immateriality, using the equity method of accounting.

Other securities which do not have market price in active market are stated at cost. In cases where any significant decline in the realizable value is assessed to be other than temporary, the cost of other securities is devalued by the impaired amount and is charged to expense. Realized gains and losses are determined using the average cost method and are reflected in the consolidated income statements. Other securities other than above are carried at fair value with net unrealized gains or losses, net of income taxes, being included as a component of net assets.

ii) Derivative financial instruments

All derivatives are stated at fair value. Gains or losses arising from changes in fair value are recognized in the period in which they arise, except for derivatives that are designated as hedging instruments. Gains or losses arising from changes in fair value of these qualifying hedges are deferred as “Deferred gains or losses on hedges” until being offset against gains or losses of the underlying hedged assets and liabilities.

(h) Taxes

Accrued income taxes are stated at the estimated amount of payables for corporation, enterprise, and inhabitant taxes. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities.

The Company has elected to file its return under the consolidated tax filing system in Japan. Transactions subject to consumption taxes are recorded at amounts net of consumption taxes.

Application of the Group Tax Sharing System

The Company and some of the consolidated subsidiaries adopted the Group Tax Sharing System from the current fiscal year.

(i) Translation of foreign currencies

Foreign currency receivables and payables are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. Resulting income and expenses are charged to income for the period.

Assets and liabilities of foreign subsidiaries are translated into Japanese yen at fiscal year-end exchange rates, and income and expenses of same are translated into Japanese yen at the average exchange rate for the fiscal year. Shareholders’ equity of foreign subsidiaries is translated into Japanese yen at the historical exchange rates. The translation differences in Japanese yen amounts arising from the use of different rates are recognized as foreign currency translation adjustments in the consolidated balance sheets. A portion of the foreign currency translation adjustment is allocated to non-controlling interests and the Company’s portion is presented as a separate component of net assets in the consolidated balance sheets.

3. Significant Accounting Estimates

For the year ended March 31, 2023

(a) Measurement of impairment losses on fixed assets and including goodwill as it relates to the acquisition of Polypore International, LP

(i) The amount of impairment loss recorded for fixed assets, including goodwill, recognized in the acquisition of Polypore International, LP and the book value of fixed assets for which impairment loss was examined at the end of the current fiscal year ended March 31, 2023

	Millions of yen	
	2023	
	Net book value (after recording impairment loss)	Impairment loss
Property, plant and equipment and Intangible assets (including goodwill)	¥63,284	¥186,376

	Thousands of U.S. dollars	
	2023	
	Net book value (after recording impairment loss)	Impairment loss
Property, plant and equipment and Intangible assets (including goodwill)	$473,895	$1,395,657

The Company allocated aforementioned impairment loss to goodwill and other intangible assets, in ¥130,384 million (US$976,367 thousand) and ¥55,992 million (US$419,290 thousand), respectively.

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

In the battery separator business, the Company has built a high reputation in the market and fulfilled its supply responsibilities while strengthening its technological and product development capabilities for Hipore, a wet-process separator for lithium-ion batteries. In the year ended March 31, 2016, the Company acquired Polypore International, LP in the U.S. and added Celgard, a dry-process separator for lithium-ion batteries, and Daramic, a separator for lead-acid batteries, to the battery separator business. As a result, the Company is the only separator manufacturer with both wet-process and dry-process separators for lithium-ion batteries and separators for lead-acid batteries. As the market for eco-friendly cars is growing, there is rapidly evolving technology and increased competition among battery products with alternative uses. The Company has been trying to realize these synergies with the acquisition of Polypore International, LP through developed battery separators that respond to changes in the eco-friendly cars market with a broad product lineup and diverse supply channels. The Company established the Separator business unit for managing these battery separators. Since the Separator business unit was responsible for the integrated operation of management strategies, investment decisions, and management oversight including revenue management, the Company evaluated fixed assets, including goodwill as it relates to the acquisition of Polypore International, LP, within the separator business as an asset grouping unit.

However, given that the policy trends in each country regarding the market for eco-friendly cars and differentiation between wet-process and dry-process lithium-ion batteries became clear, the situation in which the cash flows from each product are mutually complementary has decreased year by year. Under these circumstances, the following major changes in the economic environment during the current fiscal year, the expansion of the market for lithium-ion batteries in North America has changed trends in the market for eco-friendly cars, the corresponding strategy for each business and the related operating activities.

・In addition to the successive shift to EV in the Chinese and European markets for eco-friendly cars, it has become clear in the U.S. that the Inflation Reduction Act, which was enacted in August 2022, will shift to EV, and in North America, the establishment of a supply chain for high-capacity lithium-ion batteries is expected to accelerate. This is a large business opportunity for Hipore, a wet-process separator for lithium-ion batteries, which is one of the operations that the Company aims to contribute to a sustainable society from the perspective of realizing a carbon neutral and sustainable world.

・Regarding Celgard, a dry-process separator for lithium-ion batteries that was supposed to become a core product for lithium-ion battery separators for EV at the time of the acquisition of Polypore International, LP, as a market that differs from the aforementioned EV applications using high-capacity lithium-ion batteries, the Company will focus on adopting lithium-ion batteries that use the positive electrodes of ferrous iron LFP for energy storage systems (ESS), as represented by the strategic alliance with American Battery Factory announced in August 2022, and lithium-ion batteries for hybrid vehicles that can leverage the characteristics of products such as high output and high durability

In light of this, at the Board of Directors' meeting held on March 8, 2023, the Company revised its business strategy for the separator business to focus on Hipore, a wet-process separator for lithium-ion batteries, mainly in the North American market, and focus on the market for eco-friendly car batteries, such as electric vehicles (EV) equipped with highly sought after high-capacity batteries. In addition, the Company decided that the Hipore and Polypore businesses will be operated separately.

The Company changed the asset grouping units to Hipore and Polypore, triggered by the changes in the industry resulting in decreased synergies, and changes in management oversight of the business units due to changes in business strategy. Goodwill and other intangible assets related to the acquisition of Polypore International, LP are included in Polypore International, LP's asset grouping unit.

Future business plans for Polypore International, LP in response to modifications in business strategy reflect sales strategies in markets that have applications other than EV, such as lithium-ion batteries that use positive electrodes for ferrous sulfate (LFP) and lithium-ion batteries for hybrid vehicles. On the other hand, it is difficult to expand the sales of separators for EV that were anticipated at the time of the acquisition of Polypore International, LP. Accordingly, in addition to changes in the business environment, such as increased regulations surrounding the eco-friendly cars market, the Company has determined that changes in the business strategy in Polypore International, LP significantly reduce the recoverable amount and identified this as an impairment indicator in the asset grouping unit which includes goodwill and other intangible assets related to the acquisition of Polypore International, LP.

As a result of the impairment trigger, the Company measured the fair value of the asset group and recorded an impairment loss of JPY186,376 million for goodwill and other intangible assets. Value in use is used as the recoverable amount in measuring impairment losses. To measure the impairment loss and the recoverable amount, the Company used the value in use method. Value in use is calculated as the present value of future cash flows and includes key assumptions such as future sales forecasts, operating margins and discount rates estimated by considering information on external factors of companies such as the business environment and sales strategies. Future sales forecasts and operating margins are estimated by considering information about the company's external factors, such as the business environment, and sales strategies. Polypore International, LP's future business strategy is reflected in these estimates. The Company also applied a discount rate of 14.5%, which reflects both the time value of money and the risk that future cash flows deviate from their estimated values in the pre-tax weighted average cost of capital.

The business environment for the battery separator business, which is primarily focused on the eco-friendly cars market, has changed significantly, and the key assumptions used in accounting estimates, such as future sales forecasts and operating margins and discount rates, are subject to a high degree of uncertainty in the estimates, and if conditions under the assumptions deteriorate, additional impairment losses may be recognized.

For the year ended March 31, 2022

(b) Assessment of whether impairment indicators exist for goodwill as it relates to the acquisition of Polypore International, LP

i) Amount recorded in the consolidated financial statements for the fiscal year ended March 31, 2022

	Millions of yen
	2022
Goodwill recognized from acquisition of Polypore International, LP	¥125,533

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

The Company assesses the impairment indicators, recognition and measurement of impairment loss on goodwill based on a larger unit that consists of an asset group related to the business together with goodwill. The Company assessed whether impairment indicators exist in the asset group of the Separator business under the Material segment (refer to Note 18) to which Polypore International, LP's goodwill belongs, based on the following facts and circumstances.

・Whether or not the asset group's performance falls into the category of "consistent negative operating results", specified in the accounting standards as an impairment indicator.

・Whether or not there are significant differences between assumptions for the size and timing of expansion of the market growth for eco-friendly cars on which the latest business plan is based, compared to that used at the time of the acquisition.

The Company supplies both wet-process and dry-process separators for lithium-ion batteries, including the product line of Polypore International, LP, and expects to create synergies especially in the area of lithium-ion battery applications for eco-friendly cars such as hybrid vehicles and electric vehicles, for which continued demand growth is forecast. The business plan for the Separator business, to which the goodwill of Polypore International, LP belongs, assumes rapid expansion of the market for eco-friendly cars through 2025, and that sales and operating income of the Separator business will increase accordingly. In addition, the goodwill balance recognized from the acquisition of Polypore International, LP, which is recorded in the Separator business, is the most monetarily significant of the total goodwill balance of ¥431,335 million (US$3,523,691 thousand) recorded in the consolidated balance sheets for the current fiscal year.

The Company has concluded that no impairment indicators existed for the goodwill balance as it relates to the acquisition of Polypore International, LP, as the performance of the Separator business has not fallen into the category of "consistent negative operating results" during the current fiscal year, and also assumptions regarding the scale and timing of the expansion of the eco-friendly car market, which form the basis of the latest business plan, have not significantly diverged from those at the time of the acquisition.

Since the eco-friendly car market is a growing market with rapidly evolving technology and intensifying competition, sales and operating income projections in the business plan may not be achieved if management is not able to respond to unexpected changes in the business environment appropriately. If there is a change in the assumed situation, an impairment indicator may be identified.

4. Changes in significant accounting policies

(a)Changes in accounting policies

(i) Application of Implementation Guidance on Accounting Standard for Fair Value Measurement

Accounting Standards Board of Japan (ASBJ) Guidance No. 31 "Implementation Guidance on Accounting Standard for Fair Value Measurement" is applied from the beginning of the fiscal year ended March 31, 2023. In accordance with Article 27-2 of the Implementation Guidance on Accounting Standard for Fair Value Measurement regarding transitional treatment, the new accounting policy is to be applied in the future. This change has no effect on the consolidated financial statements for the fiscal year ended March 31, 2023.

(ii) Application of ASC 842 lease accounting standard

At subsidiaries that apply US GAAP, ASC 842 is applied from the fiscal year ended March 31, 2023. This accounting standard requires a lessee to recognize in principle all leases as assets and liabilities on the balance sheets. As a transitional treatment, the cumulative effect of application of this accounting standard is recognized as of the date of the start of application. As a result, other under property, plant and equipment increased by ¥19,442 million (US$145,589 thousand), lease obligations under current liabilities increased by ¥3,576 million (US$26,778 thousand), and lease obligations under noncurrent liabilities increased by ¥16,356 million (US$122,480 thousand) on the consolidated balance sheets for the fiscal year ended March 31, 2023. The effect on the consolidated statements of income is immaterial.

(b) Changes in presentation

(i) Consolidated Statements of Income

In the fiscal year ended March 31, 2023, foreign exchange gains, which had previously been included in other under non-operating income for the fiscal year ended March 31, 2022, became foreign exchange loss, exceeded 10% of total non-operating income, and is reported separately. In the fiscal year ended March 31, 2022, foreign exchange gains were ¥796 million.

In the fiscal year ended March 31, 2023, costs associated with idle portion of facilities, which had previously been included in others under non-operating expenses, exceeded 10% of total non-operating expenses, and is reported separately. The consolidated statements of income for the fiscal year ended March 31, 2022, have been adjusted accordingly, resulting in others under non-operating expenses being ¥7,764 million, ¥850 million lower than the previously reported ¥8,614 million, reflecting the separation of the same amount as costs associated with idle portion of facilities.

5. Notes to Consolidated Balance Sheets

(a) Investment securities

Among investment securities, shares of unconsolidated subsidiaries and affiliates as of March 31, 2023 and 2022, amounted to ¥101,867 million (US$762,820 thousand) and ¥107,794 million, respectively. Included in those amounts are investments in joint ventures of ¥58,077 million (US$434,903 thousand) and ¥66,452 million, respectively.

(b) Pledged assets and secured debt

A summary of assets pledged as collateral and secured debt as of March 31, 2023, is shown below:

	Millions of yen	Thousands of U.S. dollars
	2023	2023
Pledged assets:		
Machinery, equipment and vehicles	799	5,983
Total pledged assets	¥799	$5,983
Secured debt:		
Short-term loans payable	179	1,340
Long-term loans payable	620	4,643
Total secured debt	¥799	$5,983

Besides the above, cash and deposits pledged as collateral for bank guarantees at March 31, 2023 and 2022, were ¥71 million (US$532 thousand) and ¥390 million, respectively. Investment securities pledged to suppliers as transaction guarantees at March 31, 2023 and 2022, were ¥42 million (US$315 thousand) and ¥55 million, respectively. ¥5,210 million (US$42,562 thousand) of Buildings and structures, and ¥2,502 million (US$20,440 thousand) of Merchandise and finished goods were pledged as collateral for bank guarantees at March 31, 2022, these collaterals were released on April 6, 2022 and on April 8, 2022, respectively.

(c) Notes, accounts receivable–trade, and contract assets

Amounts of receivables and contract assets arising from contracts with customers included in Notes, accounts receivable–trade, and contract assets at March 31, 2023 and 2022, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Notes receivable-trade	¥20,887	¥20,851	$156,410
Accounts receivable-trade	377,606	373,013	2,827,662
Contract assets	41,060	35,840	307,473

(d) Contingent liabilities

Contingent liabilities at March 31, 2023 and 2022, arising in the ordinary course of business were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Loans guaranteed	¥48,610	¥38,110	$364,011
Total	¥48,610	¥38,110	$364,011

(e) Deferred gain on property, plant and equipment deducted for tax purposes

The accumulated reduced-value entries, which are directly deducted from property, plant and equipment, as of March 31, 2023 and 2022, were ¥21,948 million (US$164,355 thousand) and ¥18,769 million, respectively.

The breakdown of reduced-value entries as of March 31, 2023 and 2022, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Buildings and structures	¥5,343	¥3,809	$40,010
Machinery, equipment and vehicles	16,312	14,683	122,151
Land	167	167	1,251
Other	126	110	944
Total	¥21,948	¥18,769	$164,355

(f) Long-term advance payments–trade

The Company has concluded long-term purchase contracts with raw materials manufacturers, to ensure the stable procurement of nylon raw materials. Advance payments have been made for a part of it in accordance with the contracts.

6. Notes to Consolidated Statements of Income

(a) Revenue from contracts with customers

Net sales are not broken down into revenue from contracts with customers and other revenue. Amounts of revenue from contracts with customers are shown in Note 17 “Revenue recognition”.

(b) Selling, general and administrative expenses

Major components of selling, general and administrative expenses for the years ended March 31, 2023 and 2022, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Salaries and benefits	¥249,075	¥228,416	$1,865,171
Research and development (*)	74,034	71,496	554,396

(*) The aggregate amounts of research and development expenses included in manufacturing costs and selling, general and administrative expenses for the years ended March 31, 2023 and 2022, were ¥105,027 million (US$786,483 thousand) and ¥98,693 million, respectively.

(c) Gain or loss on valuation of inventories

Inventories held for sale in the ordinary course of business are stated at the lower of cost or net realizable value. (Gain) loss on valuation of inventories for the years ended March 31, 2023 and 2022, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
	¥5,559	¥474	$41,628

(d) Gain on sales of noncurrent assets

Major components of gain on sales of noncurrent assets for the years ended March 31, 2023 and 2022, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Land	¥162	¥239	$1,213
Machinery	482	590	3,609
Other	86	83	644

(e) Loss on disposal of noncurrent assets

Loss on disposal of noncurrent assets for the years ended March 31, 2023 and 2022, was primarily loss on abandonment and sale of machinery and equipment. The abandonment and sale of machinery and equipment were performed under a single, all-inclusive contract for each facility.

(f) Impairment loss

Major components of impairment losses for the years ended March 31, 2023 and 2022, were as follows:

Use	Asset class	Location	Millions of yen		Thousands of U.S. dollars	Item on the Consolidated Statements of Income
			2023	2022	2023	
Technology-related assets related to new electronics component business	Other intangible assets, etc.	Fuji, Shizuoka, etc.	―	2,773	―	Impairment loss
Production facility for synthetic fibers	Machinery and equipment, etc.	Moriyama, Shiga, etc.	―	2,264	―	Impairment loss
Employee dormitory	Buildings, etc.	Nobeoka, Miyazaki, etc.	―	370	―	Impairment loss
Processing facility for fiber products	Buildings, etc.	Fujiyoshida, Yamanashi	―	299	―	Impairment loss
R&D facility	Buildings, etc.	Kawasaki-ku, Kawasaki, Kanagawa	―	294	―	Impairment loss
Office assets	Buildings, etc.	Chiyoda-ku, Tokyo, etc.	―	282	―	Impairment loss
Processing test facility for fiber products	Machinery and equipment, etc.	Nobeoka, Miyazaki	―	260	―	Impairment loss
Production facility for functional chemicals	Machinery and equipment, etc.	Osaka, Osaka, etc.	―	195	―	Business structure improvement expenses
Underground waste storage facility	Structures, etc.	Hyuga, Miyazaki, etc.	―	176	―	Impairment loss
Others	Machinery and equipment, etc.	Nobeoka, Miyazaki, etc.	―	362	―	Impairment loss and business structure improvement expenses
Goodwill, Customer-related assets and others related to Polypore	Goodwill and other intangible assets	North Carolina, U.S.A	186,376	―	1,395,657	Impairment loss
Production facility for plastic containers	Buildings, etc.	Ota, Gunma, etc.	2,337	―	17,500	Business structure improvement expenses
Production facility for AAC	Machinery and equipment, etc.	Iwakuni, Yamaguchi, etc.	2,105	―	15,763	Business structure improvement expenses
Office assets	Buildings	Chiyoda-ku, Tokyo	1,004	―	7,518	Impairment loss
Thermal power generation facility	Machinery and equipment, etc.	Nobeoka, Miyazaki	622	―	4,658	Impairment loss
R&D facility	Tools, furniture, and fixtures, etc.	North Rhine-Westphalia, Germany	433	―	3,242	Impairment loss
Processing test facility for fiber products	Machinery and equipment, etc.	Echizen, Fukui	407	―	3,048	Impairment loss
Production facility for nonwoven fabrics	Machinery and equipment, etc.	Moriyama, Shiga	176	―	1,318	Impairment loss
Systems related to new business	Other intangible assets	Chiyoda-ku, Tokyo, etc.	175	―	1,310	Impairment loss
Others	Machinery and equipment, etc.	Sarushima, Ibaraki, etc.	270	―	2,022	Impairment loss and business structure improvement expenses

Grouping of operating assets is based on managerial accounting categories, with consideration given to production process, geographic location, and domain of authority for making investment decisions. Idle assets are recorded separately in each fixed assets class. The book value of Goodwill, etc. related to Polypore was reduced to the recoverable amount, following changing business operation and the asset grouping unit. The recoverable amount of these assets was measured by value in use, which was measured by discounting future cash flows at a discount rate of 14.5%. For more information, please refer to 3. Significant Accounting Estimates (b) Measurement of impairment loss on noncurrent assets including goodwill recognized at acquisition of Polypore International, LP. The book value of production facility for plastic containers, production facility for AAC, and processing test facility for fiber products was reduced to the recoverable amount due to diminished profitability. The recoverable amount of these assets was measured by value in use, which was measured by discounting future cash flows at a discount rate of 6.0%, other than for those assets whose cash flows are estimated to be negative, for which have a recoverable amount of zero has been used. The book value of office assets, thermal power generation facility, R&D facility, production facility for nonwoven fabrics and systems related to new business was reduced to zero due to the lack of prospects for future use. Among the extraordinary losses under Others, ¥16 million (US$120 thousand) and ¥270 million were recorded under business structure improvement expenses for the years ended March 2023 and 2022, respectively.

(g) Loss on fire at plant facilities

Loss on fire at plant facilities was recorded for the year ended March 31, 2023 due to a fire that occurred on April 9, 2022, at the Bemberg manufacturing plant of the Company.

(h) Business structure improvement expenses

Major components of business structure improvement expenses for the years ended March 31, 2023 and 2022, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Impairment of fixed assets	¥4,459	¥465	$33,391
Additional payment of retirement benefits due to application of early retirement, etc.	982	3,015	7,354
Loss on disposal and devaluation of inventory and others	7,885	11,538	59,046

7. Notes to Consolidated Statements of Comprehensive Income

Recycling adjustment and tax effects on 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 gain on other securities			
Changes during the fiscal year	¥6,743	¥(10,897)	$50,494
Recycling adjustment	(26,546)	(26,145)	(198,787)
Pre-tax effect	(19,803)	(37,042)	(148,293)
Tax effect	6,097	11,296	45,657
Net unrealized gain on other securities	(13,706)	(25,746)	(102,636)
Deferred gains or losses on hedges			
Changes during the fiscal year	(576)	1,029	(4,313)
Recycling adjustment	1,157	427	8,664
Adjustment on the acquisition cost of assets	—	(1,499)	—
Pre-tax effect	581	(43)	4,351
Tax effect	(167)	48	(1,251)
Deferred gains or losses on hedges	414	5	3,100
Foreign currency translation adjustment			
Changes during the fiscal year	95,380	114,406	714,243
Recycling adjustment	(38)	—	(285)
Foreign currency translation adjustment	95,343	114,406	713,966
Remeasurements of defined benefit plans			
Changes during the fiscal year	41,525	4,169	310,956
Recycling adjustment	2,338	3,565	17,508
Pre-tax effect	43,863	7,733	328,463
Tax effect	(13,270)	(2,330)	(99,371)
Remeasurements of defined benefit plans	30,593	5,403	229,092
Share of other comprehensive income of affiliates accounted for using equity method			
Changes during the fiscal year	2,544	3,707	19,050
Recycling adjustment	—	(107)	—
Share of other comprehensive income of affiliates accounted for using equity method	2,544	3,599	19,050
Total other comprehensive income	¥115,188	¥97,668	$862,573

8. Notes to Consolidated Statements of Changes in Net Assets

For the year ended March 31, 2023

(a) Class and total number of issued and outstanding shares and treasury stock

	Thousands of shares			
	Number of shares as of March 31, 2022	Increase in number of shares during the fiscal year	Decrease in number of shares during the fiscal year	Number of shares as of March 31, 2023
Issued and outstanding shares				
Common stock	1,393,932	–	–	1,393,932
Total	1,393,932	–	–	1,393,932
Treasury stock				
Common stock (*1,2,3)	6,641	1,390	167	7,864
Total	6,641	1,390	167	7,864

(*1)The increase of 1,390 thousand shares in common stock of treasury stock was primarily attributable to the purchase of 1,381 thousand shares by the trust for granting shares to Directors, etc., and the purchase of 9 thousand shares in quantities of less than one share unit.

(*2)The decrease of 167 thousand shares in common stock of treasury stock was primarily attributable to the disposal of167 thousand shares by the trust for granting shares to Directors, etc., and the sale of 0 thousand shares in quantities of less than one share unit.

(*3)The number of shares of treasury stock as of March 31, 2023, includes 1,776 thousand shares held by the trust for granting shares to Directors, etc.

(b) Dividends

i) Cash dividends paid

1) The following was resolved by the Board of Directors on May 13, 2022.

Dividends for common stock

Total dividends	¥23,593 million (US$176,674 thousand)
Dividend per share	¥17.00 (US$0.13)
Date of record	March 31, 2022
Payment date	June 2, 2022

Note: Total dividends includes ¥10 million (US$75 thousand) for shares held by the trust for granting shares to Directors, etc.

2) The following was resolved by the Board of Directors on Nov 9, 2022.

Dividends for common stock

Total dividends	¥24,981 million (US$187,068 thousand)
Dividend per share	¥18.00 (US$0.13)
Date of record	September 30, 2022
Payment date	December 2, 2022

Note: Total dividends includes ¥7 million (US$52 thousand) for shares held by the trust for granting shares to Directors, etc.

ii) Dividends for which the date of record falls within the fiscal year under review but the payment date occurs in the following fiscal year

The following was resolved by the Board of Directors on May 10, 2023.

Dividends for common stock

Total dividends	¥24,981 million (US$187,068 thousand)
Source of dividends	Retained earnings
Dividend per share	¥18.00 (US$0.13)
Date of record	March 31, 2023
Payment date	June 5, 2023

Note: Total dividends includes ¥32 million (US$240 thousand) for shares held by the trust for granting shares to Directors, etc.

For the year ended March 31, 2022

(a) Class and total number of issued and outstanding shares and treasury stock

	Thousands of shares			
	Number of shares as of March 31, 2021	Increase in number of shares during the fiscal year	Decrease in number of shares during the fiscal year	Number of shares as of March 31, 2022
Issued and outstanding shares				
Common stock	1,393,932	—	—	1,393,932
Total	1,393,932	—	—	1,393,932
Treasury stock				
Common stock (*1,2,3)	6,397	341	97	6,641
Total	6,397	341	97	6,641

(*1)The increase of 341 thousand shares in common stock of treasury stock was primarily attributable to the purchase of 330 thousand shares by the trust for granting shares to Directors, etc., and the purchase of 11 thousand shares in quantities of less than one share unit.

(*2)The decrease of 97 thousand shares in common stock of treasury stock was primarily attributable to the disposal of 96 thousand shares by the trust for granting shares to Directors, etc., and the sale of 1 thousand shares in quantities of less than one share unit.

(*3)The number of shares of treasury stock as of March 31, 2022, includes 561 thousand shares held by the trust for granting shares to Directors, etc.

(b) Dividends

i) Cash dividends paid

1) The following was resolved by the Board of Directors on May 13, 2021.

Dividends for common stock

Total dividends	¥23,594 million
Dividend per share	¥17.00
Date of record	March 31, 2021
Payment date	June 3, 2021

Note: Total dividends includes ¥6 million for shares held by the trust for granting shares to Directors, etc.

2) The following was resolved by the Board of Directors on Nov 5, 2021.

Dividends for common stock

Total dividends	¥23,594 million
Dividend per share	¥17.00
Date of record	September 30, 2021
Payment date	December 2, 2021

Note: Total dividends includes ¥7 million for shares held by the trust for granting shares to Directors, etc.

ii) Dividends for which the date of record falls within the fiscal year under review but the payment date occurs in the following fiscal year

The following was resolved by the Board of Directors on May 13, 2022.

Dividends for common stock

Total dividends	¥23,593 million
Source of dividends	Retained earnings
Dividend per share	¥17.00
Date of record	March 31, 2022
Payment date	June 2, 2022

Note: Total dividends includes ¥10 million for shares held by the trust for granting shares to Directors, etc.

9. Notes to Consolidated Statements of Cash Flows

(a) Cash and cash equivalents

Reconciliation of cash and cash equivalents on the consolidated statements of cash flows to the amounts disclosed on the consolidated balance sheets at March 31, 2023 and 2022, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Cash and deposits	¥251,181	¥244,641	$1,880,942
Time deposits with deposit term of over 3 months	(3,278)	(1,694)	(24,547)
Cash and cash equivalents	¥247,903	¥242,928	$1,856,395

(b) Assets and liabilities of newly consolidated subsidiaries through acquisition of shares

For the year ended March 31, 2023

Assets and liabilities of acquired companies (Bionova Holdings, Inc. and 1 consolidated subsidiary) and net cash outflow for such acquisition is as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥1,543	$11,555
Noncurrent assets	13,246	99,191
Goodwill	35,455	265,501
Current liabilities	(1,491)	(11,165)
Noncurrent liabilities	(3,056)	(22,885)
Foreign currency translation adjustment	(2,816)	(21,087)
Acquisition cost of shares	42,882	321,117
Cash and cash equivalents	(341)	(2,554)
Net cash used for acquisition	¥42,541	$318,564

Assets and liabilities of acquired companies (Focus Plumbing LLC and 5 consolidated subsidiaries) and net cash outflow for such acquisition is as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥9,620	$72,038
Noncurrent assets	986	7,384
Goodwill	34,952	261,734
Current liabilities	(9,375)	(70,204)
Acquisition cost of shares	36,183	270,953
Cash and cash equivalents	(303)	(2,269)
Net cash used for acquisition	¥35,879	$268,676

For the year ended March 31, 2022

Assets and liabilities of acquired company (Respicardia, Inc.) and net cash outflow for such acquisition is as follows:

	Millions of yen
Current assets	¥408
Noncurrent assets	16,185
Goodwill	14,362
Current liabilities	(278)
Noncurrent liabilities	(24)
Acquisition cost of shares	30,653
Unpaid conditional consideration included in acquisition cost	(5,640)
Loans and accrued interest	(11,775)
Net cash used for acquisition	¥13,238

Assets and liabilities of acquired companies (NXT Building Group Pty Ltd, which company name changed from McDonald Jones Homes Pty Ltd, and 18 consolidated subsidiaries) and net cash outflow for such acquisition is as follows:

	Millions of yen
Current assets	¥24,301
Noncurrent assets	19,877
Goodwill	5,454
Current liabilities	(23,084)
Noncurrent liabilities	(4,172)
Foreign currency translation adjustment	(52)
Non-controlling interests	(3,384)
Appraisal value of equity by the time of acquisition	(7,748)
Reversal of valuation difference by the time of acquisition	64
Gain on step acquisitions	(1,700)
Acquisition cost of shares	9,555
Cash and cash equivalents	(2,931)
Net cash used for acquisition	¥6,624

Assets and liabilities of acquired companies (Itamar Medical Ltd. and 5 consolidated subsidiaries) and net cash outflow for such acquisition is as follows:

	Millions of yen
Current assets	¥9,896
Noncurrent assets	17,839
Goodwill	37,776
Current liabilities	(4,398)
Noncurrent liabilities	(258)
Acquisition cost of shares	60,855
Cash and cash equivalents	(7,064)
Net cash used for acquisition	¥53,791

10. Leases

(a) Financing lease transactions

Financing lease transactions without title transfer and right-of-use assets of overseas subsidiaries under IFRS 16 and ASC 842

(Lessee)

i) Components of lease assets are as follows:

1) Building, property, plant and equipment: Mainly the right to use buildings, land and production facilities.

The right-of-use assets are included in "Other" in the consolidated balance sheets for the fiscal year under review.

2) Intangible assets: Software

ii) Depreciation of lease assets:

As stated in Note 2 “Significant accounting policies (c) Noncurrent assets and depreciation/amortization.”

(b) Operating lease transactions

(Lessee)

Future lease payments for the non-cancelable portion of the Company’s operating leases at March 31, 2023 and 2022, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Due within one year	¥6,920	¥9,759	$51,820
Due after one year	8,009	20,575	59,975
Total	¥14,929	¥30,333	$111,794

11. Financial instruments

(a) Overview of financial instruments

i) Policy related to financial instruments

The Company raises long-term funds as required mainly for its planned capital expenditures by borrowing from banks, borrowing from life insurance companies, issuing bonds, etc. A portion of the surplus funds is invested only in highly stable financial assets. Short-term working funds are raised by bank borrowings, issuance of commercial paper, etc. Derivative financial instruments are mainly entered into for the purpose of reducing risks related to assets and liabilities which are exposed to risks of fluctuations of exchange rate and interest rate. Derivatives are not traded for speculative purposes.

ii) Components of financial instruments, their risks and risk management structure

As operating receivables, notes and accounts receivable–trade are exposed to credit risk of customers. As the business of the Company spans a wide range of fields, operating receivables are not excessively concentrated on specific customers, but the parent company and each consolidated subsidiary monitor and manage the credit condition of each customer.

Investment securities are exposed to the risk of fluctuations in market price, but they are mainly equity securities of companies with which the Company has business relationships. These securities are held for the purpose of maintaining the business relationships. Fair value is periodically evaluated, and the financial condition of the issuing company is monitored.

As operating liabilities, notes and accounts payable–trade generally have a payment term of 1 year or less.

Variable interest-rate borrowings are exposed to the risk of interest-rate fluctuations, but derivatives (interest-rate swaps) are used as hedges to fix interest expenses for a portion of long-term variable interest-rate borrowings.

Operating receivables and operating liabilities include those denominated in currencies other than Japanese yen, and are thus exposed to the risk of exchange-rate fluctuations. In order to reduce the effects of short-term exchange-rate fluctuations, the Company hedges with derivative financial instruments (forward exchange contracts), in principle, within the range of the actual demand.

Derivative financial instruments are exposed to the credit risk of transacting financial institutions, but the credit condition of those financial institutions is reviewed through periodical monitoring. Such transactions are performed and managed in accordance with the Company’s internal regulations which stipulate the related authority, procedures, limits, etc.

Borrowings are exposed to liquidity risk, but the parent company specifies standards for required on-hand funds based on the Company's funding plans, prepares and revises plans for cash receipts and disbursements as appropriate, and enters into commitment-line agreements with transacting financial institutions to manage such risk.

iii) Supplementary explanation of fair value of financial instruments

As variable factors are incorporated in its estimation, fair value may change due to the adoption of different assumptions, conditions, etc. The stated amount of contracts regarding derivative financial instruments included in Note 13 "Derivative financial instruments" is not itself an indication of the market risk of the derivative financial instruments.

(b) Fair value of financial instruments

Amounts carried on the consolidated balance sheets, their fair values, and the differences between them as of March 31, 2023 and 2022, were as follows:

	Millions of yen		
	2023		
	Carrying amount(*1)	Fair value	Difference
Investment securities(*2)			
Investments in affiliates	¥19,029	¥22,744	¥3,715
Other securities	93,312	93,312	−
Long-term loans receivable	9,347	9,360	13
Total assets	121,688	125,415	3,728
Bonds payable	210,000	207,162	2,838
Long-term loans payable	464,885	460,239	4,646
Lease obligations	35,292	34,987	304
Long-term guarantee deposits	22,703	22,722	(19)
Total liabilities	732,879	725,110	7,769
Derivative financial instruments(*3)	¥(732)	¥(732)	¥−

	Millions of yen		
	2022		
	Carrying amount(*1)	Fair value	Difference
Investment securities(*2)			
Investments in affiliates	¥16,947	¥16,128	¥ (820)
Other securities	125,475	125,475	−
Long-term loans receivable	7,112	7,107	(5)
Total assets	149,535	148,710	(824)
Bonds payable	160,000	159,021	979
Long-term loans payable	326,970	324,238	2,732
Lease obligations	10,939	11,215	(277)
Long-term guarantee deposits	22,490	22,500	(11)
Total liabilities	520,398	516,975	3,424
Derivative financial instruments(*3)	¥(3,072)	¥(3,072)	¥−

	Thousands of U.S. dollars		
	2023		
	Carrying Amount(*1)	Fair value	Difference
Investment securities(*2)			
Investments in affiliates	$142,497	$170,316	$27,819
Other securities	698,757	698,757	—
Long-term loans receivable	69,994	70,091	97
Total assets	911,248	939,157	27,917
Bonds payable	1,572,563	1,551,310	21,252
Long-term loans payable	3,481,242	3,446,451	34,791
Lease obligations	264,280	261,996	2,276
Long-term guarantee deposits	170,009	170,151	(142)
Total liabilities	5,488,086	5,429,909	58,177
Derivative financial instruments(*3)	$(5,482)	$(5,482)	$—

(*1) As their fair value approximates book value due to their short maturity, Cash and deposits, notes and accounts receivable–trade, notes and accounts payable–trade, short-term loans payable, commercial paper, and income taxes payable are not included.
(*2) Other securities which do not have market price in active market are not included in the above table. The amount on consolidated balance sheets of the financial instruments:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Equity investments in nonpublic companies	¥99,653	¥104,167	$746,241
Equity securities	¥618	¥111	$4,628

(*3) The amounts represent the net of assets and liabilities resulting from derivative financial instruments. In the case of a net liability, the amount is shown in parentheses.

Note 1) For monetary credits and securities with maturity, the amounts scheduled for redemption subsequent to the closing date are as follows:

	Millions of yen			
	2023			
	Due within one year	Due after one year, within five years	Due after five years, within ten years	Due after more than ten years
Cash and deposits	¥251,181	¥—	¥—	¥—
Notes receivable–trade	20,887	—	—	—
Accounts receivable-trade	380,745	—	—	—
Long-term loans receivable	881	7,848	617	—
Total	¥653,694	¥7,848	¥617	¥—

	Millions of yen			
	2022			
	Due within one year	Due after one year, within five years	Due after five years, within ten years	Due after more than ten years
Cash and deposits	¥244,641	¥—	¥—	¥—
Notes receivable–trade	20,851	—	—	—
Accounts receivable-trade	377,905	—	—	—
Long-term loans receivable	885	5,690	538	—
Total	¥644,282	¥5,690	¥538	¥—

	Thousands of U.S. dollars			
	2023			
	Due within one year	Due after one year, within five years	Due after five years, within ten years	Due after more than ten years
Cash and deposits	$1,880,942	$—	$—	$—
Notes receivable–trade	156,410	—	—	—
Accounts receivable-trade	2,851,168	—	—	—
Long-term loans receivable	6,597	58,769	4,620	—
Total	$4,895,118	$58,769	$4,620	$—

Note 2) For bonds payable, long-term loans payable, lease obligations, and other interest-bearing debt, the amounts scheduled for repayment subsequent to the closing date are as follows:

Year ending March 31	Millions of yen					
	2023					
	Short-term loans payable	Commercial paper	Bonds payable	Long-term loans payable	Lease obligations	Total
2024	¥140,571	¥124,000	¥40,000	¥55,461	¥6,766	¥366,798
2025	—	—	30,000	51,864	5,754	87,618
2026	—	—	20,000	63,026	4,545	87,570
2027	—	—	20,000	62,054	3,844	85,898
2028	—	—	20,000	60,480	2,771	83,251
2029 and thereafter	—	—	80,000	172,000	11,612	263,612

Year ending March 31	Millions of yen					
	2022					
	Short-term loans payable	Commercial paper	Bonds payable	Long-term loans payable	Lease obligations	Total
2023	¥166,306	¥113,000	¥—	¥73,186	¥2,224	¥354,715
2024	—	—	40,000	51,778	1,560	93,338
2025	—	—	30,000	53,240	1,353	84,593
2026	—	—	10,000	62,570	1,153	73,723
2027	—	—	20,000	60,948	887	81,835
2028 and thereafter	—	—	60,000	25,248	3,763	89,011

Year ending March 31	Thousands of U.S dollars					
	2023					
	Short-term loans payable	Commercial paper	Bonds payable	Long-term loans payable	Lease obligations	Total
2024	$1,052,651	$928,561	$299,536	$415,314	$50,666	$2,746,728
2025	—	—	224,652	388,378	43,088	656,118
2026	—	—	149,768	471,963	34,035	655,759
2027	—	—	149,768	464,685	28,785	643,238
2028	—	—	149,768	452,898	20,750	623,416
2029 and thereafter	—	—	599,071	1,288,004	86,955	1,974,030

(C)Fair value of financial instruments by level

Fair value of financial instruments is classified into the following three levels according to the observability and materiality of the inputs related to the fair value measurement.

Level 1:
Fair value is measured by quoted based on the market price (unadjusted) in active markets for identical assets or liabilities.

Level 2:
Fair value is measured by using direct or indirect observable inputs other than those of level 1.

Level 3:
Fair value is measured by using significant unobservable inputs.

When using multiple inputs that have a significant impact on fair value measurement, among the classifications of such inputs, priority is given to the lowest level in fair value measurement.

Cash is omitted from notes, and deposits, notes and accounts receivable–trade, notes and accounts payable–trade, short-term loans payable, commercial paper, and income taxes payable are not included in the categories below as they are settled in a short period of time and their fair values are similar to their book values.

Fair value of financial assets and liabilities recorded on the consolidated balance sheets at March 31, 2023 and 2022, were as follows:

	Millions of yen			
	2023			
	Level 1	Level 2	Level 3	Total
Investment securities				
Equity securities	¥93,146	¥—	¥166	¥93,312
Long-term loans receivable	—	—	1,029	1,029
Total assets	¥93,146	¥—	¥1,195	¥94,341
Derivative financial instruments				
Currency-related	—	732	—	732
Total liabilities	¥—	¥732	¥—	¥732

	Millions of yen			
	2022			
	Level 1	Level 2	Level 3	Total
Investment securities				
Equity securities	¥125,057	¥—	¥418	¥125,475
Long-term loans receivable	—	—	2,683	2,683
Total assets	¥125,057	¥—	¥3,101	¥128,158
Derivative financial instruments				
Currency-related	—	3,072	—	3,072
Total liabilities	¥—	¥3,072	¥—	¥3,072

	Thousands of U.S. dollars			
	2023			
	Level 1	Level 2	Level 3	Total
Investment securities				
Equity securities	$697,514	$—	$1,243	$698,757
Long-term loans receivable	—	—	7,706	7,706
Total assets	$697,514	$—	$8,949	$706,462
Derivative financial instruments				
Currency-related	—	5,482	—	5,482
Total liabilities	$—	$5,482	$—	$5,482

Fair value of financial assets and liabilities not recorded on the consolidated balance sheets at March 31, 2023 and 2022, were as follows:

	Millions of yen			
	2023			
	Level 1	Level 2	Level 3	Total
Investment securities				
Investments in affiliates	¥22,744	¥—	¥—	¥22,744
Long-term loans receivable	—	—	8,331	8,331
Total assets	¥22,744	¥—	¥8,331	¥31,075
Bonds payable	—	207,162	—	207,162
Long-term loans payable	—	—	460,239	460,239
Lease obligations	—	—	34,987	34,987
Long-term guarantee deposits	—	—	22,722	22,722
Total liabilities	¥—	¥207,162	¥517,948	¥725,110

	Millions of yen			
	2022			
	Level 1	Level 2	Level 3	Total
Investment securities				
Investments in affiliates	¥16,128	¥—	¥—	¥16,128
Long-term loans receivable	—	—	4,425	4,425
Total assets	¥16,128	¥—	¥4,425	¥20,552
Bonds payable	—	159,021	—	159,021
Long-term loans payable	—	—	324,238	324,238
Lease obligations	—	—	11,215	11,215
Long-term guarantee deposits	—	—	22,500	22,500
Total liabilities	¥—	¥159,021	¥357,954	¥516,975

	Thousands of U.S. dollars			
	2023			
	Level 1	Level 2	Level 3	Total
Investment securities				
Investments in affiliates	$170,316	$—	$—	$170,316
Long-term loans receivable	—	—	62,386	62,386
Total assets	$170,316	$—	$62,386	$232,702
Bonds payable	—	1,551,310	—	1,551,310
Long-term loans payable	—	—	3,446,451	3,446,451
Lease obligations	—	—	261,996	261,996
Long-term guarantee deposits	—	—	170,151	170,151
Total liabilities	$—	$1,551,310	$3,878,598	$5,429,909

Explanation of the valuation techniques and inputs used to calculate fair value:

Investment securities

Equity investments in listed public companies are evaluated using the market price. As equity investments in public companies are traded in active markets, the fair value is classified as Level 1. When liquidity is low or significant unobservable inputs are used, fair value is classified as Level 3.

Derivative financial instruments

Fair value of interest-rate swaps and forward exchange contracts are measured by observable inputs such as interest rates and foreign exchange rates, and classified as Level 2.

Long-term loans receivable

Fair value is measured based on the amount of the total of the principal and interest, discounted at the rate that would apply in the case of making a new loan with the same terms. As discount measurement is considered a significant unobservable input, it is classified as Level 3. Fair value of loans with conversion rights are estimated considering both the case of the option being exercised as well as not being exercised, and adjustment being made accordingly. As significant unobservable inputs such as future earnings estimates are used, it is classified as Level 3.

Bonds payable

Fair value of bonds issued by the Company is measured based on market prices (reference trading statistics) and classified as Level 2.

Long-term loans payable

Fair value is measured based on the amount of the total of the principal and interest, discounted at the rate that would apply in the case of making a new borrowing with the same terms. The fair value is classified as Level 3.

Lease obligations

Fair value is measured based on the amount of the total of the principal and interest, discounted at the rate that would apply in the case of making a new lease obligation. As discount measurement is considered a significant unobservable input, it is classified as Level 3.

Long-term guarantee deposits

When the period of deposit is estimatable, fair value is measured by discounting over that period. As discount measurement is considered a significant unobservable input, it is classified as Level 3.

12. Marketable securities and investment securities

(a) Other securities with available fair value

The aggregate cost, carrying amount which was identical to fair value, and gross unrealized gains and losses of debt and equity securities classified as other securities for which fair values were available at March 31, 2023 and 2022, were as follows:

		Millions of yen 2023		
		Carrying amount	Cost	Unrealized gains (losses)
Securities with unrealized gains:				
	Equity securities	¥90,086	¥14,436	¥75,650
	Subtotal	90,086	14,436	75,650
Securities with unrealized losses:				
	Equity securities	3,225	3,631	(406)
	Subtotal	3,225	3,631	(406)
Total		¥93,312	¥18,067	¥75,244

For equity investments in nonpublic companies and equity securities, with a carrying amount of ¥99,653 million and ¥618 million, respectively, as of March 31, 2023, fair value is not included in the above table as no quoted market price is available.

		Millions of yen		
		2022		
		Carrying amount	Cost	Unrealized gains (losses)
Securities with unrealized gains:				
	Equity securities	¥122,737	¥23,097	¥99,641
	Subtotal	122,737	23,097	99,641
Securities with unrealized losses:				
	Equity securities	2,738	3,577	(839)
	Subtotal	2,738	3,577	(839)
Total		¥125,475	¥26,673	¥98,802

For equity investments in nonpublic companies and equity securities, with a carrying amount of ¥104,167 million and ¥111 million, respectively, as of March 31, 2022, fair value is not included in the above table as no quoted market price is available.

		Thousands of U.S. dollars		
		2023		
		Carrying amount	Cost	Unrealized gains (losses)
Securities with unrealized gains:				
	Equity securities	$674,599	$108,102	$566,497
	Subtotal	674,599	108,102	566,497
Securities with unrealized losses:				
	Equity securities	24,150	27,190	(3,040)
	Subtotal	24,150	27,190	(3,040)
Total		$698,757	$135,293	$563,457

For equity investments in nonpublic companies and equity securities, with a carrying amount of $746,241 thousand and $4,628 thousand, respectively, as of March 31, 2023, fair value is not included in the above table as no quoted market price is available.

(b) Realized gains and losses on the sale of other securities

The realized gains and losses on the sale of other securities during the years ended March 31, 2023 and 2022, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Selling amount	¥41,601	¥31,991	$311,525
Gain on sales of securities	32,131	26,545	240,610
Loss on sales of securities	—	—	—

(c) Loss on other devaluation of investment securities whose fair values are readily determinable

Loss on other devaluation of investment securities whose fair values are readily determinable for the year ended March 31, 2023, was ¥2,805 million (US$21,005 thousand), which is the sum of ¥2,467 million (US$18,474 thousand) for equity securities of other securities and ¥338 million (US$2,531 thousand) for convertible bonds of other securities, etc. For the year ended March 31, 2022, ¥511 million, which was the sum of ¥12 million for equity securities of unconsolidated subsidiaries and affiliates and ¥499 million for other securities.

13. Derivative financial instruments

(a) Derivative financial instruments for which hedge accounting is not applied

i) Forward exchange contracts

		Millions of yen			
		2023			
Classification	Items	Amount of contract	Amount of contract over 1 year	Fair value	Profit (loss) from valuation
Off-market transactions	Forward exchange contracts				
	Selling				
	U.S. dollar	¥37,708	¥—	¥(253)	¥(253)
	Euro	16,811	—	(460)	(460)
	Thai baht	1,323	—	(11)	(11)
	British pound	47	—	(2)	(2)
	Chinese yuan	3,391	—	(36)	(36)
	Buying				
	U.S. dollar	3,721	—	(28)	(28)
	Euro	71	—	2	2
	Chinese yuan	58	—	(3)	(3)
	Japanese yen	1,000	—	(33)	(33)
	Total	¥64,131	¥—	¥(823)	¥(823)

		Millions of yen			
		2022			
Classification	Items	Amount of contract	Amount of contract over 1 year	Fair value	Profit (loss) from valuation
Off-market transactions	Forward exchange contracts				
	Selling				
	U.S. dollar	¥42,590	¥—	¥(1,605)	¥(1,605)
	Euro	15,154	—	(694)	(694)
	Thai baht	1,868	—	(92)	(92)
	British pound	46	—	(1)	(1)
	Chinese yuan	4,466	—	(260)	(260)
	Australian dollar	—	—	—	—
	Buying				
	U.S. dollar	4,320	—	225	225
	Euro	53	—	2	2
	Chinese yuan	8	—	0	0
	Japanese yen	22	—	(1)	(1)
	Total	¥68,527	¥—	¥(2,425)	¥(2,425)

Classification	Items	Thousands of U.S. dollars 2023 Amount of contract	Amount of contract over 1 year	Fair value	Profit (loss) from valuation
Off-market transactions	Forward exchange contracts				
	Selling				
	U.S. dollar	$282,372	$—	$(1,895)	$(1,895)
	Euro	125,887	—	(3,445)	(3,445)
	Thai baht	9,907	—	(82)	(82)
	British pound	352	—	(15)	(15)
	Chinese yuan	25,393	—	(270)	(270)
	Buying				
	U.S. dollar	28,905	—	(195)	(195)
	Euro	532	—	15	15
	Chinese yuan	434	—	(22)	(22)
	Japanese yen	382	—	(247)	(247)
	Total	$474,173	$—	$(6,163)	$(6,163)

(b) Derivative financial instruments for which hedge accounting is applied

i) Forward exchange contracts

Classification	Items	Hedged assets/liabilities	Millions of yen 2023 Amount of contract	Amount of contract over 1 year	Fair value
Principle-based accounting	Forward exchange contracts				
	Selling				
	U.S. dollar	Accounts receivable–trade	¥3,079	¥248	¥96
	Euro	Accounts receivable–trade	236	—	(5)
	British pound	Accounts receivable–trade	2	—	(0)
	Chinese yuan	Accounts receivable–trade	12	—	0
	Buying				
	U.S. dollar	Accounts payable–trade	526	—	3
	Euro	Accounts payable–trade	1	—	0
	Japanese yen	Accounts payable–trade	299		(3)
	Chinese yuan	Accounts payable–trade	1		(0)
	Total		¥4,155	¥248	¥91

Classification	Items	Hedged assets/liabilities	Millions of yen 2022 Amount of contract	Amount of contract over 1 year	Fair value
Principle-based accounting	Forward exchange contracts				
	Selling				
	U.S. dollar	Accounts receivable–trade	¥5,646	¥—	¥(583)
	Euro	Accounts receivable–trade	1,208	—	(66)
	British pound	Accounts receivable–trade	2	—	0
	Chinese yuan	Accounts receivable–trade	103	—	(3)
	Buying				
	U.S. dollar	Accounts payable–trade	18	—	7
	Euro	Accounts payable–trade	0	—	0
	Japanese yen	Accounts payable–trade	5	—	(0)
	Chinese yuan	Accounts payable–trade	—	—	—
	Total		¥6,983	¥—	¥(646)

Classification	Items	Hedged assets/liabilities	Thousands of U.S. dollars 2023 Amount of contract	Amount of contract over 1 year	Fair value
Principle-based accounting	Forward exchange contracts				
	Selling				
	U.S. dollar	Accounts receivable–trade	$23,057	$1,857	$719
	Euro	Accounts receivable–trade	1,767	—	(37)
	British pound	Accounts receivable–trade	15	—	(0)
	Chinese yuan	Accounts receivable–trade	90	—	0
	Buying				
	U.S. dollar	Accounts payable–trade	3,939	—	22
	Euro	Accounts payable–trade	7	—	0
	Japanese yen	Accounts payable–trade	112	—	(22)
	Chinese yuan	Accounts payable–trade	7	—	(0)
	Total		$28,995	$1,857	$681

ii) Interest-rate swaps, and interest-rate and currency swaps

Classification	Items	Hedged assets/liabilities	Millions of yen 2023 Amount of contract	Amount of contract over 1 year	Fair value
Special treatment for interest-rate swaps	Interest-rate swaps				
	Pay fixed/receive floating	Long-term loans payable	¥44,926	¥32,168	(*)
	Total		¥44,926	¥32,168	¥—

(*) Fair value of interest-rate swaps for which special treatment is applied, is included in fair value of the corresponding long-term loans payable for which hedge accounting is applied.

Classification	Items	Hedged assets/liabilities	Millions of yen 2022 Amount of contract	Amount of contract over 1 year	Fair value
Special treatment for interest-rate swaps	Interest-rate swaps Pay fixed/receive floating	Long-term loans payable	¥68,373	¥48,495	(*)
	Total		¥68,373	¥48,495	¥−

(*) Fair value of interest-rate swaps for which special treatment is applied, is included in fair value of the corresponding long-term loans payable for which hedge accounting is applied.

Classification	Items	Hedged assets/liabilities	Thousands of U.S. dollars 2023 Amount of contract	Amount of contract over 1 year	Fair value
Special treatment for interest-rate swaps	Interest-rate swaps Pay fixed/receive floating	Long-term loans payable	$336,424	$240,887	(*)
	Total		$336,424	$240,887	$−

(*) Fair value of interest-rate swaps for which special treatment is applied, is included in fair value of the corresponding long-term loans payable for which hedge accounting is applied.

14. Provision for retirement benefits

Upon terminating employment, employees of the parent company and its subsidiaries are entitled, under most circumstances, to lump-sum severance indemnities and/or pension payments determined by reference mainly to their current basic rate of pay and length of service and/or defined contribution plans. Additional benefits may be granted to employees depending on the conditions under which termination of employment occurs. Certain consolidated subsidiaries adopt the simplified method in calculating expected defined benefit liability.

Reconciliations of beginning and ending balances of projected benefit obligations for the fiscal years ended March 31, 2023 and 2022, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Beginning balance of the projected benefit obligations	¥409,425	¥410,947	$3,065,935
Service cost	15,197	15,145	113,801
Interest cost	747	724	5,594
Actuarial gains/losses	(40,852)	8	(305,916)
Payment of retirement benefits	(21,727)	(18,667)	(162,700)
Prior service cost	(8,478)	−	(63,487)
Other	614	1,268	4,598
Ending balance of the projected benefit obligations	¥354,926	¥409,425	$2,657,825

Reconciliations of beginning and ending balances of plan assets for the fiscal years ended March 31, 2023 and 2022, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Beginning balance of plan assets	¥258,537	¥252,115	$1,936,027
Expected return	6,455	6,255	48,338
Actuarial gains/losses	(7,806)	4,177	(58,454)
Contributions	5,502	5,875	41,201
Payment of retirement benefits	(10,724)	(9,743)	(80,306)
Other	90	(142)	674
Ending balance of plan assets	¥252,054	¥258,537	$1,887,479

Reconciliations of ending balance of projected benefit obligations and the plan assets, and of net defined benefit liability and net defined benefit asset, as recorded in the consolidated balance sheet at March 31, 2023 and 2022, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Projected benefit obligations of funded plans	¥226,790	¥263,033	$1,698,293
Plan assets	(252,054)	(258,537)	(1,887,479)
Subtotal	(25,264)	4,496	(189,187)
Projected benefit obligations of unfunded plans	128,136	146,392	959,533
Net of liability and asset that have been recorded in the consolidated balance sheets	¥102,872	¥150,888	$770,346
Net defined benefit liability	¥128,708	¥152,081	$963,816
Net defined benefit assets	¥(25,836)	¥(1,193)	$(193,470)
Net of liability and asset that have been recorded in the consolidated balance sheets	¥102,872	¥150,888	$770,346

Periodic retirement benefit expenses for employees and the breakdown of items for the years ended March 31, 2023 and 2022, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Service cost (net of employee contributions)	¥15,018	¥14,922	$112,461
Interest cost	747	724	5,594
Expected return on plan assets	(6,455)	(6,255)	(48,338)
Amortization of actuarial gains/losses	2,497	3,724	18,699
Amortization of prior service costs	(158)	(159)	(1,183)
Additional retirement benefits and other	2,176	3,522	16,295
Retirement benefit expenses of defined benefit plans	¥13,824	¥16,478	$103,520

The components of other comprehensive income on defined benefit plans for the fiscal years ended March 31, 2023 and 2022, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Prior service costs	¥8,320	¥(159)	$62,303
Actuarial gains/losses	35,543	7,893	266,160
Total	¥43,863	¥7,733	$328,463

Accumulated other comprehensive income on defined benefit plans at March 31, 2023 and 2022, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Unrecognized prior service costs	¥(9,474)	¥(1,154)	$(70,945)
Unrecognized actuarial gains/losses	(27,188)	8,355	(203,594)
Total	¥(36,663)	¥7,201	$(274,547)

Share by major classifications for plan assets at March 31, 2023 and 2022, was as follows:

	2023	2022
Bonds	36%	37%
Alternative investments	27%	25%
Stock	19%	22%
Life insurance	11%	11%
Cash and deposits	6%	4%
Other	0%	1%
Total	100%	100%

Note) Alternative investments include mainly investments in real estate, private equity and hedge funds.

The current and future allocation of plan assets, and the current and future long-term rate of expected return from the variety of assets that make up the plan assets, are considered in determining the long-term rate of expected return on plan assets.

Major actuarial assumptions at March 31, 2023 and 2022, were as follows:

	2023	2022
Discount rate	Mainly 0.9%	Mainly 0.1%
The long-term rate of expected return on plan assets	Mainly 2.5%	Mainly 2.5%
Expected rate of increase in salary	2.0–6.5%	2.0–6.5%

Required payments to defined contribution plans at March 31, 2023, amounted to ¥7,524 million (US$56,343 thousand), and at March 31, 2022, amounted to ¥6,921 million.

15. Taxes

Income taxes applicable to the parent company and subsidiaries in Japan include (1) corporation tax, (2) enterprise tax, and (3) inhabitants tax.

Significant components of deferred tax assets and liabilities at March 31, 2023 and 2022, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Deferred tax assets:			
Unrealized loss on share of subsidiaries and associates	¥31,447	¥31,447	$235,487
Net defined benefit liability	30,829	45,648	230,860
Tax loss carry forwards(*)	30,586	26,355	229,040
Foreign tax credit carry forwards	8,044	8,173	60,237
Accrued bonuses	7,235	7,747	54,179
Impairment losses	6,844	4,984	51,251
Loss on disposal of noncurrent assets	6,784	5,982	50,801
Unrealized gain on noncurrent assets and others	5,612	4,991	42,025
Other	45,656	41,825	341,890
Subtotal deferred tax assets	173,036	177,151	1,295,762
Valuation allowance for tax loss carryforwards(*)	(13,308)	(16,821)	(99,656)
Valuation allowance for deductible temporary difference	(41,597)	(39,183)	(311,495)
Less: Valuation allowance	(54,906)	(56,004)	(411,158)
Total deferred tax assets	118,130	121,147	884,604
Deferred tax liabilities:			
Identified intangible assets during business combination	(42,919)	(54,491)	(321,394)
Unrealized gain on other securities	(23,095)	(28,694)	(172,944)
Depreciation—overseas subsidiaries	(10,209)	(9,887)	(76,449)
Deferred gain on property, plant and equipment	(8,623)	(8,706)	(64,572)
Other	(15,135)	(17,109)	(113,337)
Total deferred tax liabilities	(99,980)	(118,887)	(748,690)
Net deferred tax assets (liabilities)	¥18,150	¥2,260	$135,914

(*) Tax loss carryforwards and related deferred tax assets by period of expiration at March 31, 2023 and 2022, were as follows:

	Millions of yen						
	2023						
	Up to 1year	Over 1year up to 2years	Over 2years up to 3years	Over 3years up to 4years	Over 4years up to 5years	Over 5years	Total
Tax loss carryforwards (*1)	¥344	¥597	¥571	¥649	¥208	¥28,217	¥30,586
Valuation allowance	(344)	(597)	(389)	(402)	(169)	(11,408)	(¥13,308)
Deferred tax assets	¥—	¥—	¥182	¥247	¥39	¥16,809	¥17,277 (*2)

(*1) Tax loss carryforwards are measured by multiplying the loss amounts by the statutory income tax rate.

(*2) Regarding tax loss carryforwards of ¥30,586 million (US$229,040 thousand), ¥17,277million (US$129,377 thousand) is recorded as deferred tax assets. This is the amount judged to be recoverable based on future expected taxable income.

	Millions of yen						
	2022						
	Up to 1year	Over 1year up to 2years	Over 2years up to 3years	Over 3years up to 4years	Over 4years up to 5years	Over 5years	Total
Tax loss carryforwards (*3)	¥337	¥4,986	¥547	¥1,488	¥810	¥18,189	¥26,355
Valuation allowance	(333)	(4,984)	(541)	(1,330)	(526)	(9,107)	(16,821)
Deferred tax assets	¥4	¥1	¥6	¥158	¥284	¥9,082	¥9,534 (*4)

(*3) Tax loss carryforwards are measured by multiplying the loss amounts by the statutory income tax rate.

(*4) Regarding tax loss carryforwards of ¥26,355 million, ¥9,534 million is recorded as deferred tax assets. This is the amount judged to be recoverable based on future expected taxable income.

	Thousands of U.S. dollars						
	2023						
	Up to 1year	Over 1year up to 2years	Over 2years up to 3years	Over 3years up to 4years	Over 4years up to 5years	Over 5years	Total
Tax loss carryforwards	$2,576	$4,471	$4,276	$4,860	$1,558	$211,300	$229,040
Valuation allowance	(2,576)	(4,471)	(2,913)	(3,010)	(1,266)	(85,428)	(99,656)
Deferred tax assets	$—	$—	$1,363	$1,850	$292	$125,872	$129,377

Reconciliation of the differences between the statutory tax rate and the effective income tax rate for the years ended March 31, 2023 and 2022, was as follows:

	2023	2022
Statutory tax rate	—	30.6%
Increase (reduction) in taxes resulting from:		
Non-deductible expenses and non-taxable income	—	0.4
R&D expenses deductible from income taxes	—	(2.2)
Amortization of goodwill and negative goodwill	—	4.0
Equity in (losses) earnings of unconsolidated subsidiaries and affiliates	—	(1.3)
Undistributed earnings (losses) of foreign subsidiaries	—	1.1
Difference of tax rates for foreign subsidiaries	—	(3.4)
Foreign subsidiary's unitary tax	—	(3.8)
Other	—	(1.6)
Effective income tax rate	—	23.8%

Note) For the year ended March 31, 2023, notes are omitted due to loss before income taxes.

The Company and some of its domestic consolidated subsidiaries adopt the group tax sharing system from the current fiscal year. Effective from the current fiscal year, the Group has adopted the "Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System" for accounting treatment and disclosure of tax effect accounting related to income taxes and local income taxes.

16. Business combinations

Business combinations accounted for by the purchase method were as follows:

(a) Acquisition of shares of Bionova Holdings, Inc.

Asahi Kasei Medical Co., Ltd. (Asahi Kasei Medical), a consolidated subsidiary of Asahi Kasei, concluded an agreement through Asahi Kasei Bioprocess Holdings, Inc., a U.S. subsidiary of Asahi Kasei Medical, to wholly acquire Bionova Holdings, Inc. (Registered in Delaware, U.S.; CEO: Darren Head), the 100% parent company of Bionova Scientific, LLC, a provider of contract process development services and GMP (Good Manufacturing Practice) compliant contract manufacturing services to biopharmaceutical companies, especially those developing next-generation antibody based drugs. The acquisition process was completed on May 31, 2022 (JST).

1. Outline of business combination

(1) Name and nature of business of counterparty

Name of acquired company: Bionova Holdings, Inc.

Nature of business: Biopharmaceutical manufacturing process development, GMP-compliant contract manufacturing of current and next-generation antibody drugs via its 100% owned operating subsidiary Bionova Scientific, LLC

(2) Main reasons for the acquisition

This acquisition enables Asahi Kasei Medical to add a biopharmaceutical CDMO (contract development and manufacturing organization) to its bioprocess business. As process development and GMP manufacturing operations are key to the overall success of biopharmaceutical customers' businesses and the launch of new drugs, being able to offer a broader range of critical know-how driven services to biopharmaceutical customers will allow Asahi Kasei Medical to grow its bioprocess business more rapidly by better serving the industry and by reaching a broader range of customers, including those at the cutting edge of next generation biopharmaceuticals.

(3) Acquisition date

May 31, 2022

(4) Statutory form of business combination

Stock purchase for cash as consideration

(5) Name of company after transaction

Bionova Holdings, Inc.

(6) Acquired voting right

Voting right before the acquisition: 0%

Voting right after the acquisition: 100%

(7) Grounds for determining acquiring company

Stock purchase for cash as consideration by a consolidated subsidiary

2. The period of acquired company's results included in the consolidated financial statements

From July 1, 2022, to March 31, 2023

3. Cost of acquisition and details

		Millions of yen	Thousands of U.S. dollars
Purchase consideration	cash	¥42,882	$321,117
Purchase price		¥42,882	$321,117

4. Major acquisition related costs

Advisory fees and others: ¥534 million (US$3,999 thousand)

5. Amount of goodwill, measurement principle, amortization method, and useful life

(1) Amount of goodwill:

¥35,455 million (US$265,501 thousand)

(2) Measurement principle:

Goodwill is measured as the excess of the purchase price over the fair value of identifiable assets acquired and liabilities assumed

(3) Amortization method and useful life:

Straight-line method over 20 years

6. Details of assets acquired and liabilities assumed as of the acquisition date

	Millions of yen	Thousands of U.S. dollars
Current assets	¥1,543	$11,555
Noncurrent assets	13,246	99,191
Total assets	¥14,789	$110,746
Current liabilities	¥1,491	$11,165
Noncurrent liabilities	3,056	22,885
Total liabilities	¥4,547	$34,050

7. Amount of identifiable intangible assets other than goodwill, its details and major weighted average useful life

(1) Purchase price allocated to intangible assets and its major items

Customer relationships ¥6,559 million (US$49,116 thousand)

(2) Major weighted average useful life

Customer relationships 20 years

8. Pro forma effects on the consolidated statements of income assuming the business combination had been completed at the beginning of fiscal year, and method of calculation thereof

Information is omitted due to immateriality. This note is not subject to audit.

(b) Acquisition of Focus Companies

Asahi Kasei Homes Corp. (Asahi Kasei Homes), a consolidated subsidiary of Asahi Kasei, concluded an agreement on October 14, 2022 (U.S. Eastern time) through a U.S. subsidiary of Asahi Kasei Homes, to acquire 100% ownership of Focus Plumbing LLC, Focus Framing, Door & Trim LLC, Focus Electric LLC, Focus Concrete, LLC, and Focus Fire Protection LLC (collectively referred to as “Focus Companies”), a Nevada-based residential plumbing, framing, electric, concrete, and fire protection group (CEO: Steve Menzies). The transaction was completed on October 31, 2022 (U.S. Eastern time).

1. Outline of business combination

(1) Name and nature of business of counterparty

Names of acquired companies: Focus Plumbing LLC, Focus Framing, Door & Trim LLC, Focus Electric LLC, Focus Concrete, LLC, Focus Fire Protection LLC

Nature of business: Nevada-based residential plumbing, framing, electric, concrete, and fire protection group

(2) Main reasons for the acquisition

While strengthening its core business of order-built unit homes in Japan, Asahi Kasei Homes considers North American and Australian businesses to be important sources of additional growth, positioned as one of the Asahi Kasei Group’s “10 Growth Gears” (GG10), businesses to lead the next phase of growth in fields of focus as part of its medium-term management plan for fiscal 2024 focused on the theme “Be a Trailblazer.” In North America, Asahi Kasei Homes acquired full ownership of Erickson Framing Operations LLC, an Arizona-based supplier of prefabricated building components in 2018; Austin companies(*1), an Arizona-based residential electrical, concrete, and HVAC group in 2020; and Brewer companies(*2), an Arizona-based residential plumbing group in 2021. Asahi Kasei Homes aims to enhance productivity and quality at manufacturing and construction sites by leveraging its systemization know-how. The Focus Companies have provided high-quality services for residential plumbing, framing, electric, concrete, etc., earning a strong reputation among builders. The acquisition of the Focus Companies was agreed based on expectation of firm housing demand resulting from a shortage of housing due to population growth in Nevada, while having positive synergies with existing businesses in the adjacent state of Arizona. Asahi Kasei Homes aims to provide high-quality home-building services for the construction industry in the U.S., which has many challenges such as labor shortages and long construction periods.

(*1) Austin Electric Services, LLC, Austin Concrete & Stone, LLC, and Austin HVAC, LLC

(*2) Brewer Companies, LLC, Brewer Enterprises, Inc., Brewer Commercial Services, LLC, JBKB LLC (dba Benjamin Franklin Plumbing), and T-Plug LLC

(3) Acquisition date

October 31, 2022

(4) Statutory form of business combination

Membership interests purchase for cash as consideration

(5) Names of companies after transaction

Focus Plumbing LLC, Focus Framing, Door & Trim LLC, Focus Electric LLC, Focus Concrete, LLC, Focus Fire Protection LLC

(6) Acquired voting right

Voting right before the acquisition: 0%

Voting right after the acquisition: 100%

(7) Grounds for determining acquiring company

Membership interests purchase for cash as consideration by a consolidated subsidiary

2. The period of acquired business's results included in the consolidated financial statements

From November 1, 2022, to March 31, 2023

3. Cost of acquisition and details

		Millions of yen	Thousands of U.S. dollars
Purchase consideration	cash	¥36,183	$270,953
Purchase price		¥36,183	$270,953

4. Major acquisition related costs

Advisory fees and others: ¥724 million (US$5,422 thousand)

5. Amount of goodwill, measurement principle, amortization method, and useful life

(1) Amount of goodwill:

¥34,952 million* (US$261,734 thousand)

* Based on provisional calculation.

(2) Measurement principle:

Goodwill is measured as the excess of the purchase price over the fair value of identifiable assets acquired and liabilities assumed

(3) Amortization method and useful life:

Not determined

6. Details of assets acquired and liabilities assumed as of the acquisition date

	Millions of yen	Thousands of U.S. dollars
Current assets	¥9,620	$72,038
Noncurrent assets	986	7,384
Total assets	¥10,606	$79,422
Current liabilities	¥9,375	$70,204
Total liabilities	¥9,375	$70,204

7. Pro forma effects on the consolidated statements of income assuming the business combination had been completed at the beginning of fiscal year, and method of calculation thereof

Information is omitted due to immateriality. This note is not subject to audit.

(c) Finalization of provisional accounting treatment for business combination

At the close of the fiscal year ended March 31, 2022, provisional accounting treatment was applied to the business combination with Itamar Medical Ltd., which was performed on December 16, 2021 (U.S. Eastern time). The accounting treatment was finalized during the fiscal year ended March 31, 2023. As a result of review of purchase price allocation, the amount of goodwill has changed from the provisional amount of ¥37,776 million (US$282,882 thousand) to ¥37,989 million (US$284,477 thousand), an increase of ¥213 (US$1,595 thousand) million.

1. Amount of goodwill, measurement principle, amortization method, and useful life

(1) Amount of goodwill:

¥37,989 million (US$284,477 thousand)

(2) Measurement principle:

Goodwill is measured as the excess of the purchase price over the fair value of identifiable assets acquired and liabilities assumed

(3) Amortization method and useful life:

Straight-line method over 20 years

17. Revenue recognition

(a) Revenue from contracts with customers

	Millions of yen					
	2023					
	Material	Homes	Health Care	Subtotal	Others (*1)	Total
Japan	¥531,137	¥695,528	¥108,285	¥1,334,950	¥13,009	¥1,347,958
United States	108,987	82,334	263,586	454,908	804	455,712
China	222,996	—	18,887	241,883	78	241,960
Others	453,495	121,108	106,123	680,726	128	680,855
Revenue from contracts with customers(*2)	¥1,316,615	¥898,971	¥496,881	¥2,712,466	¥14,019	¥2,726,485
Sales to external customers	¥1,316,615	¥898,971	¥496,881	¥2,712,466	¥14,019	¥2,726,485

(*1) The "Others" category includes plant engineering and environmental engineering, research and analysis, and employment agency/staffing operations.

(*2) Including revenue from leases.

(*3) Accompanying organizational changes at the beginning of the fiscal year, a certain portion of business in Homes and Others were transferred to Material. Results for the comparative period have been recalculated for comparability purposes.

	Millions of yen					
	2022					
	Material	Homes	Health Care	Subtotal	Others (*1)	Total
Japan	¥486,852	¥676,195	¥101,765	¥1,264,811	¥12,067	¥1,276,878
United States	90,703	54,970	211,128	356,800	672	357,472
China	220,592	—	17,974	238,566	116	238,681
Others	411,866	91,284	85,016	588,167	119	588,286
Revenue from contracts with customers (*2)	¥1,210,013	¥822,449	¥415,883	¥2,448,344	¥12,973	¥2,461,317
Sales to external customers	¥1,210,013	¥822,449	¥415,883	¥2,448,344	¥12,973	¥2,461,317

(*1) The "Others" category includes plant engineering and environmental engineering, research and analysis, and employment agency/staffing operations.

(*2) Including revenue from leases.

	Thousands of U.S. dollars					
	2023					
	Material	Homes	Health Care	Subtotal	Others (*1)	Total
Japan	$3,977,363	$5,208,387	$810,881	$9,996,630	$97,417	$10,094,039
United States	816,137	616,549	1,973,836	3,406,530	6,021	3,412,551
China	1,669,882	—	141,433	1,811,315	584	1,811,892
Others	3,395,949	906,904	794,691	5,097,544	959	5,098,510
Revenue from contracts with customers(*2)	$9,859,331	$6,731,848	$3,720,840	$20,312,011	$104,980	$20,416,991
Sales to external customers	$9,859,331	$6,731,848	$3,720,840	$20,312,011	$104,980	$20,416,991

(*1) The “Others” category includes plant engineering and environmental engineering, research and analysis, and employment agency/staffing operations.

(*2) Including revenue from leases.

(*3) Accompanying organizational changes at the beginning of the fiscal year, a certain portion of business in Homes and Others were transferred to Material. Results for the comparative period have been recalculated for comparability purposes.

(b)Basis for revenue recognition

Please refer to Note 2. Significant accounting policies (f) Significant revenue and expense recognition.

(c)Relationship between the fulfillment of performance obligations based on contracts with customers and the cash flow generated from the contracts, the amount of revenue expected to be recognized in subsequent fiscal years from contracts with customers and the timing, existing at March 31, 2023

(i)Balances of contract assets and contract liabilities, etc.

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Loans from contracts with customers (beginning balance)	¥393,864	¥335,013	$2,949,408
Loans from contracts with customers (ending balance)	398,493	393,864	2,984,072
Contract assets (beginning balance)	35,840	25,731	268,384
Contract assets (ending balance)	41,060	35,840	307,473
Contract liabilities (beginning balance)	62,476	47,544	467,845
Contract liabilities (ending balance)	72,948	62,476	546,263

The Company mainly records consideration for construction in progress as contract assets, and advances received from customers as contract liabilities. Among revenue recognized in the consolidated fiscal year ended March 31, 2023 and 2022, the amount included in the beginning balance of contract liabilities were ¥62,476 million (US$467,845 thousand) and ¥47,544 million respectively. There is no significant change in the balance of contract assets and contract liabilities.

(ii) Transaction prices allocated to outstanding performance obligations

Among transaction prices allocated to outstanding performance obligations, those whose contract term exceeds one year are mainly related to the Homes segment, and their recognition as revenue is as shown below. Applying the practical expedient regarding notes on transaction prices allocated to outstanding performance obligations, there are some contracts whose period was initially expected to be within one year which are not included in the scope of the note below.

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Within 1 year	¥253,225	¥210,546	$1,896,248
Over 1 year	106,780	132,509	799,611
Total	¥360,006	¥343,056	$2,695,866

18. Business segment information

(a) Overview of reportable segments

The Company's business segments are based on organizational units for which separate financial information is available, and the Board of Directors carries out periodic review to allocate management resources and evaluate business performance.

The Company is organized under an operating holding company configuration with the operating holding company and core operating companies performing operations in three business sectors. The operating holding company and each core operating company lays out strategy and develops business activities in Japan and abroad.

Accompanying organizational changes at the beginning of the fiscal year ended March 31, 2023, a certain portion of business in Homes and Others, and a certain portion of R&D organization in corporate expenses, were transferred to Material. Results for the year ended March 31, 2022 have been recalculated for comparability purposes.

Main businesses and main products of the three reportable segments are as follows:

Material segment

Environmental Solutions business

The Company manufactures, processes, and sells petrochemical products such as styrene, acrylonitrile, polyethylene, polystyrene, synthetic rubber, battery separator products such as lithium-ion battery separator and lead-acid battery separator, and membranes such as hollow-fiber membranes and ion-exchange membranes.

Mobility & Industrial business

The Company manufactures, processes, and sells fiber products such as fibers related to automotive, and performance polymer products such as synthetic rubber and engineering plastics, and coating materials.

Life Innovation business

The Company manufactures, processes, and sells electronic materials such as mixed-signal LSIs, Hall elements, and UVC LEDs, and consumable products such as fibers related to apparel and industrial, food wrapping film, plastic films and sheets, microcrystalline cellulose, explosives, and explosion-bonded metal clad.

Homes segment

Homes business

The Company constructs unit homes and apartment buildings, and operates real estate businesses, remodeling businesses, financial, North American and Australian homes business, and financial and other services.

Construction Materials business

The Company manufactures and sells autoclaved aerated concrete (AAC) panels, insulation panels, foundation systems, and structural components.

Health Care segment

Pharmaceuticals business

The Company manufactures and sells pharmaceuticals and diagnostic reagents.

Medical Care business

The Company manufactures and sells artificial kidneys, therapeutic apheresis devices, and virus removal filters, and operates biologics CDMO businesses.

Critical Care business

The Company manufactures and sells products centered on cardiopulmonary resuscitation; notably defibrillators for medical professionals, automated external defibrillators (AEDs), wearable defibrillators, and diagnosis and treatment of sleep apnea.

Others

The Company performs plant and environmental engineering, research and analysis, employment agency/staffing operations, etc.

(b) Methods to determine net sales, income or loss, assets, and other items by reportable business segment

Profit by reportable business segment is stated on an operating income basis. Intersegment net sales and transfers are based on the values of transactions undertaken between third parties.

(c) Information concerning net sales, income or loss, assets, and other items by reportable segment

	Millions of yen					
	2023					
	Material	Homes	Health Care	Subtotal	Others (*1)	Total
Sales:						
External customers	¥1,316,615	¥898,971	¥496,881	¥2,712,466	¥14,019	¥2,726,485
Intersegment	10,739	8,291	33	19,063	44,888	63,951
Total	1,327,354	907,262	496,914	2,731,530	58,906	2,790,436
Operating income	41,016	76,018	41,860	158,895	4,250	163,145
Assets	1,751,117	673,257	954,538	3,378,911	102,287	3,481,198
Other items:						
Depreciation and amortization (*2)	72,078	16,171	43,397	131,646	775	132,421
Amortization of goodwill	15,384	1,200	21,111	37,695	—	37,695
Investments in affiliates accounted for using equity method	66,560	5,242	2,502	74,305	22,553	96,858
Increase in property, plant and equipment, and intangible assets	106,494	25,685	25,106	157,285	645	157,930

(*1) The “Others” category includes plant engineering and environmental engineering, research and analysis, and employment agency/staffing operations.

(*2) Amortization of goodwill is not included.

	Millions of yen					
	2022					
	Material	Homes	Health Care	Subtotal	Others (*1)	Total
Sales:						
External customers	¥1,210,013	¥822,449	¥415,883	¥2,448,344	¥12,973	¥2,461,317
Intersegment	7,639	6,677	20	14,336	40,508	54,844
Total	1,217,652	829,126	415,903	2,462,680	53,481	2,516,161
Operating income	105,969	72,918	52,159	231,046	4,114	235,160
Assets	1,792,383	635,784	861,139	3,289,305	94,687	3,383,992
Other items:						
Depreciation and amortization (*2)	64,241	13,847	34,504	112,593	1,047	113,640
Amortization of goodwill	12,775	556	15,059	28,391	—	28,391
Investments in affiliates accounted for using equity method	70,355	8,342	2,314	81,011	20,485	101,496
Increase in property, plant and equipment, and intangible assets	121,289	18,600	24,882	164,771	3,020	167,792

(*1) The “Others” category includes plant engineering and environmental engineering, research and analysis, and employment agency/staffing operations.

(*2) Amortization of goodwill is not included.

	Thousands of U.S. dollars					
	2023					
	Material	Homes	Health Care	Subtotal	Others (*1)	Total
Sales:						
External customers	$9,859,331	$6,731,848	$3,720,840	$20,312,011	$104,980	$20,416,991
Intersegment	80,418	62,086	247	142,751	336,139	478,890
Total	9,939,748	6,793,934	3,721,087	20,454,770	441,111	20,895,881
Operating income	307,144	569,253	313,464	1,189,868	31,826	1,221,694
Assets	13,113,052	5,041,613	7,147,956	25,302,613	765,965	26,068,579
Other items:						
Depreciation and amortization (*2)	539,748	121,095	324,974	985,817	5,804	991,620
Amortization of goodwill	115,201	8,986	158,087	282,275	—	282,275
Investments in affiliates accounted for using equity method	498,427	39,254	18,736	556,425	168,886	725,311
Increase in property, plant and equipment, and intangible assets	797,469	192,339	188,004	1,177,812	4,830	1,182,642

(*1) The “Others” category includes plant engineering and environmental engineering, research and analysis, and employment agency/staffing operations.

(*2) Amortization of goodwill is not included.

(d) Reconciliation of differences between total amounts of reportable segments and amounts appearing in the consolidated financial statements (adjustment of difference)

Sales	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Total of reporting segments	¥2,731,530	¥2,462,680	$20,454,770
Net sales in “Others” category	58,906	53,481	441,111
Elimination of intersegment transactions	(63,951)	(54,844)	(478,890)
Net sales on consolidated statements of income	¥2,726,485	¥2,461,317	$20,416,991

Operating income	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Total of reporting segments	¥158,895	¥231,046	$1,189,868
Operating income in “Others” category	4,250	4,114	31,826
Elimination of intersegment transactions	301	189	2,254
Corporate expenses, etc.(*)	(35,095)	(32,702)	(262,805)
Operating income on consolidated statements of income	¥128,352	¥202,647	$961,150

(*) Corporate expenses, etc. include corporate revenue, basic research expense, and group management expense, etc. which are not allocated to reporting segments.

Assets	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Total of reporting segments	¥3,378,911	¥3,289,305	$25,302,613
Assets in “Others” category	102,287	94,687	765,965
Elimination of intersegment transactions	(519,877)	(533,096)	(3,893,043)
Corporate assets(*)	493,205	498,180	3,693,313
Total assets on consolidated balance sheets	¥3,454,526	¥3,349,075	$25,868,848

(*) Corporate assets include assets of the parent company—surplus operating funds (cash and deposits), long-term investment capital (investment securities, etc.), and land, etc.

Other items	Total of reportable segments			Others			Adjustments (*1)			Amounts from consolidated financial statements		
	Millions of yen		Thousands of U.S. dollars	Millions of yen		Thousands of U.S. dollars	Millions of yen		Thousands of U.S. dollars	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023	2023	2022	2023	2023	2022	2023	2023	2022	2023
Depreciation and amortization (*2)	¥131,646	¥112,593	$985,817	¥775	¥1,047	$5,804	¥6,535	¥6,098	$48,937	¥138,956	¥119,738	$1,040,557
Amortization of goodwill	37,695	28,391	282,275	―	―	―	―	―	―	37,695	28,391	282,275
Investments in affiliates accounted for using equity method	74,305	81,011	556,425	22,553	20,485	168,886	―	―	―	96,858	101,496	725,311
Increase in property, plant and equipment, and intangible assets	157,285	164,771	1,177,812	645	3,020	4,830	16,943	18,852	126,876	174,873	186,644	1,309,518

(*1) Adjustments include elimination of intersegment transactions and corporate expenses, etc.
(*2) Amortization of goodwill is not included.

(e) Related Information

i) Information on products and services

Please refer to (c) Information concerning net sales, income or loss, assets, and other items for reportable segment.

ii) Geographic information

1) Net sales

Millions of yen					Thousands of U.S. dollars				
2023					2023				
Japan	United States	China	Others	Total	Japan	United States	China	Others	Total
¥1,347,958	¥455,712	¥241,960	¥680,855	¥2,726,485	$10,094,039	$3,412,551	$1,811,892	$5,098,510	$20,416,991

Millions of yen				
2022				
Japan	United States	China	Others	Total
¥1,276,878	¥357,472	¥238,681	¥588,286	¥2,461,317

2) Property, plant and equipment

Millions of yen								Thousands of U.S. dollars			
2023				2022				2023			
Japan	United States	Others	Total	Japan	United States	Others	Total	Japan	United States	Others	Total
¥595,513	¥156,637	¥119,551	¥871,701	¥569,214	¥119,423	¥116,578	¥805,215	$4,459,435	$1,172,959	$895,245	$6,527,640

3) Information by major customer

Information by major customer is not shown because no customer accounts for 10% or more of net sales on the consolidated statements of income.

19. Information on related parties

For the year ended March 31, 2023: None

For the year ended March 31, 2022: None

20. Per share information

Basic and diluted net assets per share and net income per share for the years ended March 31, 2023 and 2022, were as follows:

	Yen		U.S. dollars
	2023	2022	2023
Basic net assets per share	¥1,198.30	¥1,216.33	$8.97
Basic net income (loss) per share	(65.84)	116.68	(0.49)

Note) As the Company had no dilutive securities at March 31, 2023 and 2022, the Company does not disclose diluted net income per share for the years ended March 31, 2023 and 2022.

(a) Basis for measurement of net assets per share

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Total net assets	¥1,696,009	¥1,718,815	$12,700,382
Amount deducted from total net assets	35,087	31,405	262,745
of which, non-controlling interests	*(35,087)*	*(31,405)*	*(262,745)*
Net assets allocated to capital stock	¥1,660,922	¥1,687,410	$12,437,637
Number of shares of capital stock outstanding at fiscal year end used in calculation of net assets per share (thousand)	1,386,068	1,387,291	1,386,068

Note) Shares held by the trust for granting shares to Directors, etc., numbering 1,776 thousand at March 31, 2023, and 561 thousand at March 31, 2022, are excluded from the number of shares of capital stock outstanding at fiscal year end used in measurement of net assets per share.

(b) Basis for measurement of net income (loss) per share

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Net income (loss) attributable to owners of the parent	¥(91,312)	¥161,880	$(683,780)
Amount not attributable to common stock shareholders	—	—	—
Net income (loss) attributable to common stock owners of the parent	¥(91,312)	¥161,880	$(683,780)
Weighted-average number of shares of capital stock (thousand)	1,386,887	1,387,432	1,386,887

Note) Shares held by the trust for granting shares to Directors, etc., numbering 961 thousand during the year ended March 31, 2023, and 425 thousand during the year ended March 31, 2022, are excluded from the weighted-average number of shares of capital stock used in measurement of net income (loss) per share.

21. Subsequent events

For the year ended March 31, 2023: None

22. Borrowings

(a) Bonds payable at March 31, 2023 and 2022, comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Unsecured 0.10% yen bonds due in 2023	¥20,000	¥20,000	$149,768
Unsecured 0.07% yen bonds due in 2024	20,000	20,000	149,768
Unsecured 0.21% yen bonds due in 2029	20,000	20,000	149,768
Unsecured 0.12% yen bonds(Green Bond) due in 2025	10,000	10,000	74,884
Unsecured 0.01% yen bonds due in 2023	20,000	20,000	149,768
Unsecured 0.28% yen bonds due in 2030	20,000	20,000	149,768
Unsecured 0.00% yen bonds due in 2024	10,000	10,000	74,884
Unsecured 0.09% yen bonds due in 2026	20,000	20,000	149,768
Unsecured 0.24% yen bonds due in 2031	20,000	20,000	149,768
Unsecured 0.23% yen bonds due in 2025	10,000	—	74,884
Unsecured 0.41% yen bonds due in 2027	20,000	—	149,768
Unsecured 0.67% yen bonds due in 2032	20,000	—	149,768
Total	¥210,000	¥160,000	$1,572,563

Notes: 1. The current portion of bonds payable is recorded under current liabilities on the consolidated balance sheets.
2. The aggregate annual maturities of long-term debt after March 31, 2023, are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2024	¥40,000	$299,536
2025	30,000	224,652
2026	20,000	149,768
2027	20,000	149,768
2028	20,000	149,768
2029 and thereafter	80,000	599,071
Total	¥210,000	$1,572,563

(b) Loans payable at March 31, 2023 and 2022, comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Short-term loans payable with an interest rate of 1.02%	¥140,571	¥166,306	$1,052,651
Current portion of long-term loans payable with an interest rate of 1.76%	55,461	73,186	415,314
Current portion of lease obligations with an interest rate of 3.85%	6,766	2,224	50,666
Long-term loans payable (except portion due within one year) with an interest rate of 0.46%	409,424	253,785	3,065,928
Lease obligations (except portion due within one year) with an interest rate of 4.37%	28,526	8,715	213,614
Commercial paper (portion due within one year) with an interest rate of 0.01%	124,000	113,000	928,561
Total	¥764,748	¥617,215	$5,726,734

Notes: 1. Interest rates shown are weighted average interest rates for the balance outstanding at March 31, 2023.

2. The aggregate annual maturities of long-term loans payable and lease obligations (except portion due within one year) after March 31, 2023, are as follows:

Year ending March 31	Long-term loans payable		Lease obligations	
	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
2025	¥51,864	$388,378	¥5,754	$43,088
2026	63,026	471,963	4,545	34,035
2027	62,054	464,685	3,844	28,785
2028	60,480	452,898	2,771	20,750
2029 and thereafter	172,000	1,288,004	11,612	86,955

23. Supplementary schedule of asset retirement obligations

Because the amounts of asset retirement obligations on April 1, 2022, and March 31, 2023, were not more than 1% of the combined totals of liabilities and net assets on the respective dates, preparation of a supplementary schedule of asset retirement obligations is omitted in accordance with paragraph 92-2 of the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements.

24. Others

Litigation

Litigation related to pile installation

On November 28, 2017, Mitsui Fudosan Residential Co., Ltd. filed suit (hereinafter "First Lawsuit") in the Tokyo District Court against the three companies of Sumitomo Mitsui Construction Co., Ltd., Hitachi High-Tech Corporation (company name changed from Hitachi High-Technologies Corporation on February 12, 2020), and Asahi Kasei Construction Materials Corporation, a subsidiary of the Company, seeking compensation for damages of approximately ¥45.9 billion (subsequently changed to approximately ¥51.0 billion) related to the cost of rebuilding a condominium complex in Yokohama City due to concerns of unsound installation of a portion of foundation piles; Sumitomo Mitsui Construction being the prime contractor for construction of said condominium complex, Hitachi High-Tech the primary subcontractor for pile installation, and Asahi Kasei Construction Materials the secondary subcontractor for pile installation. Asahi Kasei Construction Materials holds that there is no basis for Mitsui Fudosan Residential's claim, and will make this argument during the proceedings of the First Lawsuit.

Related to the First Lawsuit, on April 27, 2018, Sumitomo Mitsui Construction filed suit (hereinafter "Second Lawsuit") against Hitachi High-Tech and Asahi Kasei Construction Materials seeking compensation for any damages it may incur in the First Lawsuit. Regarding this Second Lawsuit, the date of service of complaint to Asahi Kasei Construction Materials was May 14, 2018. Asahi Kasei Construction Materials holds that there is no basis for Sumitomo Mitsui Construction's claim, and will make this argument during the proceedings of the Second Lawsuit.

Related to the First Lawsuit and Second Lawsuit, on May 25, 2018, Hitachi High-Tech filed suit (hereinafter "Third Lawsuit") against Asahi Kasei Construction Materials seeking compensation for any damages it may incur in the First Lawsuit or Second Lawsuit. Asahi Kasei Construction Materials holds that there is no basis for Hitachi High-Tech's claim, and will make this argument during the proceedings of the Third Lawsuit.

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Independent Auditor's Report

To the Board of Directors of Asahi Kasei Corporation

Opinion

We have audited the consolidated financial statements of Asahi Kasei Corporation and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at March 31, 2023, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in net assets and consolidated statements of 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 our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In the audit of consolidated financial statements of the previous period, we determined that following matters were key audit matters.

- Assessment of whether impairment indicators exist for goodwill as it relates to the acquisition of Polypore International, LP

From the matters communicated with those charged with governance in the current fiscal year, we verified which matters were appropriate to be treated as key audit matters considering the changes in the assessment of significant risk and areas of higher risk of material misstatement, significant judgments in our audit, the impact of material events or transactions that occurred in the current fiscal year, and the relative importance in our audit and company-specific matters.

As a result, regarding "Assessment of whether impairment indicators exist for goodwill as it relates to the acquisition of Polypore International, LP," which we determined as the key audit matter in the previous year audit of the consolidated financial statements, due to changes in the business environment such as the tightening of regulations surrounding the eco-friendly cars market, changes in the asset grouping units made in light of changes in business strategy, and the recording of impairment loss related to fixed assets including goodwill as it relates to the acquisition of Polypore

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International, LP, we changed the title to "Measurement of impairment losses on fixed assets, including goodwill as it relates to the acquisition of Polypore International, LP" and it has been decided as a key audit matter in the audit of the consolidated financial statements for the current fiscal year.

Measurement of impairment losses on fixed assets, including goodwill as it relates to the acquisition of Polypore International, LP	
Key audit matter description	How our audit addressed the key audit matter
As described in Note 3 to the consolidated financial statements, the Company recorded an impairment loss of JPY186,376 million in the year ended March 31, 2023. This impairment loss was related to the valuation of fixed assets, including goodwill as it relates to the acquisition of Polypore International, LP (hereinafter referred to as "Polypore") completed in the fiscal year ended March 31, 2016. In the battery separator business, the Company is the only separator manufacturer with both wet-process and dry-process separators for lithium-ion batteries and separators for lead-acid batteries by adding Celgard, a dry-process separator for lithium-ion batteries and Daramic, a separator for lead-acid batteries, to Hipore, a wet-process separator for lithium-ion batteries. As the market for eco-friendly cars is growing, there is rapidly evolving technology and increased competition among battery products with alternative uses. The Company has been trying to realize these synergies with the acquisition of Polypore through developed battery separators that respond to changes in the eco-friendly car market with a broad product lineup and diverse supply channels. The Company established the Separator business unit for managing these battery separators. Since the Separator business unit was responsible for the integrated operation of management strategies, investment decisions, and management oversight including revenue management, the Company evaluated fixed assets, including goodwill as it relates to the acquisition of Polypore International, LP, within the separator business as an asset grouping unit. However, given that the policy trends in each country regarding the market for eco-friendly cars and differentiation between wet-process and dry-process lithium-ion batteries became clear, the situation in which the cash flows from each product are mutually complementary has	In order to verify the measurement of impairment losses on fixed assets, including goodwill, as it relates to the acquisition of Polypore, we primarily performed the following audit procedures: · We evaluated the design and operating effectiveness of the internal controls as they relate to the determination of asset groups for impairment of fixed assets, including goodwill, identification of impairment indicators, determination of the recognition of impairment losses, and measurement of the recoverable amounts, including the assumptions, such as future sales forecasts and operating margins, that form the basis for Polypore's estimates of gains and losses from operations. · We primarily performed following procedures to assess the reasonableness of the changes in the asset grouping units: – We inquired of management about the synergies between cash flows from each product in the separator business and verified the reasonableness of management's estimate of the trend of cash-in flows. – We inquired of management about the impact of the enactment of the U.S. Inflation Reduction Act (August 2022) in the current fiscal year and other legislation impacting the future business strategy of the separator business. – We examined the relevant decision-making materials presented to the Board of Directors regarding changes in facts resulting from changes in the management oversight due to changes in business operation strategy.

decreased year by year. Under these circumstances, following the enactment of the U.S. Inflation Reduction Act (August 2022), the expansion of the market for lithium-ion batteries in North America has changed trends in the market for eco-friendly cars, the corresponding strategy for each business, and the related operating activities. In light of this, at the Board of Directors' meeting held on March 8, 2023, the Company revised its business strategy for the separator business to focus on Hipore, a wet-process separator for lithium-ion batteries, mainly in the North American market, and focus on the market for eco-friendly car batteries, such as electric vehicles (EV) equipped with highly sought after high-capacity batteries. In addition, the Company decided that the Hipore and Polypore businesses will be operated separately. The Company changed the asset grouping units to Hipore and Polypore, triggered by the changes in the industry resulting in decreased synergies, and changes in management oversight of the business units due to changes in business strategy. Goodwill and other intangible assets as they relate to the acquisition of Polypore are included in Polypore's asset grouping unit. Future business plans for Polypore in response to modifications in business strategy reflect sales strategies in markets that have applications other than EV, such as lithium-ion batteries that use positive electrodes for ferrous sulfate (LFP) and lithium-ion batteries for hybrid vehicles. On the other hand, it is difficult to expand the sales of separators for EV that were anticipated at the time of the acquisition of Polypore. Accordingly, in addition to changes in the business environment, such as increased regulations surrounding the eco-friendly cars market, the Company has determined that changes in the business strategy in Polypore significantly reduce the recoverable amount and identified this as an impairment indicator in the asset grouping unit which includes goodwill and other intangible assets related to the acquisition of Polypore. As a result of the impairment trigger, the Company measured the fair value of the asset group and recorded an impairment loss of JPY186,376 million for goodwill and other	• We verified Polypore's estimates of future cash flows for consistency with the business plan approved by the Board of Directors. • To assess the reasonableness of the estimates of future cash flows, we primarily performed the following procedures with respect to the reasonableness of the business plan upon which such estimates were based: – We ensured that the business plan appropriately reflects the sales strategies in the markets other than those with EV applications, such as lithium-ion batteries using positive electrodes of lithium-ferrate (LFP) system and lithium-ion batteries for hybrid vehicles. We also considered whether the business plan is consistent with the details of Polypore's future investment plan, etc. – We discussed with management about the sales forecast based on the sales strategy in markets other than those with EV applications, such as lithium-ion batteries using positive electrodes of lithium-ferrite (LFP) system and lithium-ion batteries for hybrid vehicles, included in Polypore's estimate of future business plans and ensured the consistency with the expected orders obtained from customers and the market forecast by the third party organization. – We compared the historical budget to actual sales and operating profit margin of lithium-ion batteries, such as lithium-ion batteries using positive electrodes of lithium ferrate (LFP) system, and lithium-ion batteries for hybrid vehicles, and considered that it is reflected in the business plan from the current consolidated fiscal year onward for the grounds for the shortfall. – We compared the sales forecast and operating profit margin in the business plan with the most recent results (April and May 2023).

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intangible assets. To measure the impairment loss and the recoverable amount, the Company used the value in use method. Value in use is calculated as the present value of future cash flows and includes key assumptions such as future sales forecasts, operating margins and discount rates estimated by considering information on external factors of companies such as the business environment and sales strategies. Future sales forecasts and operating margins are estimated by considering information about the company's external factors, such as the business environment and sales strategies. Polypore's future business strategy is reflected in these estimates. The Company also applied a discount rate, which reflects both the time value of money and the risk that future cash flows deviate from their estimated values in the pre-tax weighted average cost of capital. As a result of the significance of the amount of the impairment loss recorded related to fixed assets, including goodwill as it relates to the Polypore acquisition, which involved management's significant judgment of reasonableness of the changes in the asset grouping units, and that key assumptions, including Polypore's future sales forecasts, operating margins, and discount rates, involve a high degree of estimation uncertainty and management's subjective judgment, we determined that the measurement of impairment losses on fixed assets, including goodwill as it relates to the acquisition of Polypore was a key audit matter.	· We ensured the reasonableness of the discount rate, which reflects both the time value of money and the risk that future cash flows deviate from their estimates, with the involvement of a valuation expert.

Other Information

Other information comprises information included in a document containing audited financial statements, but does not include the financial statements and our auditor's report thereon. We have determined that there is no other information and thus have not performed any work on other information.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as applicable, matters related to going concern.

Those charged with governance 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

We communicate with those charged with governance 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Convenience translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2023 are presented solely for convenience. Our audit also included the translation of 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.

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.

好田健祐
Kensuke Koda

Designated Engagement Partner
Certified Public Accountant

天野祐一郎
Yuichiro Amano

Designated Engagement Partner
Certified Public Accountant

PricewaterhouseCoopers Aarata LLC

August 10, 2023