Financial Information 2023

Iwatani Corporation

CONTENTS

Business Overview

Iwatani Corporation and its Consolidated Subsidiaries

1. Management Policies, Business Environment and Issues to be Addressed

All forward-looking statements in this section are based on judgments made by the Group at the end of the fiscal year under review.

(1) Basic Policy on Corporate Management

Since its founding, the Group has set "Become a person needed by society, as those needed by society can prosper" as its corporate philosophy. Therefore, we aim to contribute to society by constantly striving to create new value that the world seeks and value that our customers desire.

From this point of view, we believe that meeting the trust and expectations of shareholders, business partners, and employees is an absolute condition for corporate prosperity, and we conduct our daily business management accordingly. A description of our businesses by segment is as follows.

In the Integrated Energy Business under the MaruiGas brand, we deliver LPG for residential use to households across Japan and sell LPG and LNG for industrial use to plants. In addition, we provide customers with portable gas cooking stoves, cassette gas canisters, Natural Mineral Water from Mt. Fuji, and other products essential to daily life. We also provide gas equipment and safety inspection services for city gas, which are all part of the essential infrastructure of daily life. In regards to LPG for residential use, we have a supply system that integrates processes from LPG imports to retail sales, and we are the only LPG provider in Japan that operates nationwide, with approximately 400 sites located throughout Japan. Taking advantage of our sales, logistics, and security systems, we provide meticulous, high-quality services nationwide.

The Industrial Gases & Machinery Business consists of the Industrial Gases Business, whose products include air separation gases (oxygen, nitrogen, and argon), hydrogen, helium, carbon dioxide, semiconductor material gases, and medical gases, and the Machinery Business, which includes production and supply equipment for a wide range of gases, factory automation systems, welding equipment, semiconductor manufacturing equipment, and environmental equipment. We support the entire industry by proposing solutions to meet customer needs, drawing on the technological capabilities accumulated over many years and our wide-ranging lineup of gas and machinery products.

The Materials Business handles raw materials and components that are required in manufacturing, including resin raw materials, resin products, and resources such as mineral sands, as well as stainless steel, non-ferrous metals, and battery-related materials. In addition to expanding sales in growth fields such as with the sale of eco-friendly products and the development of new products, we are working to strengthen our overseas business and expand the scale of the business.

In the Agri-Bio & Foods Business, we sell frozen foods as part of the business and product development that utilizes cold heat, such as that from liquid nitrogen. In addition, we sell breeding pigs and agricultural and livestock equipment.

(2) Targets for Management Indicators

In the medium-term management plan "PLAN23," set to end in the fiscal year ending March 31, 2024, the theme is "Establishing a hydrogen energy-based society —Assuming challenges beyond the boundaries of business frameworks—" and the basic policies are "Enhancing strategic investment to establish a carbon-free society" and "Promotion of digitization." Regarding the numerical management targets of PLAN23, we adopted ordinary profit and return on equity (ROE) as indicators to measure profitability, growth potential, and efficiency. Specific numerical targets for the fiscal year ending March 31, 2024 are ordinary profit of ¥40.0 billion [$299,558 thousand] and ROE of 9% or higher. In addition, as indicators for measuring the growth of our main businesses and continuing from PLAN20, we have designated four indicators, "LPG direct sales customers," "Portable gas cooking stove/cassette gas canister sales volume (global)," "Air separation gas sales volume," and "LH2 sales volume," as the key business indicators.

In the fiscal year ended March 31, 2023, ordinary profit was ¥47.0 billion [$351,980 thousand] and ROE was 11.2%. Therefore, we have achieved our numerical management targets for the fiscal year ending March 31, 2024. In light of the above, we are formulating a new medium-term management plan that begins in the fiscal year ending March 31, 2024.

Medium-Term Management Plan: PLAN23

(2021–2023)

Presented below is PLAN23, the most recent three-year medium-term management plan that works toward the realization of our long-term vision.

• Theme

Establishing a hydrogen energy-based society
—Assuming challenges beyond the boundaries of business frameworks—

• Basic Policies

Enhancing strategic investment to establish a carbon-free society; promotion of digitization

Management Targets

	Management Indicators		Key Business Indicators			
	Ordinary Profit [Excluding impact of LPG import price fluctuation]	Return on Equity (ROE)	LPG direct sales customers	Portable gas cooking stove / cassette gas canister sales volumes (global)	Air separation gas sales volumes	LH_2 sales volumes
FY2020 results	¥34.4 billion <$257,620 thousand> ¥32.6 billion <$244,139 thousand>	10.9%	1.01 million households	Gas cooking stoves: 4,471 thousand units Gas canisters: 134 million units	1.55 billion m^3	67 million m^3
PLAN23 targets	**¥40.0 billion <$299,558 thousand>**	**9% or higher**	**1.10 million households**	**Gas cooking stoves: 6,500 thousand units** **Gas canisters: 180 million units**	**1.70 billion m^3**	**90 million m^3**

*Figures stated in the FY2020 results are figures before the adoption of the Accounting Standard for Revenue Recognition, etc.

(3) Medium- to Long-Term Management Strategies

We have formulated the medium-term management plan "PLAN23" as an initiative to contribute to the realization of our basic policy on management. Accordingly, we are working on "Enhancing strategic investment to establish a carbon-free society" and "Promotion of digitization."

In particular, we are focusing on three basic strategies: "Enhancing initiatives toward a carbon-free society," "Evolving into an energy & living total service provider" and "Expanding international businesses." Based on these basic strategies, we are promoting our investment and business strategies.

In addition, our basic policy on profit distribution is to return profits to shareholders through stable dividends while striving to maximize our corporate value by making investments that support our growth strategy, thereby meeting the expectations of our shareholders.

The Company believes that by steadily implementing these initiatives and continuing to be "a company needed by society," we will be able to contribute to the enhancement of the Group's corporate value as well as the common interests of our shareholders.

Basic Strategies

1. Enhancing initiatives toward a carbon-free society	• Promoting the development of a hydrogen energy-based society • Expanding sales of eco-friendly products
2. Evolving into an energy & living total service provider	• Expanding the customer base • Expanding BtoC business • Developing community services based on the Iwatani GateWay platform
3. Expanding international businesses	• Enhancing supply structures and manufacturing functions • Enhancing the Cartridge Gas business • Expanding the Industrial Gases & Machinery business in the United States

(4) Details of Issues to be Addressed at Present, etc.

As for the future outlook, though there are uncertainties about the future due to the unstable international situation and rising prices, the economy is likely to continue to recover gradually as socioeconomic activities are expected to return to normal and investment in decarbonization and digitalization are anticipated.

Due to changes in the organization of the Company, we have changed the method for categorizing our business segments. From the fiscal year ending March 31, 2024, consequently, our business will be categorized into three reportable segments: the Integrated Energy Business segment, the Industrial Gases & Machinery Business segment, and the Materials Business segment.

In the Integrated Energy Business segment, we will continue to work to increase the number of LPG direct sales customers and our sales volume. We will also increase sales of energy-related equipment to LPG and city gas customers. In addition, in keeping with the trend of decarbonization, we will facilitate fuel conversion from heavy oil and expand sales of carbon offset LPG. In the Cartridge Gas Business, we will strive to expand the international business, primarily in China and Southeast Asia, using the new plant in Thailand as a hub.

In the Industrial Gases & Machinery Business segment, we will continue to endeavor to ensure a stable supply of helium while making efforts to appropriately pass through costs and increase sales of air-separation gases. Additionally, in relation to decarbonization, we will reinforce our sales of liquid hydrogen and other gases and equipment. To realize a hydrogen energy-based society, we will steadily continue our efforts to build a CO_2-free hydrogen supply chain.

In the Materials Business segment, as the prices of various resources and materials continue on a downward trend, we will work to secure procurement volume and acquire new interests in order to expand our resources business. As for environmental businesses, we will expand our sales of eco-friendly PET resins, biomass fuels, and battery-related materials for next-generation vehicles and work on new initiatives, such as a recycling business. In addition, we will expand sales of advanced materials, with a focus on high-performance film materials and strengthen our overseas businesses, such as the metal processing business.

We began handling hydrogen in 1941 and have accumulated experience and know-how based on our long history. Our domestic share of liquid hydrogen is 100%, and our domestic share of hydrogen, including compressed hydrogen, is about 70%. We believe that the hydrogen business is the resource and energy business of the future, and the most important task at present is to acquire a large number of inexpensive CO_2-free hydrogen sources. In addition to further enhancing our liquid hydrogen production capacity, the Group will work on hydrogen production from renewable energy sources and the import of CO_2-free hydrogen from overseas, thereby promoting management that is in line with our corporate philosophy.

2. Approach and Initiatives Regarding Sustainability

The Company's approach and initiatives regarding sustainability are as follows.

(1) General Policy on Sustainability and Governance and Risk Management

Based on our corporate philosophy, "Become a person needed by society, as those needed by society can prosper," the Company strives to achieve sustainable growth and to identify solutions to social issues through business activities involving gas and energy. Under the slogan "Creation of a more comfortable space on the Earth is what Iwatani wishes and strives for," we are conducting corporate activities aimed at realizing a decarbonized society and achieving coexistence with the environment.

In addition, we have established the "Iwatani Code of Corporate Ethics" as a basic policy on sustainability. At the same time, we have set business targets that will lead to the achievement of SDGs in our medium-term management plan and are promoting the corresponding initiatives.

The Company has established a Risk Management Committee to ensure integrated management of risks. Specialized individual committees set up beneath the Risk Management Committee, including the Sustainability Promotion Committee, address the main risks, such as compliance risks and plant safety risks, to enable comprehensive responses to risks.

The Risk Management Committee holds regular meetings overseen by the chairperson and strives to manage risks groupwide, including risks related to compliance with applicable laws and regulations. Special individual committees meet regularly to monitor the status of compliance and efforts related to the risks. The contents of their meetings are reported to the Risk Management Committee. Important matters concerning the Risk Management Committee and each individual committee are reported to the Board of Directors and are subject to appropriate supervision.

(As of March 31, 2023)

Board of Directors

Representative Members of the Board

Risk Management Committee

Security and Export Control Committee
Personal Information Control Committee
Compliance Committee
Factory Safety Control Committee
Sustainability Promotion Committee
Global Security Control Committee
Customer Satisfaction (CS) Committee
Product Safety & Brand Management Committee

Business Divisions and Related Companies

Under this policy and governance and risk management, the Group recognizes global environmental issues as our most important management challenge and positions climate change as an important sustainability issue.

(2) Important Sustainability Issue

1) Climate Change

(a) Governance

We have declared our support for the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).* Accordingly, we have assessed and identified climate-related risks and opportunities by using the TCFD Framework and are verifying responses to them and disclosing information appropriately.

The Sustainability Promotion Committee, established as a subsidiary organization under the Risk Management Committee, which coordinates risk management groupwide, deliberates on matters such as risks, opportunities, action policies, and targets related to climate change and checks on the progress of related results.

*The TCFD was established by the Financial Stability Board (FSB) at the request of the G20 countries to study matters such as climate-related disclosure.

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

(b) Strategy

By categorizing the various environmental changes associated with climate change into transition risks or physical risks, the Group assesses and identifies risks and opportunities for Group businesses in each category.

Risks

Category		Specific examples	Time
Transition risks	Policy and legal	Increases in various costs associated with efforts to achieve carbon neutral status >> Carbon taxes; rising cost of energy, resources, raw materials, etc. Rising electricity prices, cost of complying with applicable laws and regulations, etc.	Medium to long term
	Market and reputation	Declining demand for existing products due to growing environmental awareness >> Fossil fuels such as LPG, LNG, and kerosene, and machinery and other equipment powered by such fuels Plastics derived from petroleum, resources associated with high CO_2 emissions due to refining, processing, and other steps in production.	Medium to long term
		Declining demand for natural resources due to growing awareness of recycling	
	Technology	Shift toward electrification accompanying advances in storage cell technologies and declining demand for LPG and similar energy sources due to advances in energy-saving technologies and other factors	Medium to long term
		Progress on hydrogen carrier technologies other than liquid hydrogen (e.g., organic chemical hydrides and ammonia)	
Physical risks	Acute	Supply chain disruptions caused by major natural disasters	Medium to long term
		Stagnation of production activities	
		Rising costs of responding to disasters, repair costs, insurance premiums, etc.	
	Chronic	Declining demand for heating and hot-water energy due to global warming	Medium to long term
		Poor crop harvests due to changing weather patterns	
		Growing cost of responding to rising sea levels	

Opportunities

Category	Specific examples	Time
Opportunities related to energy sources	Increasing demand for fuel conversion from heavy oil and similar sources to more eco-friendly LPG and LNG	Short to medium term
	Growing demand for hydrogen as an alternative to fossil fuels Also, associated growth in hydrogen-related businesses *Growing demand for feasibility studies during the transition period	Medium to long term *Demand for feasibility studies impacts the short to medium term.
	Widespread use of LPG as a next generation energy source amid the transition to low-carbon and carbon neutral LPG through use of carbon credits, co-firing of LPG with hydrogen, progress on propanation technologies, and other measures	Medium to long term
Opportunities related to products and services	Growth in sales of products that help reduce environmental impact >> Eco-friendly PET resins, biomass fuels, etc.	Short to medium term
	Increased sales of related materials alongside growth in the next generation vehicle market	Short to medium term
	Growth in CO_2 emissions reduction visualization and reduction solutions and in valorization services	Short to medium term
	Progress in the Integrated Energy Business on developing cost-competitive delivery and metering systems associated with low CO_2 emissions based on progress in AI and IoT technologies and the adoption of related devices, as well as more advanced safety and growing opportunities to deliver new value and services	Short to medium term
	Growth in sales opportunities for products produced through processes associated with low CO_2 emissions and resource-circulating products >> Mineral sands produced in mines powered by hydroelectric power Industrial gas plants powered by renewable energy Recycled PET bottle business, PET bottle chemical recycling business, etc.	Medium to long term
	Growing use of LPG as a disaster-resistant diversified energy source; growing sales of emergency power generators and other equipment related to business continuity planning (BCP)	Short to medium term
Other	Ability to maintain supply even amid climate change based on the development of a nationwide network of disaster-resilient Core LPG Centers equipped with enhanced seismic resistance, emergency power supplies, and other features	—

We aim to balance solutions to global warming with sustained growth by responding to the risks associated with climate change while enhancing efforts that target related opportunities. Please refer to our website for the details of specific initiatives:
(https://www.iwatani.co.jp/eng/sustainability/environment/climate/)

In addition, these items are based on the future outlook as of FY2022, and we will flexibly respond to changes in the external environment, including ever-changing social trends and technological innovations.

(c) Risk management
After assessing the importance of risks and opportunities related to climate change from the two axes of "potential to occur" and "degree of impact on business," we are strengthening our responses to the risks and our approaches to the opportunities. In addition, we are proceeding with scenario analyses to understand the business impact related to climate change in further detail, and we will continue to work toward enhancing information disclosures.

(d) Metrics & Targets
The Iwatani Group has announced its goal of achieving carbon neutrality by FY2050, targeting as a FY2030 milestone a reduction of 50% in CO_2 emissions by the Iwatani Group in Japan compared with the FY2019 level.*
Please refer to our website for the Group's achievements concerning CO_2 emissions.
(https://www.iwatani.co.jp/eng/sustainability/environment/env-data/)

Our achievements in FY2022 will be posted on the website around September 2023.
* Group CO_2 emissions: Total of Scope 1 and Scope 2 emissions
Scope 1: The business's own direct greenhouse gas emissions
Scope 2: Indirect emissions associated with use of electricity, heat, and steam supplied by other businesses

(3) Other Sustainability Issues
1) Human Capital and Diversity
(a) Strategy
[Policy on Human Resource Development]
The Company believes that "diversity and inclusion" is necessary for sustainable growth and corporate value creation in response to changes in the business environment. In line with the President sending out the message of "Toward an Organization of Acceptance and Mutual Respect of Diverse Values," we are taking various measures to promote diversity and inclusion. In addition, the Iwatani Code of Corporate Ethics, which is the code of conduct for our employees, states that "We will respect diverse values and create an environment in which abilities can be fully demonstrated in order to ensure well-being and achieve prosperity." Accordingly, we strive to develop human resources so that officers and employees can demonstrate freewheeling thinking and imaginative powers through teamwork based on individual character and independence.

[Policy on Improving the Internal Environment]
In terms of our internal system, in FY2017, we designated a person in charge of diversity to support the active participation of diverse human resources, including promoting the active participation of women. Please refer to the Company's website for our approach, policies, and initiatives regarding diversity:
(https://www.iwatani.co.jp/eng/sustainability/society/diversity/)

Going forward, we will further promote diversity management in order to become an organization of mutual respect and improvement and one which is open to diverse values.

(b) Indicators and Targets
[Promote women to managerial positions]
- Currently, women make up a low percentage of career track employees and there are few female candidates for managerial positions. For this reason, the Company has set a target of achieving a rate of female hires for career track positions of at least 25% in the General Employer Action Plan under the Act on the Promotion of Women's Active Engagement in Professional Life and is working to achieve that target.

[Promote foreign nationals to managerial positions]
- The Company currently has one non-Japanese Executive Officer.
- The Company will continue to recruit and appoint employees based on their job description and abilities, regardless of nationality.

[Promote mid-career employees to managerial positions]
- The Company hires mid-career employees with a focus on people with expert knowledge.
- The Company will continue to hire people to fill shortages of in-house personnel. Promotions to managerial positions are made based on the job descriptions and abilities, with no distinction between new-graduates and mid-career hires.

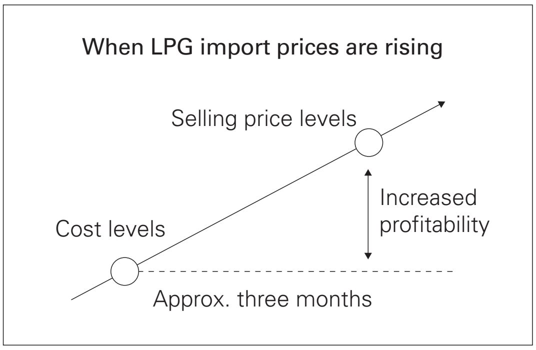
3. Business Risks, etc.
Among the matters related to the status of the business, the status of our accounting and such stated in the annual securities report, the major risks that management recognizes may have a significant impact on the Company's financial position, operating results and status of cash flows are set forth below. All forward-looking statements in this section are based on judgments made by the Group at the end of the fiscal year under review.

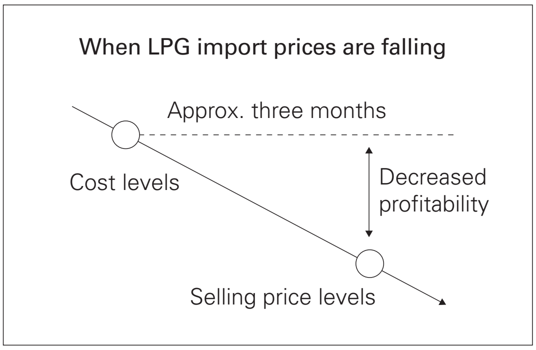
(1) Seasonal factors and fluctuations in weather
LPG consumption is affected by air and water temperatures. Therefore, sales of LPG, the Group's main product, decrease in summer and increase in winter. For this reason, the Group has a profit structure in which profits are concentrated in the second half of the year. As a result, abnormal fluctuations in weather may affect the Group's LPG sales volume.

(2) Impact of LPG import prices
The Company imports LPG from the Middle East and the U.S. In order to level out the impact of import price fluctuations, we have set up a price system with many wholesalers in which sales prices are linked to the Contract Price (CP) and Mont

Belvieu (MB) pricing. However, we have adopted the "first-in, first-out" method for inventory valuation, and there is a time lag of about three months from the import to the sale of LPG. When the import price rises, selling low-cost inventory at a high price will increase profits. Conversely, when the import price falls, selling high-cost inventory at a low price will reduce profits.

For the fiscal year under review, there was a decrease in profit of ¥3.1 billion [$23,215 thousand] (an increase in profit of ¥7.9 billion in the previous fiscal year).





(3) Risks related to climate change

While our main product is LPG, which is a fossil fuel, we are also focusing on expanding the use of hydrogen and other products that contribute to decarbonization. Depending on future trends in regulations, etc., related to climate change, the performance of the Group may be affected. For this reason, the Sustainability Promotion Committee, established as a subsidiary organization under the Risk Management Committee, which coordinates risk management groupwide, deliberates on matters such as risks, opportunities, action policies, and targets related to climate change and checks on the progress of related results.

Details regarding climate change are described in Section 2, "Approach and Initiatives Regarding Sustainability."

(4) Impact of exchange rate fluctuations

Although the Group may be affected by foreign exchange risk in trade transactions, it manages risks due to exchange rate fluctuations through measures such as forward exchange contracts. However, in the event of rapid and sharp fluctuations in exchange rates, it may be difficult to completely eliminate this risk, and the performance of the Group may be affected.

(5) Disasters, etc.

The Group handles LPG, industrial gas, and other gases regulated by the High Pressure Gas Safety Act, etc. Therefore, we conduct regular statutory inspections required by law as well as voluntary examinations and inspections. However, there is a possibility that we may not be able to provide a stable supply in situations such as when there is major damage to our shipping facilities, such as our bases, or to customer consumption facilities due to natural disasters such as large-scale earthquakes or large-scale epidemics of infectious diseases.

(6) Intensifying competition due to deregulation, etc.

Due to the full liberalization of the electricity and gas retail business, the declining population in Japan, and the depopulation of provincial cities, the competitive environment between companies in the industry and between different types of energy may change and may affect the performance of the Group.

(7) Impact of country risk

The Group conducts trade transactions and overseas business development centered on Asia. Accordingly, the performance of the Group may be affected by factors such as the deterioration of the political and economic situation in the region; unforeseen changes in laws, regulations, or tax systems; or the deterioration of public security.

(8) Impact of interest rate fluctuations

The Group requires funds for conducting strategic investments, such as investment to increase the number of LPG direct sales customers through M&A and capital investments to expand the industrial gas business. Related interest rate fluctuations may affect the performance of the Group. However, since most of our interest-bearing debt is procured at fixed interest rates, the impact of interest rate fluctuations is limited.

(9) Impact of counterparty credit risk

The Group provides credit to business partners in various forms and bears credit risks, including the possibility of default on receivables. In order to minimize and manage these credit risks, the Group takes countermeasures such as setting credit limits and obtaining necessary collateral and guarantees according to the credit status of business partner. However, in the event that receivables become uncollectible due to a deterioration in the credit standing or the bankruptcy of a business partner, etc., the performance of the Group may be affected.

(10) Impact of fluctuations in prices of securities held

In addition to holding shares of Group companies, the Group also holds securities of business partners, etc., in order to develop closer business relationships. Therefore, future fluctuations in the stock market may affect the performance of the Group. Regarding shares held for the purpose of strategic shareholding, the Board of Directors determines the appropriateness of each individual shareholding on an annual basis.

(11) Product defects

The products and services provided by the Group are managed through an appropriate quality control system. However, if the Group has to compensate for damages due to its products or conduct product recalls, etc., there may be consequences such as a decline in the Group's social credibility and corporate image, and the Group may have to bear large amounts of related expenses, which may affect the performance of the Group.

(12) Handling of personal information

The Group handles a large amount of personal information in various businesses, including the LPG business. As a business handling personal information and as stipulated in the Act on the Protection of Personal Information, we strive to comply with the law by appropriately managing the handling of personal information. However, in the event that personal information is leaked despite the Group's efforts, consequences such as a decline in the Group's social credibility and claims for damages from customers may arise and affect the performance of the Group.

(13) Risks related to compliance

The Group's businesses have to comply with various laws, regulations, and societal norms both in Japan and overseas. Therefore, we have established a Compliance Committee and are working to strengthen our compliance system. Furthermore, we are working to ensure thorough compliance by establishing and disseminating the Iwatani Code of Corporate Ethics as a code of conduct that all members of the Iwatani Group must comply with.

However, in the event that a violation of laws and regulations, etc., occurs despite the Group's efforts, the Group may face administrative sanctions from the authorities, lawsuits from interested parties, or a decline in its social credibility which may affect the performance of the Group.

4. Analysis of Status of Operating Results, Status of Financial Position and Status of Cash Flows

(Overview of Operating Results, etc.)

An overview of the financial position, operating results, and cash flows (hereinafter referred to as "operating results, etc.") of the Group (the Company, consolidated subsidiaries and entities accounted for using equity method) for the fiscal year under review is as follows.

(1) Status of Operating Results

During the fiscal year ended March 31, 2023, the Japanese economy showed a gradual recovery as a result of steady capital investment and an improvement in consumer spending as socioeconomic activities suppressed by the COVID-19 pandemic started to return to normal. However, uncertainties about the future remain due to rising prices and exchange rate fluctuations. Under these circumstances, Iwatani has been working on the basic policies of our medium-term management plan "PLAN23," which are "Enhancing strategic investment to establish a carbon-free society" and "Promotion of digitization."

To realize a carbon-free society, the Liquefied Hydrogen Supply Chain Commercialization Feasibility Study Project, in which we participate, selected an overseas hydrogen shipping site and a domestic hydrogen receiving site. We have thus made steady progress with our efforts to build a CO_2-free hydrogen supply chain. In addition, we established a limited liability company with Cosmo Oil Marketing Co., Ltd. with the aim of building hydrogen-refueling stations for commercial fuel cell vehicles.

In the Integrated Energy Business segment, we expanded sales of products that support customers' decarbonization, such as carbon offset LPG. In addition, we calculated and announced the CO_2 emissions from the entire supply chain of Iwatani Cassette Gas Canisters, including raw material procurement to disposal. We have thus pressed forward with our efforts to decarbonize LPG.

In the Industrial Gases & Machinery Business segment, in the field of regenerative medicine, we focused on acquiring new customers while advancing research on the manufacture, transport, and cryogenic storage of cells at the Iwatani R&D Center. In the field of onshore aquaculture, we installed aquacultural research equipment in the Iwatani R&D Center in an effort to strengthen our capabilities to develop products.

In the Materials Business segment, for the purpose of expanding the metal processing business, we expanded our site in Thailand. We worked to increase production capacity and reduce CO_2 emissions by reinforcing the manufacturing facilities and installing solar panels.

As a result, for the fiscal year under review, net sales were ¥906,261 million [$6,786,946 thousand] (+¥215,868 million [+$1,616,625 thousand] year-on-year), operating profit was ¥40,035 million [$299,820 thousand] (-¥41 million [-$307 thousand] year-on-year), ordinary profit was ¥47,011 million [$352,063 thousand] (+¥598 million [+$4,478 thousand] year-on-year), and net income attributable to owners of parent was ¥32,022 million [$239,811 thousand] (+¥2,057 million [+$15,404 thousand] year-on-year).

The following is a breakdown of operating results by segment:

(i) Integrated Energy

In the Integrated Energy Business segment, LPG sales increased primarily due to high LPG import prices and the effect of new consolidations. In addition, sales of cassette gas canisters were also steady. However, there was a large negative impact of LPG import price fluctuations (-¥11,108 million [-$83,187 thousand] year-on-year) despite improved profitability in LPG sales. As a result, net sales in this segment were ¥393,720 million [$2,948,550 thousand] (+¥66,545 million [+$498,352 thousand] year-on-year), and operating profit was ¥14,434 million [$108,095 thousand] (-¥8,221 million [-$61,566 thousand] year-on-year).

(ii) Industrial Gases & Machinery

In the Industrial Gases & Machinery Business segment, sales of air-separation gases decreased due mainly to sales in the electronic component industry and increases in the production costs of the gases due to higher electricity rates. In the Hydrogen Business, while operating expenses for hydrogen-refueling stations increased, the sales volume of liquid hydrogen and related equipment increased. As for specialty gases, sales of semiconductor gas and other gases remained steady, and we worked to secure a stable supply of helium under higher market conditions due to the tight global supply-demand balance. With regards to machinery and equipment, sales of gas supply equipment and semiconductor-related equipment increased. As a result, net sales in this segment were ¥240,403 million [$1,800,366 thousand] (+¥56,070 million [+$419,905 thousand] year-on-year), and operating profit was

¥16,561 million [$124,024 thousand] (+¥4,093 million [+$30,652 thousand] year-on-year).

(iii) Materials
In the Materials Business segment, sales of mineral sands increased as we worked to secure a stable supply under market conditions with continuing high prices due to the supply chain disruption. Sales of stainless steel to new customers increased, and sales of processed metal products mainly for air conditioners remained steady. In addition, sales of battery-related materials for next-generation vehicles increased as a result of rising market prices and sales to new customers, and sales of environmental products such as eco-friendly PET resins and biomass fuels also increased. As a result, net sales in this segment were ¥238,453 million [$1,785,763 thousand] (+¥87,478 million [+$655,118 thousand] year-on-year), and operating profit was ¥12,536 million [$93,881 thousand] (+¥5,281 million [+$39,549 thousand] year-on-year).

(iv) Agri-Bio & Foods
In the Agri-Bio & Foods Business segment, as demand for frozen foods from commercial customers and general consumers was on a recovery trend, we took measures for the increases in procurement and distribution costs. On the other hand, the number of breeding pig shipments decreased, and livestock feed prices soared.
As a result, net sales in this segment were ¥28,986 million [$217,074 thousand] (+¥5,609 million [+$42,005 thousand] year-on-year), and operating profit was ¥567 million [$4,246 thousand] (-¥108 million [-$808 thousand] year-on-year).

(v) Others
Net sales were ¥4,697 million [$35,175 thousand] (+¥163 million [+$1,220 thousand] year-on-year), and operating profit was ¥1,364 million [$10,214 thousand] (-¥105 million [-$786 thousand] year-on-year).

(2) Status of Financial Position

(i) Total Assets
Total assets at the end of the fiscal year under review increased by ¥97,523 million [$730,345 thousand] from the end of the previous fiscal year to ¥656,003 million [$4,912,776 thousand]. This was due mainly to increases in property, plant and equipment of ¥21,695 million [$162,472 thousand], notes and accounts receivable - trade and contract assets of ¥19,295 million [$144,499 thousand], intangible assets including goodwill of ¥20,689 million [$154,938 thousand] resulting from new consolidation, merchandise and finished goods of ¥10,017 million [$75,016 thousand], and investment securities of ¥5,898 million [$44,169 thousand].

(ii) Total Liabilities
Total liabilities at the end of the fiscal year under review increased by ¥65,601 million [$491,282 thousand] from the end of the previous fiscal year to ¥343,773 million [$2,574,500 thousand]. This was due mainly to increases in bonds payable of ¥20.0 billion [$149,779 thousand], long-term borrowings of ¥13,364 million [$100,082 thousand], electronically recorded obligations - operating of ¥10,024 million [$75,069 thousand], notes and accounts payable - trade of ¥6,591 million [$49,359 thousand], and contract liabilities of ¥6,213 million [$46,528 thousand].

Interest-bearing debt, including lease liabilities, etc., increased by ¥28,294 million [$211,892 thousand] from the end of the previous fiscal year to ¥139,454 million [$1,044,364 thousand] at the end of the fiscal year under review.

(iii) Total Net Assets
Total net assets at the end of the fiscal year under review increased by ¥31,922 million [$239,062 thousand] from the end of the previous fiscal year to ¥312,230 million [$2,338,276 thousand]. This was due mainly to increases in retained earnings of ¥27,128 million [$203,160 thousand] and foreign currency translation adjustment of ¥3,285 million [$24,601 thousand].

(3) Status of Cash Flows

Cash and cash equivalents (hereinafter referred to as "cash") at the end of the fiscal year under review increased by ¥3,682 million [$27,574 thousand] from the end of the previous fiscal year to ¥33,256 million [$249,052 thousand].

(i) Operating Activities
Net cash provided by operating activities in the fiscal year under review increased in revenue by ¥38,396 million [$287,545 thousand] from the previous fiscal year to ¥51,471 million [$385,463 thousand]. This was due mainly to an increase in cash resulting from profit before income taxes of ¥47,322 million [$354,392 thousand], depreciation of ¥24,215 million [$181,345 thousand], and an increase in trade payables of ¥7,198 million [$53,905 thousand] and a decrease in cash resulting from income taxes paid of ¥15,586 million [$116,722 thousand], an increase in trade receivables and contract assets of ¥9,843 million [$73,713 thousand], and an increase in inventories of ¥9,794 million [$73,346 thousand].

(ii) Investing Activities
Net cash used in investing activities in the fiscal year under review increased in expenditure by ¥28,346 million [$212,281 thousand] from the previous fiscal year to ¥60,286 million [$451,479 thousand]. This was due mainly to a decrease in cash resulting from the purchase of property, plant and equipment of ¥28,511 million [$213,517 thousand], the purchase of shares of subsidiaries resulting in change in scope of consolidation of ¥24,367 million [$182,483 thousand], and the purchase of investment securities of ¥5,670 million [$42,462 thousand].

(iii) Financing Activities
Net cash provided by financing activities in the fiscal year under review increased in revenue by ¥2,994 million [$22,421 thousand] from the previous fiscal year to ¥11,032 million [$82,618 thousand]. This was due mainly to an increase in cash resulting from proceeds from issuance of bonds of ¥20.0 billion [$149,779 thousand] and a decrease in cash resulting from dividends paid of ¥4,884 million [$36,576 thousand] and a net decrease in short-term borrowings of ¥1,989 million [$14,895 thousand].

(4) Results of Production, Orders and Sales

In the Group's business structure, the main operations are sales of products that have been procured. Accordingly, the procurement record has been stated in place of the results of production and the status of orders.

(i) Procurement Record

The record of procurement from third parties (including cost of service, etc.) by segment for the fiscal year under review is as follows.

Segment	Amount (Million yen)	Amount (Thousand $)	YoY change (%)
Integrated Energy Business	¥280,874	$2,103,452	28.9%
Industrial Gases & Machinery Business	173,075	1,296,150	40.2
Materials Business	214,447	1,605,983	54.8
Agri-Bio & Foods Business	23,160	173,444	26.7
Others	15,248	114,191	(15.2)
Total	¥706,807	$5,293,244	36.9%

(ii) Sales Results

The results of sales to third parties (including service revenue, etc.) by segment for the fiscal year under review were as follows.

Segment	Amount (Million yen)	Amount (Thousand $)	YoY change (%)
Integrated Energy Business	¥393,720	$2,948,550	20.3%
Industrial Gases & Machinery Business	240,403	1,800,366	30.4
Materials Business	238,453	1,785,763	57.9
Agri-Bio & Foods Business	28,986	217,074	24.0
Others	4,697	35,175	3.6
Total	¥906,261	$6,786,946	31.3%

Note: No amount of sales to a single third party accounted for 10% or more of the total sales.

(Analysis and Examination regarding Status of Operating Results, etc., from the Perspective of Management)

The understanding, analysis, and examination of the status of the Group's operating results, etc., from the management's perspective are as follows. All forward-looking statements in this section are based on judgments made at the end of the fiscal year under review.

(1) Significant Accounting Estimates and Assumptions Used in Making Estimates

The Group's consolidated financial statements are prepared in accordance with accounting standards generally accepted in Japan. In preparing these consolidated financial statements, estimates and assumptions that affect the reported amounts of assets and liabilities and income and expenses are used. Estimates, judgments, and evaluations were made based on factors that are considered reasonable in light of past performance and circumstances, but actual results may differ due to the uncertainties inherent in estimates. Among the accounting estimates and assumptions used in the preparation of the consolidated financial statements, the significant ones are listed in Note 3, "Significant Accounting Estimates."

(2) Understanding, analysis and examination of the status of operating results, etc., for the fiscal year under review

(i) Analysis of Operating Results

(a) Net sales and gross profit

Net sales increased by 31.3% from the previous fiscal year to ¥906,261 million [$6,786,946 thousand]. This was due mainly to high LPG import prices and the steady promotion of responses to various rising market prices as well as the impact of new consolidations. For more details, refer to the breakdown of operating results by segment above in Section 4 (1), "Status of Operating Results."

Gross profit increased 11.0% year-on-year to ¥212,925 million [$1,594,585 thousand] owing to an increase in net sales, despite the significant negative impact of LP gas market price factors.

(b) Operating profit

Selling, general and administrative expenses increased by 14.0% from the previous fiscal year to ¥172,890 million [$1,294,765 thousand]. This was due mainly to an increase in transportation costs and an increase in personnel costs caused by the impact of new consolidations. As a result, operating profit decreased by 0.1% from the previous fiscal year to ¥40,035 million [$299,820 thousand].

(c) Ordinary profit

The balance of non-operating income and expenses amounted to income (net) of ¥6,976 million [$52,242 thousand], an increase of ¥639 million [$4,785 thousand] from income (net) of ¥6,336 million in the previous fiscal year. This was due mainly to increases in subsidy income and the share of profit of entities accounted for using equity method. As a result, ordinary profit increased by 1.3% from the previous fiscal year to ¥47,011 million [$352,063 thousand].

(d) Net income attributable to owners of parent

The balance of extraordinary income and loss amounted to income (net) of ¥310 million [$2,321 thousand], an increase of ¥780 million [$5,841 thousand] in income from a loss (net) of ¥469 million in the previous fiscal year. This was due mainly to the recording of gain on bargain purchase.

As a result of the above, net income attributable to owners of parent increased by 6.9% year-on-year to ¥32,022 million [$239,811 thousand], and basic earnings per share increased from ¥520.98 in the previous fiscal year to ¥556.69 [$4.16].

In our medium-term management plan "PLAN23," we set ordinary profit of ¥40.0 billion [$299,558 thousand] and ROE of 9% or higher as targets for the final year of the plan, the fiscal year ending March 31, 2024. Ordinary profit and ROE results for the previous fiscal year and the fiscal year under review as well as the targets for the final year of PLAN23 are as follows.

(Comparison with PLAN23)

(Billion yen, unless otherwise stated)

Item	FY2021 Results	FY2022 Results	Targets for final year of PLAN23
Ordinary profit	46.4	47.0	40.0
Ordinary profit [Thousand $]	—	[351,980]	[299,558]
ROE	11.7%	11.2%	9% or higher

(Comparison with FY2022 performance forecasts)

(Billion yen, unless otherwise stated)

Item	FY2021 Results	FY2022 Results	FY2022 Performance Forecasts (Note)
Net sales	690.3	906.2	840.0
Net sales [Thousand $]	—	[6,786,489]	[6,290,721]
Operating profit	40.0	40.0	40.0
Operating profit [Thousand $]	—	[299,558]	[299,558]
Ordinary profit	46.4	47.0	46.5
Ordinary profit [Thousand $]	—	[351,980]	[348,236]
Net income attributable to owners of parent	29.9	32.0	30.0
Net income attributable to owners of parent [Thousand $]	—	[239,646]	[224,668]

(Ordinary profit except for impact of LPG import price fluctuation [market factors])

(Billion yen, unless otherwise stated)

Item	FY2021 Results	FY2022 Results	FY2022 Performance Forecasts (Note)
Ordinary profit	46.4	47.0	46.5
Ordinary profit [Thousand $]	—	[351,980]	[348,236]
Market factors	7.9	(3.1)	0.5
Market factors [Thousand $]	—	[(23,215)]	[3,744]
Ordinary profit except for market factors	38.4	50.1	45.9
Ordinary profit excluding market factors [Thousand $]	—	[375,196]	[343,742]

Note: The FY2022 performance forecasts stated are the figures announced on November 9, 2022.

Regarding FY2022 (fiscal year ended March 31, 2023) results, ordinary profit was ¥47.0 billion [$351,980 thousand] and ROE was 11.2%. Therefore, we achieved the targets for the final year of PLAN23. This was due mainly to the increase in sales of our main products as socioeconomic activities suppressed by the COVID-19 pandemic started to return to normal and our response to rising market conditions in various markets.

In addition, among the key business indicators for measuring the growth of major businesses, we achieved the target of PLAN23 one year ahead of schedule for "LPG direct sales customers." The results for the three other indicators "Portable gas cooking stove/ cassette gas canister sales volume (global)," "Air separation gas sales volume" and "LH2 sales volume" were also favorable.

Item	FY2021 Results	FY2022 Results	Targets for final year of PLAN23
LPG direct sales customers (10 thousand households)	103	110	110
Portable gas cooking stove sales volume (thousand units)	4,585	4,291	6,500
Cassette gas canister sales volume (million units)	154	157	180
Air separation gas sales volume (billion m^3)	1.67	1.60	1.70
LH_2 sales volume (million m^3)	71	77	90

Because of the results set forth above, we are formulating a new medium-term management plan that begins in the fiscal year ending March 31, 2024.

(ii) Analysis of capital resources and funding liquidity

Please refer to Section 4 (3), "Status of cash flows" for the status of cash flows.

(a) Need for funds

The main component of working capital in the Group's business activities is operating expenses, such as expenses for the purchasing of merchandise, manufacturing costs, and selling, general and administrative expenses. The need for funds for investment is due to capital expenditure and the acquisition of shares in M&As. The Group's policy is to make multifaceted and cautious investment decisions, taking the revenue of the entire business into consideration for infrastructure development to support safety and security and taking capital costs and other factors into consideration for future growth investments.

(b) Financial policy

It is the basic policy of the Group to secure the capital resources and funding liquidity needed for business operations by generating stable cash flow from operating activities, while also maintaining financial soundness. For short-term working capital, we rely on Company funds, short-term borrowings from financial institutions, and commercial paper (CP). For capital expenditure and long-term working capital, we rely on sources such as Company funds, long-term borrowings from financial institutions, and the issuance of corporate bonds. We also conduct lending between Group companies with the aim of improving intra-Group funding efficiency.

In terms of corporate bonds, after issuing green bonds in December 2021, we issued straight bonds (¥10.0 billion [$74,889 thousand] each of 7-year and 10-year bonds) in September 2022. These bonds have received a bond rating of A from Japan Credit Rating Agency, Ltd. (JCR). We have also obtained a "J-1" rating, which is equivalent to the "A" rating for long-term issuers, for our domestic CP rating, which is required to issue CP.

At the end of the fiscal year under review, the Company's interest-bearing liabilities, including lease liabilities, increased by ¥28,294 million [$211,892 thousand] to ¥139,454 million [$1,044,364 thousand].

5. Important business contracts

None

6. Research and development

Centered on the gas and energy fields, our research and development in the fiscal year under review covered our business domains ranging from the Integrated Energy Business and the Industrial Gases Business to the Materials Business and the Agri-Bio & Foods Business. In addition, to solidify our position as the leading hydrogen supplier, we focused on technological development to create a hydrogen supply chain as well as development of new technologies for decarbonization.

With the Group's vision for overall growth in mind, the Iwatani R&D Center (Amagasaki, Hyogo Prefecture), which plays a central role in our research and development, engaged in R&D that will lead to the development of new products and new businesses. The Center also made efforts to strengthen its basic technologies, with a focus on analysis, to improve its technical services for customers, the quality control of products handled by the Company, and the efficiency of product development.

Opened in October 2021, the Iwatani Advanced Hydrogen Technology Center took advantage of its state-of-the-art hydrogen testing and research equipment to evaluate the suitability of materials and equipment for use with ultra-low-temperature liquid hydrogen and ultra-high-pressure hydrogen gas while accelerating research and development that will help lower the costs of building hydrogen stations and making them safer. The Center also embarked on the new development of technology for capturing cold heat from gasification of liquid hydrogen and filling technologies for the future commercialization of liquid hydrogen stations. Further, it is proceeding with research into synthesizing hydrocarbon fuels, such as propane, from hydrogen and carbon dioxide. The research and development expenditures of the entire Group for the fiscal year under review totaled ¥2,056 million [$15,397 thousand]. The Company accounted for ¥1,644 million [$12,311 thousand] of that total.

The main content of the research and development was related to hydrogen and accounted for ¥351 million [$2,628 thousand]. Divided by segment, other research and development expenses were ¥334 million [$2,501 thousand] in the Integrated Energy Business segment, ¥69 million [$516 thousand] in the Industrial Gases & Machinery Business segment, ¥103 million [$771 thousand] in the Materials Business segment, ¥6 million [$44 thousand] in the Agri-Bio & Food Business segment, and ¥1,190 million [$8,911 thousand] in the Other segment. The large amount attributed to the Other segment was because it includes common expenses of the Iwatani R&D Center.

Research and development in each segment were as follows.

(Hydrogen energy)
Based on the hydrogen and fuel-cells strategy roadmap and the Hydrogen Basic Strategy, the Company engaged in activities that will lead to the expansion of the use of hydrogen energy, including the establishment of hydrogen stations and the development of new applications for hydrogen energy. Furthermore, the Company promoted research and development that prioritized the construction of a carbon-free hydrogen supply chain in anticipation of the realization of a hydrogen energy society.

Specifically, in an initiative with the Ministry of Economy, Trade and Industry and the New Energy and Industrial Technology Development Organization (NEDO), the Company participated in a demonstration project to build a large-scale hydrogen supply chain using unutilized Australian brown coal (HySTRA), accumulating engineering data through the testing of loading arms and other tasks at the terminal that receives the hydrogen from overseas and other means. At the Fukushima Hydrogen Energy Research Field (FH2R) (Namie, Fukushima Prefecture), the Company engaged in demonstration testing, including the continued supply of hydrogen to commercial hydrogen stations and to fuel cells installed in facilities in Fukushima Prefecture. The Company also engaged in the development of measurement control technology related to the supply of hydrogen gas to large vehicles such as buses and trucks.

With the aim of commercial operations at Expo 2025 Osaka, Kansai, Japan, the Company finalized the design and specifications for a vessel propelled by hydrogen fuel cells and proceeded with the construction of the vessel. It also commenced construction of a hydrogen fueling station for watercraft. Further, in a joint project with JGC HOLDINGS CORPORATION and Toyota Tsusho Corporation, the Company explored technologies for producing hydrogen that uses plastics as fuel. In another joint project with Obayashi Corporation, the Company embarked on research and development for the capture of cold heat from gasification of liquid hydrogen and its application in office air conditioning systems and elsewhere.

(Integrated Energy Business)
As part of its efforts to realize a carbon neutral society, the Company pursued research into technologies for manufacturing green LPG to aid in the decarbonization of LPG and embarked on laboratory testing at the Iwatani Advanced Hydrogen Technology Center. In addition, in a project commissioned by NEDO, the Company worked jointly with Soma Gas Holdings Co., Ltd. and others to complete a feasibility study for a demonstration trial of a mixed pipeline supply of hydrogen and LPG using existing infrastructure. The aim is to conduct the demonstration trial in the business area of Soma Gas Co., Ltd. in FY2023. Further, the Company is proceeding with product development that capitalizes on power generation functions that use thermoelectric power generation elements and fuel cells. The aim of this initiative is to develop new products that will lead to expanded sales of cassette gas canisters, the Company's mainstay consumer product.

(Industrial Gases & Machinery Business)
With a focus on the area of regenerative medicine, the Company leveraged the outcomes of research into the optimization of cell freezing and thawing processes obtained

through its joint research chair with Osaka University to pursue the development of cell storage and transport containers and freezing equipment. Making use of the dedicated bioresearch clean room established in the Iwatani R&D Center as the base for regenerative medicine and bioresearch, the Company is making progress on the development of cell storage technologies.

To expand businesses such as the supply of oxygen gas to the inland aquaculture sector, the Company installed equipment for inland aquaculture research in the Iwatani R&D Center in January 2023. By conducting research in this field independently, the Company will build up its knowledge and expertise to strengthen its proposal capabilities in the field.

Based on the technology for the production of deuterium gas for use in semiconductors that was established by the Iwatani R&D Center, a mass-production deuterium plant was established at the Mie Plant of Iwatani Industrial Gases Corporation, and shipments were commenced. The Center continues to pursue improvements in efficiency and loss-reducing technologies and will proceed with the transfer of these technologies.

In the welding and cutting area, in a joint project with KOHTAKI PRECISION MACHINE Co., Ltd., the Company developed and commercialized a hydrogen-cutting machine that uses 100% hydrogen gas to cut steel plates. It also engaged in the development of technologies for the welding of dissimilar metals, namely copper and stainless steel.

(Materials Business)
The Company worked on technologies for synthesizing nano nickel, which is used in multi-layer ceramic capacitors (MLCC). Demand for those capacitors is growing for use in mobile phones and PCs. The Company has shipped samples to major users for them to evaluate as it works to improve quality. It is also pursuing technologies to increase production volumes and reduce production costs with the use of automation with commercialization in mind.

(Agri-Bio & Foods Business)
While concentrating its efforts on the improvement of technologies for the analysis of micro-organisms, residual farm chemicals, and antibiotics in the frozen foods handled by the Company, the Company conducted voluntary control analysis of imported food products. In addition, in a joint project with Katsura Company, Ltd., the Company worked on the development of systems for capturing CO_2 from exhaust combustion gas and using it in photosynthesis of agricultural produce as part of the efforts to shift to LPG for fueling agricultural greenhouse heating.

7. Dividend Policy

With regard to profit distribution, the Company's basic policy is to maintain continuous and stable dividends. We aim to return profits appropriately while carefully considering our business performance and the business environment going forward. Regarding internal reserves, we will preferentially use them for investments that will lead to the expansion of our core business and new growth as well as investments that will improve the efficiency and labor-saving quality of our operational systems, maximizing corporate value and thereby meeting the expectations of our shareholders.

The Company's basic policy on dividends of surplus is to pay year-end dividends once a year, and the decision-making body for dividends is the General Meeting of Shareholders. In accordance with the above policy, the year-end dividend for the fiscal year under review will be ¥95 [$0.71] per share.

(Note) Dividends of surplus with record dates in the fiscal year under review are as follows.

Date of resolution	Total amount of dividends (Million yen) [Thousand $]	Dividend per share (Yen) [$]
Resolution at Annual General Meeting of Shareholders held on June 21, 2023	¥5,470 [$40,964]	¥95 [$0.71]

8. Status of Corporate Governance, etc.

(1) Overview of Corporate Governance

(i) Basic Views on Corporate Governance

The corporate philosophy of the Company is "Become a person needed by society, as those needed by society can prosper." In keeping with the corporate philosophy, we will strive to improve management soundness, transparency, and efficiency and to build a corporate governance framework with the following items as our basic policy.

(Basic Policy)
1. We will create an environment that allows shareholders to exercise their rights properly and will endeavor to ensure equality among shareholders.
2. We will respect the rights and positions of employees, customers, business partners, creditors, local communities and other stakeholders and endeavor to collaborate with them properly.
3. We will make appropriate disclosures in accordance with relevant legislation. For the purpose of ensuring transparency, we will endeavor to offer additional information other than the information required to be disclosed pursuant to the legislation.
4. We will make impartial, transparent and swift decisions in an effort to ensure that the Board of Directors will properly fulfill its functions and duties.
5. We will endeavor to hold constructive dialogs with shareholders in a bid for continuous growth and increase in corporate value.

(ii) Overview of corporate governance structure and reasons for adoption of that structure

Responsible for Iwatani's business decision-making and oversight, the Board of Directors consists of 13 members (including five Outside Members). Together with swift, appropriate decision-making and oversight based on comprehensive and active deliberation in the Board of Directors, the Outside Members of the Board strengthen the functions of the Board by enhancing and improving the transparency of its decision-making and the effectiveness of oversight from standpoints independent of core management and based on extensive experience and knowledge of corporate governance.

The Company strives to stimulate the activities of the Board of Directors by introducing a system of executive officers to speed up decision-making and delegate authority. In accordance with management policies decided on by the Board of Directors, Executive Officers are delegated authority by the Representative Member of the Board to devote themselves to business execution in compliance with relevant instructions and orders. Through adopting this system, the Company is promoting more efficient management by enhancing decision-making on corporate strategies and oversight functions by the Board of Directors. Once a month, the Board of Corporate Officers, whose membership consists of full-time Members of the Board, Executive Officers, and full-time Audit & Supervisory Board Members, meets to share information and facilitate communication, in addition to deliberating on important matters related to business execution.

The Company has adopted a company structure with an Audit & Supervisory Board. The Audit & Supervisory Board consists of four members (including two Outside Audit & Supervisory Board Members). Full-time Audit & Supervisory Board Members attend meetings of the Board of Directors and the Board of Corporate Officers and other important meetings, and Outside Audit & Supervisory Board Members attend Board of Directors meetings to ensure full oversight of the execution of duties by Members of the Board. Audit & Supervisory Board Members are appointed with a focus on matters such as their specialized knowledge of finance, accounting, and law and their knowledge and experience related to the Company's businesses. Outside Audit & Supervisory Board Members in particular are appointed based on the requirements for independent officers identified by financial instruments exchanges. In this way, the Company's audit system is based on multifaceted perspectives.

The Company established a voluntary Nomination and Compensation Committee as an advisory body to the Board of Directors. This body consists of three or more Members of the Board, a majority of whom, including the chair, are Outside Members of the Board. The goal is to enhance fairness, transparency, and objectivity in procedures related to decision-making on the appointment and dismissal of Members of the Board, the appointment of Audit & Supervisory Board Members, and compensation of Members of the Board and to strengthen corporate governance through consultation with this Committee.

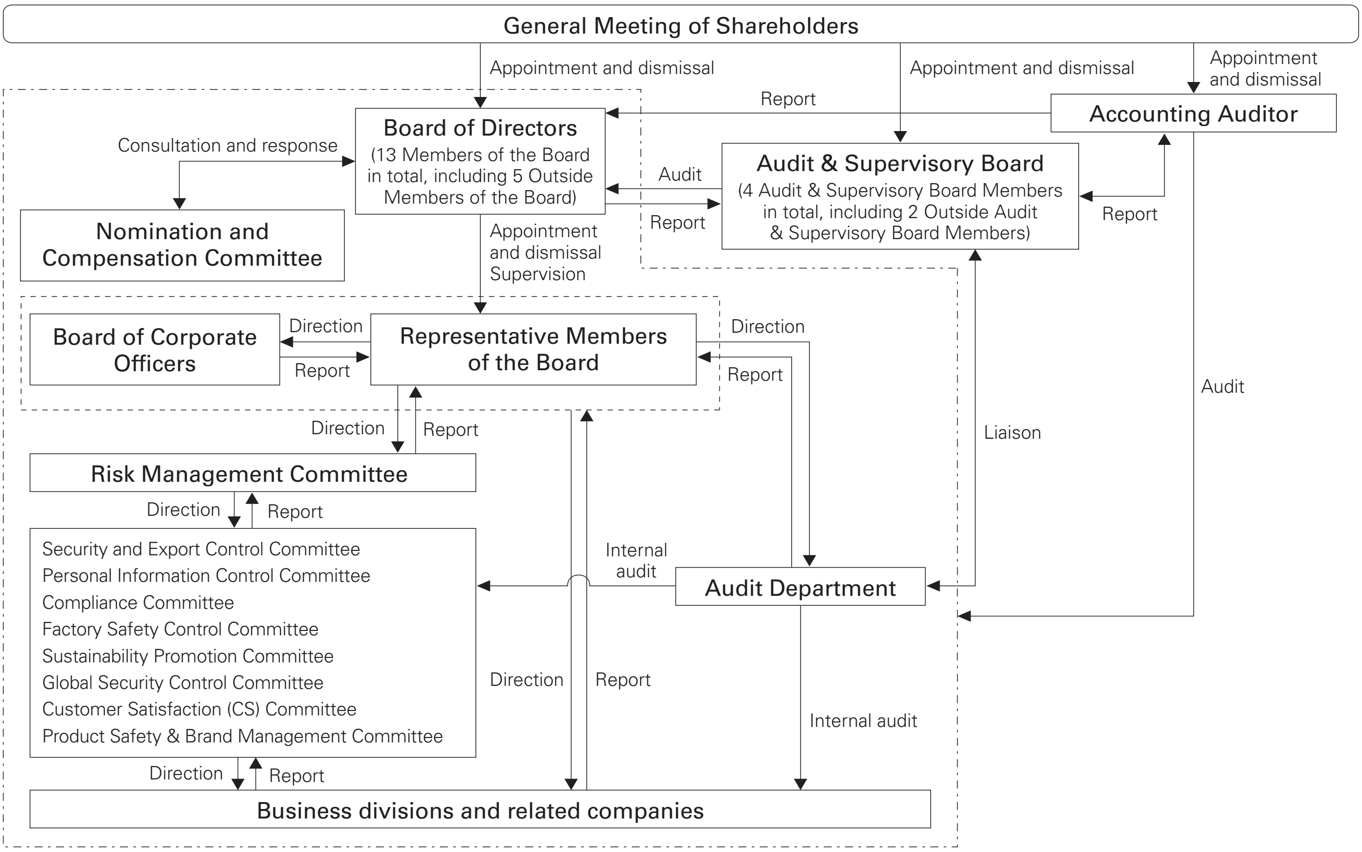
As described above, the Company has adopted this corporate governance structure as it has established functions for securing the soundness of management.

(a) Composition of the Board of Corporate Officers (◎: Chairman)

Title	Name	Title	Name	Title	Name
Chairman and CEO	◎ Akiji Makino	Senior Managing Officer	Takashi Kamekura	Executive Officer	Tomohiko Takehana
Vice Chairman	Toshio Watanabe	Senior Managing Officer	Yasuhisa Ueda	Executive Officer	Atsuhisa Saito
President	Hiroshi Majima	Senior Managing Officer	Tetsuo Matsuo	Executive Officer	Takeshi Nakada
Member of the Board Vice President	Makoto Horiguchi	Senior Managing Officer	Yasushi Sakai	Executive Officer	Hirofumi Uchida
Member of the Board Senior Managing Officer	Itaru Ookawa	Senior Managing Officer	Kenji Motoori	Executive Officer	Kunihiko Koike
Member of the Board Senior Managing Officer	Manabu Tsuyoshi	Senior Managing Officer	Joseph S. Cappello	Executive Officer	Naoki Wada
Member of the Board Senior Managing Officer	Hiroshi Fukushima	Senior Managing Officer	Kenji Takayama	Executive Officer	Kazutaka Yokoya
Member of the Board Senior Managing Officer	Hirozumi Hirota	Managing Officer	Hiroyuki Yano	Executive Officer	Yoshikuni Yamada
Audit & Supervisory Board Member	Toyofumi Ohama	Managing Officer	Masahito Nishimura	Executive Officer	Katsumi Nakahata
Audit & Supervisory Board Member	Naoki Iwatani	Managing Officer	Hisayuki Shimizu	Executive Officer	Umore Komamine
		Managing Officer	Wataru Isshiki	Executive Officer	Hiroyuki Murotome
		Managing Officer	Naotami Miyagaki	Executive Officer	Mineharu Okamoto
		Managing Officer	Masao Hirashima	Executive Officer	Kozo Shimasaki
		Managing Officer	Jun Matsubara	Executive Officer	Kimio Watanabe
				Executive Officer	Shinichi Hashimoto

(b) Overview of Corporate Governance System
An overview of the corporate governance system and the internal control system is as follows.

(As of June 22, 2023)



(iii) Other Matters Concerning Corporate Governance

(a) Basic Views on Internal Control System and Status of Development

Since its foundation, the Company's corporate philosophy has been to "become a person needed by society, as those needed by society can prosper," and we have constantly strived to create new value that society and our customers demand in our aim to contribute to society. We engage in our day-to-day business management in the belief that responding to the trust and expectations of shareholders, business partners, employees and other stakeholders is an absolute prerequisite for the prosperity of the Company. Based on this corporate philosophy and pursuant to the Companies Act and the Regulations for Enforcement of the Companies Act, the Company has established the following internal control system and is developing and operating structures to ensure the propriety of operations of the corporate group that comprises the Company and its subsidiaries (hereinafter "the Group").

1) Structures to ensure that Members of the Board and employees of the Group execute their duties in compliance with applicable laws and regulations and the Articles of Incorporation

To ensure that Members of the Board and employees of the Company execute their duties in compliance with applicable laws and regulations and with the Articles of Incorporation and achieve the appropriate and sound execution of the Company's business, the Board of Directors strives to develop and operate an effective internal control system and compliance structures. The Audit & Supervisory Board monitors the execution of the Company's business for the early detection and rectification of issues.

In addition, a Compliance Committee has been set up to comprehensively promote legal and regulatory compliance by enforcing and enhancing compliance structures in Group business activities. Further, the corporate philosophy, which holds that morality and values are shared through the Iwatani Code of Corporate Ethics, serves as the norm to be observed in all aspects of business activities by all core management members and employees of the Group, and compliance training is conducted to raise awareness of the importance of compliance.

To ensure the reliability of financial reporting, under the Financial Instruments and Exchange Act and related laws and regulations, basic plans and policies for the development of the internal control system pertaining to the financial reporting of the Group are set out and efforts are made for the development and appropriate operation of adequate Group-wide structures.

The Group's Code of Conduct maintains that anti-social forces that threaten the order and safety of civic society should be stood up against with a resolute attitude. To that end, the Company has established a department to manage responses to antisocial forces. The department cooperates with external organizations with relevant expertise to respond to unreasonable demands and collect information about anti-social forces.

2) Structures for the storage and management of information related to the execution of duties by the Members of the Board of the Company

Information related to the execution of duties by the Members of the Board, including the written proposals and minutes of meetings of the Board of Directors, Board of Corporate Officers, and other meetings is stored and managed appropriately in accordance with applicable laws and regulations, including company regulations.

3) Rules and other structures for the management of risks of loss in the Group

The Group has established a Risk Management Committee under the direct control of the President to ensure integrated management of risks across all Group companies. Specialized individual committees set up beneath the Risk Management Committee address the main anticipated risks, such as compliance risks and plant safety risks, to enable a comprehensive response to any corporate risks, both apparent and potential.

4) Structures to ensure the efficient execution of duties of the Group's Members of the Board, etc.

In addition to the formulation of the Group's Medium-Term Management Plan and the adoption of management indicators and performance management indicators on a consolidated basis, a department has been established to oversee the management of the Group companies. Meetings are held regularly to debate Group-wide basic strategies and management issues.

The Company has also adopted a system of executive officers for the efficient execution of duties by the Members of the Board. Through swifter decision-making and the delegation of authority, the Company is promoting more efficient management by strengthening decision-making on corporate strategies and oversight functions by the Board of Directors. The Company also strives to improve the efficiency of execution of duties in accordance with regulations on segregation of duties and approvals and uses core IT systems for the comprehensive management of management resources and the improvement of company-wide operational efficiency.

5) Structures to ensure the proper execution of business by the Group

In accordance with the rules governing Group management, the Company ensures the proper execution of business by stipulating matters for prior approval concerning key management issues, such as the management plans and annual budgets of Group companies and other matters concerning business activities. In addition to regular reporting, it has made prompt reports in the event of abnormal situations mandatory. The Company works to raise awareness of compliance across the entire Group by thoroughly disseminating the Iwatani Code of Corporate Ethics, which is the code of conduct for the business activities of the Group.

Further, the Audit Department has been established. Its periodic internal audits, implemented in close cooperation and communication with the Audit & Supervisory Board, consider whether the business activities throughout the Group are being performed appropriately and efficiently.

6) Matters concerning the employees to assist the Audit & Supervisory Board Members in their duties when the Audit & Supervisory Board Members request the assignment thereof

A dedicated staff member has been assigned as an assistant to the Audit & Supervisory Board Members and the Audit & Supervisory Board's secretariat to assist with auditing work and the operation of the Audit & Supervisory Board.

7) Matters to ensure the independence of the employees assisting the duties of the Audit & Supervisory Board Member of the Company from the Members of the Board and the effectiveness of directions given to the employees by the Audit & Supervisory Board Members

The appointment of the staff member assigned to the Audit & Supervisory Board Members will be decided with due respect to the opinions of the Audit & Supervisory Board, and their independence from the Members of the Board will be ensured. Further, the staff member will comply with the directions and orders of the Audit & Supervisory Board Members in the execution of their duties.

8) Structures for reporting to Audit & Supervisory Board Members of the Company by the Members of the Board and others of the Group as well as its employees and other structures for reporting to Audit & Supervisory Board Members

The Members of the Board and employees of the Company will report promptly and appropriately to the Audit & Supervisory Board Members regarding statutory matters, matters resolved by the Board of Corporate Officers, matters that would have a serious impact on the Group, the implementation status of internal audits in the Group, the operational status of internal whistleblowing systems, and other matters determined to require reporting to the Audit & Supervisory Board Members for the execution of their duties. In addition, the Audit & Supervisory Board Members of the Company will receive regular reports on the status of internal control and other matters from the Audit & Supervisory Board Members of Group companies. They will also receive explanations about the details of accounting audits from the Accounting Auditor and otherwise exchange opinions.

9) Structures to ensure that persons who have made reports related to the above item are not subjected to disadvantageous treatment for making such reports

The Company prohibits the disadvantageous treatment of persons who have made reports related to the above item for making such reports and will take measures to ensure that this fact is thoroughly understood.

10) Matters concerning procedures for advance payment or reimbursement of expenses arising in conjunction with the execution of duties by Audit & Supervisory Board Members of the Company and other policies for processing expenses and reimbursements arising with respect to the execution of duties

As the Company bears the costs arising in conjunction with the execution of duties by Audit & Supervisory Board Members, a budget is posted based on the audit plan. In addition, Audit & Supervisory Board Members may subsequently request reimbursement from the Company for any emergency or extraordinary expenses paid.

11) Other structures to ensure that audits by the Company's Audit & Supervisory Board Members are conducted effectively

In addition to the full-time Audit & Supervisory Board Members attending all important meetings, including meetings of the Board of Directors and the Board of Corporate Officers, the Audit & Supervisory Board Members and the Audit & Supervisory Board will increase the effectiveness of the auditing of the Company's business execution by holding regular meetings with the Representative Members of the Board and the Accounting Auditors respectively.

(b) Basic Views on Measures for Eliminating Anti-Social Forces and Status of Development

The Company has stated in the Iwatani Code of Corporate Ethics its Code of Conduct that all officers and employees of the Company and each company within the group must show a resolute attitude against antisocial forces which threaten the order and safety of civil society. It has clearly indicated that we "will not respond to any request for money or goods," "will not provide any benefit," and "will exclude them thoroughly in cooperation with the police authority."

The Company has established a department to manage responses to antisocial forces. The department coordinates with external organizations with relevant expertise and takes counter-measures such as dealing with improper request from antisocial forces, collecting information about such forces, and establishing special clauses in contract documents. In terms of activities to educate employees, opportunities have been established for employees to deepen their understanding of the Code of Conduct through training, in-house magazines, and other means.

(c) Status of establishment of risk management structures

The Company has established a Risk Management Committee to coordinate risk management of all Group companies. There are eight individual committees under the Risk Management Committee, namely the Security and Export Control Committee, which works to enhance management structures for compliance with the Foreign Exchange and Foreign Trade Act and prevent improper exports, the Personal Information Control Committee, which strives for the comprehensive protection of personal information, the Compliance Committee, which strives for comprehensive compliance with laws and regulations, the Factory Safety Control Committee, which formulates priority measures on high-pressure gas safety and other matters, the Sustainability Promotion Committee, which deliberates on the establishment of responses at times of disaster and important matters related to environmental management, the Global Security Control Committee, which strives for comprehensive international risk management, the Customer Satisfaction (CS) Committee, which works to increase customer satisfaction, and the Product Safety & Brand Management Committee, which examines safety and compliance with laws and regulations of products handled and work performed to establish the image of the Iwatani brand and to maintain and increase brand value.

In 1998, to prevent corporate misconduct, the Company established the Iwatani Code of Corporate Ethics as "a norm to be observed in all aspects of business activities on the basis of sharing the management philosophy, morality and values among management team members and employees in the group." This code is publicized throughout the Company and Group companies to raise awareness of compliance groupwide. It is also revised to reflect recent changes in the social conditions in which the Company does business as well as amendments in laws and regulations. The Company also obtains advice as necessary from its legal counsel when legal decisions are required.

(iv) Activities of the Board of Directors and the Nomination and Compensation Committee during the Fiscal Year Under Review

In principle, meetings of the Board of Directors are held once a month, and additional meetings are held as necessary. A total of 15 meetings were held in the fiscal year ended March 31, 2023.

The Board of Directors, in accordance with the deliberation and reporting standards stipulated in the Board of Directors Regulations, makes resolutions on basic management policies of the Company, matters related to the execution of important operations, matters authorized by resolutions of the General Meeting of Shareholders, and matters stipulated by laws and regulations and in the Articles of Incorporation. In addition, the Board of Directors receives reports on matters stipulated by laws and regulations and the execution status of important operations.

Meetings of the Nomination and Compensation Committee are held once or twice a year. One meeting was held in the fiscal year ended March 31, 2023. The Nomination and Compensation Committee is composed of three or more members who are Members of the Board, the majority of whom are Outside Members of the Board, and is chaired by an Outside Member of the Board. As an advisory body to the Board of Directors, the committee deliberates on issues including matters related to the appointment and dismissal of Members of the Board, the compensation system for Members of the Board, and policies for determining compensation and makes reports to the Board of Directors.

At the time of submission of this report, the Board of Directors consisted of the following 17 members.

Name	Position	Attendance at meetings of the Board of Directors in FY2022	Concurrently serving in the Nomination and Compensation Committee
Akiji Makino	Chairman and CEO	15/15	—
Toshio Watanabe	Vice Chairman	15/15	○
Hiroshi Majima	President	15/15	○
Makoto Horiguchi	Member of the Board Vice President	15/15	—
Itaru Ookawa	Member of the Board Senior Managing Officer	15/15	—
Manabu Tsuyoshi	Member of the Board Senior Managing Officer	14/15	—
Hiroshi Fukushima	Member of the Board Senior Managing Officer	12/12*1	—
Hirozumi Hirota	Member of the Board Senior Managing Officer	12/12*1	—
Shinji Murai	Outside Member of the Board	15/15	◎ (Chairman)
Shosuke Mori	Outside Member of the Board	15/15	○
Hiroshi Sato	Outside Member of the Board	15/15	○
Hiroyuki Suzuki	Outside Member of the Board	12/12*1	○
Yuki Saito*2	Outside Member of the Board	—	—
Toyofumi Ohama	Full-time Audit & Supervisory Board Member	15/15	—
Naoki Iwatani	Full-time Audit & Supervisory Board Member	12/12*1	—
Yoshinori Shinohara	Outside Audit & Supervisory Board Member	15/15	—
Yasushi Yokoi	Outside Audit & Supervisory Board Member	15/15	—

*1 Members of the Board Hiroshi Fukushima, Hirozumi Hirota, and Hiroyuki Suzuki and Audit & Supervisory Board Member Naoki Iwatani attended all 12 meetings of the Board of Directors held after they assumed office as Director and Audit & Supervisory Board Member in June 2022, respectively.
*2 Member of the Board Yuki Saito was elected at the General Meeting of Shareholders held on June 21, 2023.

(v) Overview of Contents of Liability Limitation Agreement

In accordance with the provisions of Article 427, Paragraph 1 of the Companies Act, the Company has entered into agreements with Outside Members of the Board and Outside Audit & Supervisory Board Members to limit their liability for damages under Article 423, Paragraph 1 of the same Act. The maximum amount of liability for damages under the agreement is the minimum liability amount stipulated by the applicable laws and regulations.

(vi) Overview of Contents of Directors and Officers Liability Insurance Contract

The Company has entered into a directors and officers liability insurance contract as stipulated in Article 430-3, Paragraph 1 of the Companies Act, with Members of the Board, Audit & Supervisory Board Members, Executive Officers, and others of the Company and its subsidiaries as insured persons.

[Overview of contents of insurance contract]
(a) Scope of insured persons
Members of the Board, Audit & Supervisory Board Members, Executive Officers, Accounting Auditors, and other important employees of the Company and its subsidiaries (including those who assumed office after the execution of the contract)

(b) Percentage of insurance premiums borne by insured persons
Insurance premiums are borne by the Company and its subsidiaries and are not borne by the insured persons.

(c) Overview of insured events subject to compensation
Damages (legal damages and litigation costs) incurred due to a claim for damages arising from the performance of the insured person's duties will be subject to compensation.

(d) Measures to ensure that the appropriateness of officers' duties is not impaired
The contract contains a disclaimer to the effect that damages due to intentional or illegal provision of private benefits, criminal acts, and other similar actions of the insured person are not subject to compensation.

(vii) Details of Provisions of the Articles of Incorporation

(a) Number of Members of the Board
The Articles of Incorporation provide that the number of Members of the Board of the Company shall be not more than seventeen (17).

(b) Requirements for resolution on the election of Members of the Board
The Articles of Incorporation provide that resolutions for the election of Members of the Board shall be made by a majority of the voting rights of the shareholders present at a meeting who hold shares representing one-third or more of the voting rights of shareholders who are entitled to exercise voting rights.

(c) Matters for resolution by the General Meeting of Shareholders that may be resolved in the Board of Directors
With the objective of enabling the flexible execution of capital policies, regarding the acquisition of own shares and in accordance with the provisions of Article 165, Paragraph 2 of the Companies Act, the Articles of Incorporation provide that the Company may acquire its own shares by resolution of the Board of Directors.

(d) Requirements for special resolutions in the General Meeting of Shareholders

With the objective of the smooth operation of the General Meeting of Shareholders and regarding special resolutions by the General Meeting of Shareholders set forth in Article 309, Paragraph 2 of the Companies Act, the Articles of Incorporation provide that such resolutions shall be made by two-thirds or more of the voting rights of the shareholders present at a meeting who hold shares representing one-third or more of the voting rights of shareholders who are entitled to exercise voting rights.

(viii) Basic Policy on Control of the Company

(a) Basic policy toward any person(s) who should control decisions on the Company's financial and business policies (summary)

The Company's Board of Directors believes it to be preferable that the person(s) controlling decisions on the Company's financial and business policies be person(s) who will help to enhance the corporate value of the Group and in turn materialize the common interests of the shareholders, but that ultimately, such decisions should be entrusted to the judgment of shareholders.

The Company, whose shares are listed on the financial instrument exchanges, respects any free transaction of shares of the Company in the markets, and, even if any specified person(s) contemplates conducting any large purchase of shares and the like of the Company, as long as it would help to enhance the corporate value of the Group and, by extension, realize the common interests of the shareholders of the Company, the Company will not hold a negative opinion of that action.

However, the Company's Board of Directors deems it inappropriate for any person(s) conducting a large purchase of shares and the like of the Company that would prejudice or for which there is a strong risk of it prejudicing the corporate value and common interests of the shareholders of the Group to be person(s) controlling decisions on the Company's financial and business policies. For this reason, in its fiduciary duty to the shareholders, the Company's Board of Directors deems it necessary to make certain preparations to deal with any inappropriate proposal for a large purchase of shares and the like of the Company and to secure the time and information necessary for shareholders to make judgments on such large purchase efforts and to negotiate with the person(s) proposing such actions.

(b) Measures to facilitate realization of the basic policies (summary)

The Company formulated the Medium-Term Management Plan "PLAN23" ending March 31, 2024 as an effort to put the basic policies into practice. Based on the plan, the Company has been working toward the Plan's targets of "enhancing strategic investment to establish a carbon-free society" and "promotion of digitization." Specifically, the Company has set the following three visions as its basic strategies. For details, please refer to Subsection 1 (3), "Medium- to Long-Term Management Strategies" under Section 1, "Management Policy, Business Environment and Issues to be Addressed" in Note, "Business Overview."

(c) Measures to prevent inappropriate persons from controlling decisions on the Company's financial and business policies in light of the basic policy

At the 65th Annual General Meeting of Shareholders held on June 27, 2008, the Company adopted a Defense Policy against Large Purchase Action of Shares of the Company (Takeover Defense Measures) (hereinafter, "this Plan"). This Plan has been renewed four times since then, with its basic contents maintained.

Based on changes in the business environment surrounding the Company, recent trends in takeover defense measures, the opinions of shareholders, including institutional investors in Japan and overseas, and other factors, the Company's Board of Directors resolved at a meeting held on May 23, 2023 to discontinue this Plan at the conclusion of the Annual General Meeting of Shareholders to be held on June 21, 2023.

Even after this Plan is terminated, in the event of a large purchase effort that could harm the corporate value and the shareholders' common interests, the Company will request those who conduct such action to provide necessary and sufficient time and information so that the Company's shareholders will be able to properly determine the appropriateness of such action. In addition, the Company will take measures that are considered to be applicable and appropriate at the time within the extent permitted by the Financial Instruments and Exchange Act, the Companies Act and other relevant laws and regulations of Japan.

(d) Judgments of the Company's Board of Directors on specific initiatives

The above measures have been introduced with the objective of securing and enhancing corporate value and the common interests of shareholders of the Company. Their introduction is in line with the Basic Policy. In addition, the Board of Directors believes that they do not aim to maintain the status of the Members of the Board of the Company.

Consolidated Balance Sheets

Iwatani Corporation and Its Consolidated Subsidiaries
As of March 31, 2022 and 2023

	Millions of yen		Thousands of U.S. dollars (Note 4)
ASSETS	March 31, 2022	**March 31, 2023**	**March 31, 2023**
Current assets:			
Cash and cash equivalents (Note 7)	¥ 29,574	**¥ 33,256**	**$ 249,052**
Time deposits (Note 7)	401	**474**	**3,549**
Notes and accounts receivable (Note 7)			
Trade, and contract assets	131,094	**150,389**	**1,126,256**
Electronically recorded monetary claims–operating	20,781	**23,903**	**179,008**
Other	5,494	**6,612**	**49,516**
Allowance for doubtful accounts	(151)	**(177)**	**(1,325)**
Inventories (Note 9)	56,139	**69,611**	**521,313**
Other	16,137	**19,120**	**143,188**
Total current assets	259,471	**303,189**	**2,270,568**
Property, plant and equipment:			
Land (Notes 10 and 15)	68,115	**73,910**	**553,508**
Buildings and structures (Note 10)	141,416	**157,648**	**1,180,618**
Machinery, vehicles, equipment and tools	203,864	**228,763**	**1,713,195**
Lease assets	6,031	**6,179**	**46,274**
Construction in progress	8,695	**13,941**	**104,403**
	428,123	**480,443**	**3,598,015**
Accumulated depreciation	(242,375)	**(273,000)**	**(2,044,484)**
Net property, plant and equipment	185,747	**207,442**	**1,553,523**
Intangible assets:			
Goodwill	12,229	**23,958**	**179,420**
Other	3,949	**12,909**	**96,674**
Total intangible assets	16,179	**36,868**	**276,102**
Investments and other assets:			
Investments in securities (Notes 7, 8 and 10)	54,866	**59,948**	**448,947**
Investments in nonconsolidated subsidiaries and affiliates (Note 7)	24,925	**25,741**	**192,773**
Net defined benefit asset (Note 12)	2,197	**3,641**	**27,267**
Deferred tax assets (Note 11)	3,241	**3,625**	**27,147**
Other	12,411	**16,057**	**120,250**
Allowance for doubtful accounts	(559)	**(512)**	**(3,834)**
Total investments and other assets	97,081	**108,502**	**812,566**
Total assets	¥ 558,479	**¥ 656,003**	**$ 4,912,776**

See the accompanying Notes to the Consolidated Financial Statements.

LIABILITIES AND NET ASSETS	Millions of yen March 31, 2022	March 31, 2023	Thousands of U.S. dollars (Note 4) March 31, 2023
Current liabilities:			
Short-term borrowings (Notes 7 and 10)	¥ 32,343	**¥ 25,747**	**$ 192,818**
Current portion of long-term debt (Notes 7 and 10)	11,222	**12,144**	**90,945**
Notes and accounts payable–trade (Note 7)	66,480	**73,071**	**547,225**
Electronically recorded obligations–operating (Note 7)	30,777	**40,801**	**305,556**
Income taxes payable	8,518	**8,362**	**62,622**
Accrued bonuses	5,389	**6,434**	**48,183**
Contract liabilities	4,286	**10,500**	**78,634**
Other	27,282	**35,406**	**265,153**
Total current liabilities	186,300	**212,469**	**1,591,170**
Long-term liabilities:			
Long-term debt (Notes 8 and 10)	65,093	**98,457**	**737,339**
Deferred tax liabilities (Note 11)	10,830	**14,904**	**111,615**
Net defined benefit liability (Note 12)	5,524	**6,892**	**51,613**
Allowance for retirement benefits for directors and statutory auditors	1,518	**1,280**	**9,585**
Other	8,905	**9,768**	**73,152**
Total long-term liabilities	91,872	**131,303**	**983,322**
Total liabilities	278,172	**343,773**	**2,574,500**
Contingent liabilities (Note 13)			
Net assets (Note 18)			
Shareholders' equity:			
Common stock Authorized–120,000,000 shares in 2022 and 2023 Issued–58,561,649 shares in 2022 and 2023	35,096	**35,096**	**262,832**
Capital surplus	31,809	**31,904**	**238,927**
Retained earnings	176,672	**203,801**	**1,526,256**
Treasury stock, at cost 1,037,177 shares in 2023 1,045,396 shares in 2022	(1,528)	**(1,530)**	**(11,458)**
Total shareholders' equity	242,050	**269,271**	**2,016,558**
Accumulated other comprehensive income:			
Unrealized gains on securities	22,450	**24,148**	**180,843**
Deferred gains or losses on hedges	2,635	**2,730**	**20,444**
Foreign currency translation adjustments	2,478	**5,764**	**43,166**
Remeasurements of defined benefit plans	513	**61**	**456**
Total accumulated other comprehensive income	28,078	**32,704**	**244,918**
Noncontrolling interests	10,179	**10,254**	**76,791**
Total net assets	280,307	**312,230**	**2,338,276**
Total liabilities and net assets	¥558,479	**¥656,003**	**$4,912,776**

See the accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Income

Iwatani Corporation and Its Consolidated Subsidiaries
Years ended March 31, 2022 and 2023

	Millions of yen		Thousands of U.S. dollars (Note 4)
	March 31, 2022	**March 31, 2023**	**March 31, 2023**
Net sales	¥690,392	**¥906,261**	**$6,786,946**
Cost of sales	498,630	**693,335**	**5,192,353**
Gross profit	191,762	**212,925**	**1,594,585**
Selling, general and administrative expenses (Note 19)	151,685	**172,890**	**1,294,765**
Operating income	40,076	**40,035**	**299,820**
Other income (expenses):			
Interest and dividend income	1,486	**1,800**	**13,480**
Interest expense	(833)	**(1,191)**	**(8,919)**
Equity in earnings of nonconsolidated subsidiaries and affiliates	720	**927**	**6,942**
Impairment loss on fixed assets (Note 15)	(129)	**(89)**	**(666)**
Other, net (Note 20)	4,623	**5,839**	**43,728**
	5,866	**7,286**	**54,564**
Income before income taxes	45,943	**47,322**	**354,392**
Income taxes (Note 11)**:**			
Current	14,256	**14,479**	**108,432**
Deferred	687	**(376)**	**(2,815)**
	14,943	**14,103**	**105,616**
Net income	30,999	**33,218**	**248,768**
Net income attributable to noncontrolling interests	1,035	**1,196**	**8,956**
Net income attributable to owners of parent	¥ 29,964	**¥ 32,022**	**$ 239,811**

	Yen		U.S. dollars (Note 4)
	March 31, 2022	**March 31, 2023**	**March 31, 2023**
Per share (Note 17)**:**			
Basic net income	¥ 520.98	**¥ 556.69**	**$ 4.16**
Cash dividends applicable to the period	85.00	**95.00**	**0.71**

See the accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

Iwatani Corporation and Its Consolidated Subsidiaries
Years ended March 31, 2022 and 2023

	Millions of yen		Thousands of U.S. dollars (Note 4)
	March 31, 2022	**March 31, 2023**	**March 31, 2023**
Net income	¥30,999	**¥33,218**	**$248,768**
Other comprehensive income (loss):			
Unrealized gains (losses) on securities	(2,943)	**1,722**	**12,895**
Deferred gains or losses on hedges	251	**102**	**763**
Foreign currency translation adjustments	3,222	**3,325**	**24,900**
Remeasurements of defined benefit plans, net of tax	(135)	**(439)**	**(3,287)**
Share of other comprehensive income of associates accounted for using equity method	96	**71**	**531**
Total other comprehensive income	491	**4,783**	**35,819**
Comprehensive income	¥31,491	**¥38,002**	**$284,595**
Comprehensive income attributable to:			
Owners of the parent	30,256	**36,648**	**274,455**
Noncontrolling interests	¥ 1,235	**¥ 1,354**	**$ 10,140**

See the accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Changes in Net Assets

Iwatani Corporation and Its Consolidated Subsidiaries
Years ended March 31, 2022 and 2023

Millions of yen

	Number of shares of common stock (thousands)	Shareholders' equity				Accumulated other comprehensive income				Noncontrolling interests	Total
		Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized gains (losses) on securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans		
Balance as of March 31, 2021	58,561	¥35,096	¥31,766	¥151,025	¥(1,514)	¥25,501	¥2,373	¥ (683)	¥ 595	¥ 9,426	¥253,586
Net income attributable to owners of parent for the year	—	—	—	29,964	—	—	—	—	—	—	29,964
Cash dividends	—	—	—	(4,317)	—	—	—	—	—	—	(4,317)
Purchase of treasury stock	—	—	—	—	(26)	—	—	—	—	—	(26)
Disposal of treasury stock	—	—	44	—	12	—	—	—	—	—	56
Purchase of shares of consolidated subsidiaries	—	—	(1)	—	—	—	—	—	—	—	(1)
Change in treasury shares arising from change in equity in entities accounted for using equity method	—	—	—	—	(0)	—	—	—	—	—	(0)
Net changes in items other than shareholders' equity	—	—	—	—	—	(3,050)	261	3,161	(81)	752	1,044
Balance as of March 31, 2022	58,561	¥35,096	¥31,809	¥176,672	¥(1,528)	¥22,450	¥2,635	¥2,478	¥ 513	¥10,179	¥280,307
Net income attributable to owners of parent for the year	—	—	—	32,022	—	—	—	—	—	—	32,022
Cash dividends	—	—	—	(4,893)	—	—	—	—	—	—	(4,893)
Purchase of treasury stock	—	—	—	—	(16)	—	—	—	—	—	(16)
Disposal of treasury stock	—	—	38	—	14	—	—	—	—	—	52
Purchase of shares of consolidated subsidiaries	—	—	56	—	—	—	—	—	—	—	56
Change in treasury shares arising from change in equity in entities accounted for using equity method	—	—	—	—	(0)	—	—	—	—	—	(0)
Net changes in items other than shareholders' equity	—	—	—	—	—	1,697	95	3,285	(452)	74	4,700
Balance as of March 31, 2023	**58,561**	**¥35,096**	**¥31,904**	**¥203,801**	**¥(1,530)**	**¥24,148**	**¥2,730**	**¥5,764**	**¥ 61**	**¥10,254**	**¥312,230**

Thousands of U.S. dollars (Note 4)

	Number of shares of common stock (thousands)	Shareholders' equity				Accumulated other comprehensive income				Noncontrolling interests	Total
		Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized gains (losses) on securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans		
Balance as of March 31, 2022	58,561	$262,832	$238,216	$1,323,088	$(11,443)	$168,127	$19,733	$18,557	$ 3,841	$76,230	$2,099,206
Net income attributable to owners of parent for the year	—	—	—	239,811	—	—	—	—	—	—	239,811
Cash dividends	—	—	—	(36,643)	—	—	—	—	—	—	(36,643)
Purchase of treasury stock	—	—	—	—	(119)	—	—	—	—	—	(119)
Disposal of treasury stock	—	—	284	—	104	—	—	—	—	—	389
Purchase of shares of consolidated subsidiaries	—	—	419	—	—	—	—	—	—	—	419
Change in treasury shares arising from change in equity in entities accounted for using equity method	—	—	—	—	(0)	—	—	—	—	—	(0)
Net changes in items other than shareholders' equity	—	—	—	—	—	12,708	711	24,601	(3,385)	554	35,198
Balance as of March 31, 2023	**58,561**	**$262,832**	**$238,927**	**$1,526,256**	**$(11,458)**	**$180,843**	**$20,444**	**$43,166**	**$ 456**	**$76,791**	**$2,338,276**

See the accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Iwatani Corporation and Its Consolidated Subsidiaries
Years ended March 31, 2022 and 2023

	Millions of yen		Thousands of U.S. dollars (Note 4)
	March 31, 2022	**March 31, 2023**	**March 31, 2023**
Cash flows from operating activities:			
Income before income taxes	¥ 45,943	**¥ 47,322**	**$ 354,392**
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	23,878	**27,557**	**206,373**
Impairment loss on fixed assets	129	**89**	**666**
Gain on bargain purchase	—	**(465)**	**(3,482)**
Loss on reduction of noncurrent assets	77	**713**	**5,339**
Increase (decrease) in allowance for doubtful accounts	(35)	**(48)**	**(359)**
Increase (decrease) in allowance for employees' bonuses	121	**174**	**1,303**
Increase (decrease) in net defined benefit liability	53	**284**	**2,126**
Decrease (increase) in net defined benefit asset	(145)	**154**	**1,153**
Increase (decrease) in allowance for retirement benefits to directors and statutory auditors	144	**(249)**	**(1,864)**
Interest and dividend income	(1,486)	**(1,800)**	**(13,480)**
Interest expense	833	**1,191**	**8,919**
Foreign exchange (gains) losses	(22)	**(5)**	**(37)**
Equity in earnings of nonconsolidated subsidiaries and affiliates	(720)	**(927)**	**(6,942)**
Loss (gain) on sales of golf club membership	24	**—**	**—**
Loss (gain) on sales and disposals of fixed assets	685	**426**	**3,190**
Loss (gain) on sales of investments in securities	(688)	**(528)**	**(3,954)**
Loss on valuation of investments in securities	137	**169**	**1,265**
Loss on liquidation of subsidiaries and affiliates	—	**6**	**44**
Changes in assets and liabilities			
Decrease (increase) in trade receivables and contract assets	(21,321)	**(9,843)**	**(73,713)**
Decrease (increase) in inventories	(16,893)	**(9,794)**	**(73,346)**
Increase (decrease) in notes and accounts payable–trade	2,748	**7,198**	**53,905**
Decrease (increase) in advance payments to suppliers	(5,047)	**(2,390)**	**(17,898)**
Increase (decrease) in contract liabilities	(163)	**5,790**	**43,361**
Other, net	(1,943)	**1,063**	**7,960**
Subtotal	¥ 26,310	**¥ 66,087**	**$ 494,922**
Interest and dividends received	1,394	**1,852**	**13,869**
Dividends received from equity method subsidiaries and affiliates	226	**204**	**1,527**
Interest paid	(801)	**(1,085)**	**(8,125)**
Income taxes paid	(14,055)	**(15,586)**	**(116,722)**
Net cash provided by (used in) operating activities	¥ 13,075	**¥ 51,471**	**$ 385,463**
Cash flows from investing activities:			
Payments for purchase of investments in securities	(3,985)	**(5,670)**	**(42,462)**
Proceeds from sales and redemption of investments in securities	862	**1,345**	**10,072**
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	**(24,367)**	**(182,483)**
Proceeds from sales of investments in capital	2	**44**	**329**
Payments for purchases of fixed assets	(28,444)	**(30,912)**	**(231,498)**
Proceeds from sales of fixed assets	594	**988**	**7,399**
Investments in loans receivable	(3,437)	**(2,257)**	**(16,902)**
Collection of loans receivable	2,933	**1,981**	**14,835**
Other, net	(464)	**(1,437)**	**(10,761)**
Net cash provided by (used in) investing activities	¥(31,939)	**¥(60,286)**	**$(451,479)**
Cash flows from financing activities:			
Net increase (decrease) in short-term borrowings	7,666	**(9,795)**	**(73,354)**
Proceeds from long-term debt	18,703	**46,160**	**345,690**
Repayment of long-term debt	(12,520)	**(18,354)**	**(137,452)**
Cash dividends paid	(4,310)	**(4,884)**	**(36,576)**
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(2)	**(249)**	**(1,864)**
Other, net	(1,498)	**(1,844)**	**(13,809)**
Net cash provided by (used in) financing activities	¥ 8,038	**¥ 11,032**	**$ 82,618**
Effect of exchange rate changes on cash and cash equivalents	1,942	**867**	**6,492**
Net increase (decrease) in cash and cash equivalents	(8,883)	**3,085**	**23,103**
Cash and cash equivalents at beginning of year	38,445	**29,574**	**221,478**
Increase (decrease) in cash and cash equivalents due to changes in scope of consolidation	9	**596**	**4,463**
Increase (decrease) in cash and cash equivalents resulting from merger with nonconsolidated subsidiaries	2	**—**	**—**
Cash and cash equivalents at end of period	¥ 29,574	**¥ 33,256**	**$ 249,052**

See the accompanying Notes to the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

Iwatani Corporation and its Consolidated Subsidiaries

1. Basis of Presenting Consolidated Financial Statements

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

The accompanying consolidated financial statements have been restructured and translated into English, with some expanded descriptions, from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Act. Some supplementary information included in the statutory Japanese language consolidated financial statements is not presented in the accompanying consolidated financial statements.

As permitted, amounts of less than one million yen are omitted in the presentation for 2022 and 2023. As a result, the totals shown in the accompanying consolidated financial statements, both in yen and in U.S. dollars, do not necessarily agree with the sum of the individual amounts.

2. Summary of Major Accounting Policies

(1) Scope of consolidation

The accompanying consolidated financial statements include the accounts of the Company and 106 of its subsidiaries for the year ended March 31, 2023. Certain subsidiaries have fiscal years ending on December 31. As a result, adjustments have been made for any significant intercompany transactions which took place during the period between the fiscal year-end of those subsidiaries and the fiscal year-end of the Company.

(2) Equity method of accounting for investments in nonconsolidated subsidiaries and affiliates

As of March 31, 2023, the Company has 57 nonconsolidated subsidiaries and 76 affiliates (Companies over which the Company exercises significant influence over operating and financial policies). The equity method is applied to the investments in 57 of the subsidiaries and 36 of the affiliates. Since the investments in the remaining affiliates do not have a material effect on consolidated net income and retained earnings, the investments in these affiliates are carried at cost and are not accounted for by the equity method.

(3) Translation of foreign currencies

Foreign currency transactions are translated at the applicable rate of exchange prevailing at the transaction date. Assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Japanese yen at the applicable rate of exchange prevailing at the balance sheet date. Exchange differences are charged or credited to income. Assets and liabilities of foreign consolidated subsidiaries and affiliates accounted for by the equity method are translated into Japanese yen at applicable year-end rates of exchange, and all income and expense accounts are translated at the average rate of exchange prevailing during the year. The resulting translation adjustments are accumulated and included in "Foreign currency translation adjustments" classified as part of net assets.

(4) Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments, generally, with original maturities of three months or less that are readily convertible to known amounts of cash and are short-term investments that they present insignificant risk of change in value.

(5) Securities

Securities are classified into four categories: trading securities, held-to-maturity debt securities, equity securities of nonconsolidated subsidiaries and affiliates and other securities.

As of March 31, 2022 and 2023, the Companies did not hold any trading securities.

Held-to-maturity debt securities are stated at amortized cost. Equity securities of nonconsolidated subsidiaries and affiliates are accounted for, with minor exceptions due to materiality, using the equity method of accounting. In other securities, investments in securities other than equity securities without market prices are measured at fair value with unrealized gains and losses included as a component of net assets, net of related taxes. And, investments in equity securities without market prices are stated at cost. In cases in which a significant decline in the value of net assets is assessed to be other than temporary, the cost of other securities is written-down by the impaired amount and charged to profit and loss. Realized gains and losses are determined by the moving average cost method and are reflected in the consolidated statements of income.

(6) Allowance for doubtful accounts

An allowance for doubtful accounts is provided in an amount based on past experience with bad debts and an evaluation of the collectability of specific receivables with the possibility of default.

(7) Inventories

Inventories are stated mainly at the lower of first-in, first-out cost or net realizable value.

(8) Property, plant and equipment and depreciation

Fixed assets, including significant renewals and additions, are carried at cost. When these assets are retired or otherwise disposed of, the cost and related depreciation are cleared from the respective accounts, and the net difference less any amount realized on disposal is reflected in profit and loss.

Principal estimated useful lives are as follows:

Buildings and structures ································3 to 50 years
Machinery, vehicles, equipment and tools ·····2 to 20 years

Depreciation is calculated by the declining balance method over the useful life of the asset, except that the straight-line method is applied to the Sakai LPG Plant, hydrogen stations, certain fixed assets for lease, certain gas generators, buildings purchased since April 1, 1998 and facilities attached to buildings and structures purchased since April 1, 2016.

Lease assets are depreciated using the straight-line method over the lease term as the useful life, with 0 residual value. However, finance lease transactions that do not transfer ownership of the lease assets and have total lease payments of not more than ¥3 million ($22 thousand) under a single lease contract are accounted for by the method that is applicable to ordinary operating leases.

(9) Intangible assets

Computer software for internal use is amortized by the straight-line method over the estimated useful life of 5 years. Other intangible assets are amortized by the straight-line method over the estimated useful life of the respective asset.

(10) Deferred taxes

The asset-liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred income taxes are measured by applying currently enacted tax laws. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that the change is enacted. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

(11) Accrued bonuses

Accrued bonuses are calculated and provided for based on the estimated amounts of future payments attributable to the services that have been rendered by employees as of the date of the balance sheet.

(12) Retirement benefits

(i) Employees' retirement benefits

To provide for retirement benefit payments to employees, net defined benefit asset and liability are recorded at the amounts deemed to be incurred at the fiscal year-end based on the amount of projected benefit obligations and the fair value of plan assets at the fiscal year-end. The retirement benefit obligations are attributed to periods on a benefit formula basis.

Prior service cost is amortized by the straight-line method over a period of mainly 14 years, which is within the average remaining years of service of employees. Actuarial differences are amortized by the straight-line method over a period of mainly 14 years, which is within the average remaining years of service of employees, commencing with the following period.

Unrecognized actuarial differences and unrecognized prior service cost are accrued as remeasurements of defined benefit plans, net of tax, in accumulated other comprehensive income in net assets.

Certain consolidated subsidiaries apply the simplified method to estimate the amount required for voluntary resignations at the end of the fiscal year as the retirement benefit liability in order to calculate net defined benefit liability and retirement benefit expenses.

(ii) Retirement benefits for directors and statutory auditors

To provide for the payment of lump-sum retirement benefits to directors and statutory auditors, certain consolidated subsidiaries provide an allowance for retirement benefits to directors and statutory auditors at an amount that would be required by their internal regulations if all directors and statutory auditors retired on the balance sheet date.

(13) Accounting policy for recognition of significant revenues and expenses

The Company and its consolidated subsidiaries recognize revenue based on the following 5 steps:

Step 1: Identify contracts with customers.
Step 2: Identify the performance obligations in the contract.
Step 3: Determine the transaction price.
Step 4: Allocate the transaction price to the performance obligation in the contract.
Step 5: Recognize revenue when the entity satisfies a performance obligation.

The Company and its consolidated subsidiaries identify distinct goods and/or services included in contracts with customers and identify the performance obligations associated with them as transaction units. In identifying performance obligations, the Company and its consolidated subsidiaries consider whether they are the principal or the agent, and if the nature of their performance obligation is to control and provide the identified goods or services themselves before transferring them, the Company and its consolidated subsidiaries present revenue in the consolidated financial statements at the gross amount of consideration. If the nature of the performance obligation is to arrange for the identified goods or services to be provided by another party, revenue is presented in the consolidated financial statements at the net amount of the consideration as an agent.

The transaction price is the amount of consideration to which the Company and its consolidated subsidiaries expect to be entitled in exchange for the transfer of the promised goods or services to the customer, excluding amounts collected by the Company and its consolidated subsidiaries for third parties. The consideration from transactions with customers is received generally within 1 year from the time the goods or services are transferred to the customer and does not include a significant financial component.

In cases in which a group company is involved in the sale of goods as an agent, such as in the Integrated Energy Business segment and the Materials Business segment, revenue is recognized on a net basis.

In addition, the meter reading date bases of revenue recognition for LPG (a method to recognize revenues based on the amount of LPG used by the customer through meter reading) is used to recognize revenue from reading the meter date of the fiscal month through the fiscal year end date. The Company recognizes revenue based on reasonable estimates of the revenue generated from the date of the meter reading to the end of the fiscal year.

For sales of merchandise and finished goods, the Company recognizes revenue at the time of delivery of the merchandise and finished goods because the Company believes that the customer has acquired control over the merchandise and finished goods at the time of delivery and that the performance obligation has been satisfied. For domestic sales of goods and products, revenue is recognized at the time of shipment if the period from the time of shipment to the time when control of the goods and products is transferred to the customer is a normal period of time.

(14) Goodwill
Goodwill is amortized on a straight-line basis over the period during which the investment is expected to have its effect based on a reasonable estimate of the length of the period.

(15) Derivative financial instruments
Derivative financial instruments are used by the Companies principally to reduce interest rate, foreign exchange rate and commodity price fluctuations risks.

Derivative financial instruments are measured at fair value. Hedging transactions which meet the criteria for hedge accounting are accounted for using deferral hedge accounting, which requires the unrealized gain or loss on a hedging instrument to be deferred as a liability or asset until the loss or gain on the related hedged item is recognized. In addition, certain forward exchange contracts and certain interest rate swap transactions are accounted for using the allocation method and the special method. The allocation method requires that recognized foreign currency receivables and payables covered by forward exchange contracts be translated at contract rates. Under the special method, interest rate swap transactions are accounted for as if the interest rates under those transactions were originally applied to the underlying borrowings and bonds. The Company also hedges its exposure to commodity price fluctuations by using commodity swaps.

(16) Expenses for research and development
Expenses for research and development are charged to profit and loss when incurred.

(17) Reclassifications
Certain reclassifications of the financial statements for the year ended March 31, 2022 have been made to conform to the presentation for the year ended March 31, 2023.

3. Significant Accounting Estimates
(1) Recoverability of deferred tax assets
(i) Carrying amounts in the current year's financial statements

Carrying amounts in the deferred tax assets is discussed in Note 11, "Income Taxes."

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

(a) Method in making the accounting estimates
Deferred tax assets are recognized based on estimates of taxable income according to future profit plans. Deferred tax assets are recognized to the extent of high recoverability by determining whether there is an effect of reducing future tax payments.

(b) Key assumptions used in making accounting estimates
The Company and its consolidated subsidiaries determine whether or not the deferred tax assets will have the effect of reducing the future tax payments burden in accordance with Paragraph 6 of the "Implementation Guidance on Recoverability of Deferred Tax Assets." In particular, the recoverability of deferred tax assets related to net operating loss carryforwards for tax purposes is assessed by making a reasonable estimate of future taxable income before adjustment for temporary differences, etc., based on a comprehensive consideration of past business performance, tax payment status, future business forecasts, etc.

(c) The effect on the next year's financial statements
In the event that the estimate of taxable income needs to be reviewed due to changes in the economic environment, etc., there is a possibility that the deferred tax assets will be reduced.

(2) Impairment of fixed assets
(i) Carrying amounts in the current year's financial statements

Carrying amounts in the impairment loss on land is discussed in Note 15, "Impairment Loss on Fixed Assets."

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

(a) Method in making the accounting estimates
In accordance with the "Accounting Standard for Impairment of Fixed Assets," impairment loss on fixed assets is recognized when the profitability of an asset has declined to the point where recovery of the invested amount is no longer expected. The recoverable amount of fixed assets for which recovery of the investment amount is not expected due to a decline in profitability is estimated, and the carrying amount is reduced to reflect the recoverability.

(b) Key assumptions used in making accounting estimates
The future cash flows used for the recognition and measurement of impairment loss are estimated based on future profit plans, taking into account external factors such as the business environment and internal information such as sales forecasts and budgets as well as the current use and plans for the use of the asset group.

(c) The effect on the next year's financial statements
Additional impairment loss may be recognized in the event that it becomes necessary to review the future profit plans upon which the estimates are premised.

4. U.S. Dollar Amounts
The translation of the Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan, using the prevailing exchange rate as of March 31, 2023, which was ¥133.53 to U.S. $1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

5. Accounting Standards for Presentation of Comprehensive Income

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

	2022	2023	2023
Unrealized gains on securities			
Increase (decrease) during the year	¥(3,602)	**¥2,637**	**$19,748**
Reclassification adjustments	(678)	**(44)**	**(329)**
Subtotal, before tax	(4,280)	**2,592**	**19,411**
Tax (expense) or benefit	1,337	**(869)**	**(6,507)**
Subtotal, net of tax	(2,943)	**1,722**	**12,895**
Deferred gains or losses on hedges			
Increase during the year	363	**143**	**1,070**
Subtotal, before tax	363	**143**	**1,070**
Tax expense	(111)	**(40)**	**(299)**
Subtotal, net of tax	251	**102**	**763**
Foreign currency translation adjustments			
Increase during the year	3,222	**3,325**	**24,900**
Subtotal, before tax	3,222	**3,325**	**24,900**
Subtotal, net of tax	3,222	**3,325**	**24,900**
Remeasurements of defined benefit plans, net of tax			
Decrease during the year	(120)	**(468)**	**(3,504)**
Reclassification adjustments	(76)	**(163)**	**(1,220)**
Subtotal, before tax	(196)	**(632)**	**(4,733)**
Tax benefit	61	**192**	**1,437**
Subtotal, net of tax	(135)	**(439)**	**(3,287)**
Share of other comprehensive income of associates accounted for using equity method			
Increase during the year	96	**71**	**531**
Subtotal, net of tax	96	**71**	**531**
Total other comprehensive income	¥ 491	**¥4,783**	**$35,819**

6. Supplemental Information on the Consolidated Statements of Cash Flows

1. Major breakdown of assets and liabilities of the company newly consolidated in the current consolidated fiscal year due to the acquisition of its shares or equity shares

(1) Breakdown of assets and liabilities of Tokico System Solutions, Ltd. at the time of its consolidation due to the acquisition of its shares and the relationship between the acquisition cost of the shares and the expenditure for the acquisition of the shares (net amounts) are as follows.
Current assets: ¥8,818 million ($66,037 thousand)
Non-current assets: ¥14,821 million (110,993 thousand)
Goodwill: ¥9,424 million ($70,575 thousand)
Current liabilities: ¥(6,493) million ($(48,625) thousand)
Non-current liabilities: ¥(9,753) million ($(73,039) thousand)
Acquisition cost of the shares: ¥16,819 million ($125,956 thousand)
Cash and cash equivalents: ¥(2,257) million ($(16,902) thousand)
Difference: purchase of shares: ¥14,561 million ($109,046 thousand)

(2) Breakdown of assets and liabilities of Tokyo Gas Energy Co., Ltd. (currently, ENELIFE CORPORATION) at the time of its consolidation due to the acquisition of its shares and the relationship between the acquisition cost of the shares and the expenditure for the acquisition of the shares (net amounts) are as follows.
Current assets: ¥7,843 million ($58,735 thousand)
Non-current assets: ¥6,896 million ($51,643 thousand)
Gain on bargain purchase: ¥(465) million ($(3,482) thousand)
Current liabilities: ¥(7,990) million ($(59,836) thousand)
Non-current liabilities: ¥(897) million ($(6,717) thousand)
Acquisition cost of the shares: ¥5,385 million ($40,328 thousand)
Cash and cash equivalents: ¥(732) million ($(5,481) thousand)
Difference: purchase of shares: ¥4,653 million ($34,846 thousand)

(3) Breakdown of assets and liabilities of Aspen Air U.S.,LLC at the time of its consolidation due to the acquisition of its equity shares and the relationship between the acquisition cost of the equity shares and the expenditure for the acquisition of the equity shares (net amounts) are as follows.

Tables show ¥ in millions and US$ in thousands.

Current assets: ¥342 million ($2,561 thousand)
Non-current assets: ¥1,567 million (11,735 thousand)
Goodwill: ¥3,354 million ($25,117 thousand)
Current liabilities: ¥(80) million ($(599) thousand)
Non-current liabilities: ¥- million ($- thousand)
Acquisition cost of the equity shares: ¥5,183 million ($38,815 thousand)
Cash and cash equivalents: ¥(31) million ($(232) thousand)
Difference: purchase of equity shares: ¥5,151 million ($38,575 thousand)

2. Significant noncash transaction

There is no significant noncash transaction to report for the years ended March 31, 2022 and 2023.

7. Financial Instruments

Information on financial instruments as of March 31, 2022 and 2023 is as follows:

1. Status of financial instruments

(1) Policies for financial instruments

The Companies primarily obtain funds through borrowing from banks and the issuance of corporate bonds for funding of its capital expenditures plans. After adequate liquidity has been ensured, the Companies invest temporary excess funds in deposits with low risk. Additionally, the Companies obtain short-term funds through bank borrowings, etc, and commercial paper (CP). The Companies utilize derivative transactions only for hedging purposes and not for speculative or dealing purposes.

(2) Description and risks of financial instruments

Notes and accounts receivable - trade, and contract assets including electronically recorded monetary claims–operating are exposed to customer credit risk. Additionally, some notes and accounts receivable are denominated in foreign currencies and are exposed to exchange rate fluctuation risk. If necessary, the Companies utilize foreign exchange forward contracts to reduce foreign currency risk.

Investments in securities are composed primarily of held-to-maturity debt securities and stocks in companies with which the Companies have business alliances and are exposed to credit risk in relation to issuers and market price fluctuation risk.

Notes and accounts payable such as accounts payable–trade and electronically recorded obligations–operating are generally payable within 6 months. Some notes and accounts payable are denominated in foreign currencies. If necessary, the Companies utilize foreign exchange forward contracts to reduce foreign currency risk.

Borrowings are used mainly to procure funds for capital expenditures. The longest redemption period is 16 years after the fiscal year closing date. Because some of these instruments have a variable interest rate, they are exposed to interest rate fluctuation risk.

Derivative transactions consist of the use of foreign exchange forward contracts for the purpose of hedging exchange rate fluctuation risk related to notes and accounts receivable and notes and accounts payable. Hedging instruments and hedged items, hedging policy, assessment of hedge effectiveness and hedge accounting are discussed in Note 2 (15), "Summary of Major Accounting Policies–"Derivative financial instruments."

(3) Risk management of financial instruments

(i) Management of credit risk (risk of default by customers and counterparties)

In accordance with the internal policies of the Companies for managing credit risk arising from receivables and long-term loan receivables, each related sales management section monitors the credit worthiness of their main customers and counterparties on a regular basis and monitors due dates and outstanding balances by individual customer. In addition, the Companies are making efforts to quickly identify and mitigate risks of bad debts of customers who are having financial difficulties. In investments in securities, the Companies monitor the financial condition, etc., of the issuing companies on a regular basis. The Companies believe that the credit risk of the derivatives themselves is insignificant as they enter into derivatives only with financial institutions which have a high credit rating.

(ii) Management of market risk
(risk arising from fluctuations in foreign exchange rates, interest rates and others)

The Companies utilize foreign exchange forward contracts within the requirements of their business activities in respect to a portion of their trade receivables and trade liabilities denominated in foreign currencies to mitigate exchange rate fluctuation risk. In investments in securities, the Companies review the fair value of these securities and the financial condition of the issuing companies on a regular basis. The Company also hedges its exposure to commodity price fluctuations by using commodity swaps.

For investments in securities, except held-to-maturity debt securities, the Companies monitor the market price and financial condition of the issuers and regularly evaluate the investment in each company, taking into account the relationship with the counterparty.

The accounting department, etc., enter into and manage derivative transactions within the requirements of the Companies' business activities and regulations established by the internal policies of the Companies. Based on policies approved by the Board of Directors, the issuance of bonds and the borrowing of large amounts, etc., are decided only by the Board of Directors. Therefore, foreign exchange forward contracts and interest rate swap contracts in respect to the aforementioned transactions are decided by the Board of Directors at the same time.

(iii) Management of liquidity risk
(risk that the Companies may not be able to meet their obligations on scheduled due dates))

The Companies prepare cash flow projections and monitor funding requirements in the accounting department based on reports from each section and maintain fund liquidity.

(4) Supplementary explanation of fair value of financial instruments

As variable factors are incorporated in the estimation of values, values may vary depending on the assumptions used. The contract amount related to derivative transactions under Note 16, "Derivative Transactions," does not express the market risk related to the derivative transactions themselves.

2. Fair values of financial instruments

For financial instruments, amounts recorded on the consolidated balance sheet, the fair values as of March 31, 2022 and 2023 and the difference between the two are set forth in the following table.

	2022		
	Amounts on consolidated balance sheet	Fair value	Difference
Investments in securities*1			
Other securities	¥52,182	¥52,182	¥ —
Subsidiaries and affiliates	7,357	6,526	(831)
Held-to-maturity debt securities	180	169	(10)
Total assets	59,720	58,878	(841)
(1) Bonds	10,000	9,835	(164)
(2) Long-term borrowings	66,315	65,642	(673)
Total liabilities	76,315	75,478	(837)
Derivative transactions*2			
Hedge accounting not applied	(57)	(57)	—
Hedge accounting applied	3,718	3,718	—
Total derivative transactions	¥ 3,661	¥ 3,661	¥ —

	2023		
	Amounts on consolidated balance sheet	Fair value	Difference
Investments in securities*1			
Other securities	**¥ 57,249**	**¥ 57,249**	**¥ —**
Subsidiaries and affiliates	**8,192**	**7,387**	**(805)**
Held-to-maturity debt securities	**180**	**161**	**(18)**
Total assets	**65,621**	**64,797**	**(824)**
(1) Bonds	**30,000**	**29,711**	**(288)**
(2) Long-term borrowings	**80,602**	**79,886**	**(715)**
Total liabilities	**110,602**	**109,598**	**(1,004)**
Derivative transactions*2			
Hedge accounting not applied	**(216)**	**(216)**	**—**
Hedge accounting applied	**3,921**	**3,921**	**—**
Total derivative transactions	**¥ 3,705**	**¥ 3,705**	**¥ —**

	2023		
	Amounts on consolidated balance sheet	Fair value	Difference
Investments in securities*1			
Other securities	**$428,735**	**$428,735**	**$ —**
Subsidiaries and affiliates	**61,349**	**55,320**	**(6,028)**
Held-to-maturity debt securities	**1,348**	**1,205**	**(134)**
Total assets	**491,432**	**485,261**	**(6,170)**
(1) Bonds	**224,668**	**222,504**	**(2,156)**
(2) Long-term borrowings	**603,624**	**598,262**	**(5,354)**
Total liabilities	**828,293**	**820,774**	**(7,518)**
Derivative transactions*2			
Hedge accounting not applied	**(1,617)**	**(1,617)**	**—**
Hedge accounting applied	**29,364**	**29,364**	**—**
Total derivative transactions	**$ 27,746**	**$ 27,746**	**$ —**

*1 Investments in equity securities without market prices are not included in " Investments in securities." The carrying amounts of those financial instruments as of March 31, 2022 and 2023 are as follows:

	2022	2023	2023
Unlisted securities	¥ 2,503	**¥ 2,518**	**$ 18,857**
Investments in subsidiaries and affiliates	14,275	**13,655**	**102,261**
Investments in capital of subsidiaries and affiliates	3,292	**3,893**	**29,154**

*2 The amounts for derivative transactions shown above are net of assets and liabilities. When the net amount results in a liability, it is shown in parentheses.

*3 "Cash and deposits" are not included in the table above because items included in the caption are either cash, or deposits that are expected to be settled shortly and their carrying amounts are a reasonable approximation of fair value.

*4 "Notes and accounts receivable - trade, and contract assets," "Electronically recorded monetary claims–operating," "Notes and accounts payable–trade," "Electronically recorded obligations–operating" and "Short-term borrowings" are not included in the table above because their carrying amounts are a reasonable approximation of fair value as items included in the caption are expected to be settled in a short period of time.

Tables show ¥ in millions and US$ in thousands.

(Note 1) The maturity profile of the anticipated future contractual cash flows in relation to the Companies' financial assets as of March 31, 2022 and 2023 is as follows:

	2022			
	Due within 1 year	Due over 1 year but within 5 years	Due over 5 years but within 10 years	Due over 10 years
Cash and deposits	¥ 29,975	¥ —	¥ —	¥ —
Notes and accounts receivable - trade, and contract assets	131,094	—	—	—
Electronically recorded monetary claims–operating	20,781	—	—	—
Investment in securities				
Held-to-maturity debt securities (Bonds)	—	—	—	180
Total	¥181,851	¥ —	¥ —	¥180

	2023			
	Due within 1 year	Due over 1 year but within 5 years	Due over 5 years but within 10 years	Due over 10 years
Cash and deposits	**¥ 33,730**	**¥ —**	**¥ —**	**¥ —**
Notes and accounts receivable - trade, and contract assets	**150,389**	**—**	**—**	**—**
Electronically recorded monetary claims–operating	**23,903**	**—**	**—**	**—**
Investment in securities				
Held-to-maturity debt securities (Bonds)	**—**	**—**	**—**	**180**
Total	**¥208,023**	**¥ —**	**¥ —**	**¥180**

	2023			
	Due within 1 year	Due over 1 year but within 5 years	Due over 5 years but within 10 years	Due over 10 years
Cash and deposits	**$ 252,602**	**$ —**	**$ —**	**$ —**
Notes and accounts receivable - trade, and contract assets	**1,126,256**	**—**	**—**	**—**
Electronically recorded monetary claims–operating	**179,008**	**—**	**—**	**—**
Investment in securities				
Held-to-maturity debt securities (Bonds)	**—**	**—**	**—**	**1,348**
Total	**$1,557,874**	**$ —**	**$ —**	**$1,348**

(Note 2) The aggregate annual maturities of bonds, long-term borrowings as of March 31, 2022 and 2023 are as follows:

	2022					
	Due within 1 year	Due over 1 year but within 2 years	Due over 2 years but within 3 years	Due over 3 years but within 4 years	Due over 4 years but within 5 years	Due over 5 years
Short-term borrowings	¥32,343	¥ —	¥ —	¥ —	¥ —	¥ —
Bonds	—	—	—	—	—	10,000
Long-term borrowings	11,222	11,298	11,123	11,089	10,499	11,082
Lease liabilities	722	563	477	268	100	185
Total	¥44,288	¥11,862	¥11,601	¥11,357	¥10,599	¥21,268

	2023					
	Due within 1 year	Due over 1 year but within 2 years	Due over 2 years but within 3 years	Due over 3 years but within 4 years	Due over 4 years but within 5 years	Due over 5 years
Short-term borrowings	**¥25,747**	**¥ —**	**¥ —**	**¥ —**	**¥ —**	**¥ —**
Bonds	**—**	**—**	**—**	**—**	**—**	**30,000**
Long-term borrowings	**12,144**	**12,382**	**17,902**	**11,902**	**5,927**	**20,342**
Lease liabilities	**863**	**885**	**545**	**308**	**87**	**156**
Total	**¥38,756**	**¥13,267**	**¥18,448**	**¥12,210**	**¥6,015**	**¥50,499**

Tables show ¥ in millions and US$ in thousands.

	2023					
	Due within 1 year	Due over 1 year but within 2 years	Due over 2 years but within 3 years	Due over 3 years but within 4 years	Due over 4 years but within 5 years	Due over 5 years
Short-term borrowings	**$192,818**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**
Bonds	**—**	**—**	**—**	**—**	**—**	**224,668**
Long-term borrowings	**90,945**	**92,728**	**134,067**	**89,133**	**44,387**	**152,340**
Lease liabilities	**6,462**	**6,627**	**4,081**	**2,306**	**651**	**1,168**
Total	**$290,241**	**$99,355**	**$138,156**	**$91,440**	**$45,046**	**$378,184**

3. Fair value information of financial instruments by level of inputs

Based on the observability and the significance of the inputs used to determine fair values, fair value information of financial instruments is presented by categorizing measurements into the following three levels:

Level 1 fair value: the fair value measured by quoted prices of identical assets or liabilities in active markets.
Level 2 fair value: the fair value measured using observable inputs other than Level 1.
Level 3 fair value: fair values measured using unobservable inputs.

When multiple inputs of different categories are used in measuring fair value, the Company and its consolidated subsidiaries classify fair values into the category to which the lowest priority is assigned.

(1) Financial instruments measured at fair value in the consolidated balance sheet

	2022			
	Fair value			
	Level 1	Level 2	Level 3	Total
Investments in securities				
Other securities	¥52,182	¥ —	¥ —	¥52,182
Total assets	52,182	—	—	52,182
Derivative transactions				
Currency related	—	3,492	—	3,492
Commodity derivatives	—	168	—	168
Total derivatives	¥ —	¥3,661	¥ —	¥ 3,661

	2023			
	Fair value			
	Level 1	Level 2	Level 3	Total
Investments in securities				
Other securities	**¥57,249**	**¥ —**	**¥ —**	**¥57,249**
Total assets	**57,249**	**—**	**—**	**57,249**
Derivative transactions				
Currency related	**—**	**3,705**	**—**	**3,705**
Commodity derivatives	**—**	**—**	**—**	**—**
Total derivatives	**¥ —**	**¥3,705**	**¥ —**	**¥ 3,705**

	2023			
	Fair value			
	Level 1	Level 2	Level 3	Total
Investments in securities				
Other securities	**$428,735**	**$ —**	**$ —**	**$428,735**
Total assets	**428,735**	**—**	**—**	**428,735**
Derivative transactions				
Currency related	**—**	**27,746**	**—**	**27,746**
Commodity derivatives	**—**	**—**	**—**	**—**
Total derivatives	**$ —**	**$27,746**	**$ —**	**$ 27,746**

Tables show ¥ in millions and US$ in thousands.

(2) Financial instruments other than those measured at fair value in the consolidated balance sheet

	2022			
	Fair value			
	Level 1	Level 2	Level 3	Total
Investments in securities				
Subsidiaries and affiliates	¥6,526	¥ —	¥ —	¥ 6,526
Held-to-maturity debt securities	—	169	—	169
Total assets	6,526	169	—	6,695
(1) Bonds	—	9,835	—	9,835
(2) Long-term borrowings	—	65,642	—	65,642
Total liabilities	¥ —	¥75,478	¥ —	¥75,478

	2023			
	Fair value			
	Level 1	Level 2	Level 3	Total
Investments in securities				
Subsidiaries and affiliates	**¥7,387**	**¥ —**	**¥ —**	**¥ 7,387**
Held-to-maturity debt securities	**—**	**161**	**—**	**161**
Total assets	**7,387**	**161**	**—**	**7,548**
(1) Bonds	**—**	**29,711**	**—**	**29,711**
(2) Long-term borrowings	**—**	**79,886**	**—**	**79,886**
Total liabilities	**¥ —**	**¥109,598**	**¥ —**	**¥109,598**

	2023			
	Fair value			
	Level 1	Level 2	Level 3	Total
Investments in securities				
Subsidiaries and affiliates	**$55,320**	**$ —**	**$ —**	**$ 55,320**
Held-to-maturity debt securities	**—**	**1,205**	**—**	**1,205**
Total assets	**55,320**	**1,205**	**—**	**56,526**
(1) Bonds	**—**	**222,504**	**—**	**222,504**
(2) Long-term borrowings	**—**	**598,262**	**—**	**598,262**
Total liabilities	**$ —**	**$820,774**	**$ —**	**$820,774**

(Note) Valuation techniques and inputs used in measuring fair value

Investments in securities

Listed securities are measured using quoted prices. Fair value of listed securities and some of subsidiaries and affiliates are classified as Level 1, because they are traded in active markets.

Held-to-maturity debt securities are classified as Level 2, because their fair values are determined by the total amounts of principal and interest by certain periods using the discounted present value method based on the future cash flows and the interest rate that reflects appropriate indicators, such as yields of national bonds, together with credit spread.

Derivative transactions

Fair values are calculated using observable inputs, such as interest rates and exchange rates, and classified as Level 2.

The fair value of special treatment for interest rate swaps are included in long-term borrowings because they are accounted for as an integral part of long-term borrowings being hedged.

Bonds

Bonds are classified as Level 2, because their fair values are measured by certain periods for the total amount of principal and interest using the discounted present value method based on the future cash flows and the interest rate that reflects appropriate indicators, such as yields of Government bonds, together with credit spread.

Long-term borrowings

Long-term borrowings are classified as Level 2, because their fair values are measured using the discounted present value method based on the total amount of the payment obligations of principal and interests and the interest rates that reflect their remaining period and credit risks.

Tables show ¥ in millions and US$ in thousands.

8. Investments in Securities

Investments in other securities with fair value as of March 31, 2022 and 2023 consist of the following:

	2022		
	Book value	Acquisition cost	Unrealized gains (losses)
Securities with book value exceeding acquisition cost			
Securities	¥50,625	¥17,925	¥32,699
Securities with book value not exceeding acquisition cost			
Securities	1,557	1,748	(190)
Total	¥52,182	¥19,674	¥32,508

	2023					
	Book value	Acquisition cost	Unrealized gains (losses)	Book value	Acquisition cost	Unrealized gains (losses)
Securities with book value exceeding acquisition cost						
Securities	**¥53,679**	**¥18,317**	**¥35,361**	**$401,999**	**$137,175**	**$264,816**
Securities with book value not exceeding acquisition cost						
Securities	**3,569**	**3,848**	**(278)**	**26,728**	**28,817**	**(2,081)**
Total	**¥57,249**	**¥22,166**	**¥35,082**	**$428,735**	**$166,000**	**$262,727**

Note: "Acquisition cost" in the above tables are the book value after impairment loss.

Total sale of other securities as of March 31, 2022 and 2023 consist of the following:

	2022	2023	2023
Amount sold	¥843	**¥1,187**	**$8,889**
Total gain on sales	688	**583**	**4,366**
Total loss on sales	¥ —	**¥ 68**	**$ 509**

Impairment losses on investments in securities are ¥137 million and ¥169 million ($1,265 thousand) for the years ended March 31, 2022 and 2023, respectively.

9. Inventories

Inventories as of March 31, 2022 and 2023 are as follows:

	2022	2023	2023
Merchandise and finished goods	¥45,734	**¥55,751**	**$417,516**
Work-in-process	4,022	**6,106**	**45,727**
Raw materials and supplies	6,381	**7,753**	**58,061**
Total	¥56,139	**¥69,611**	**$521,313**

Tables show ¥ in millions and US$ in thousands.

10. Short-term Borrowings and Long-term Debt

The weighted average interest rate of short-term bank borrowings outstanding as of March 31, 2022 and 2023 is 0.7% and 1.3%, respectively.

Short-term borrowings as of March 31, 2022 and 2023 consist of the following:

	2022	2023	2023
Secured	¥ 140	**¥ 140**	**$ 1,048**
Unsecured	32,203	**25,607**	**191,769**
Total	¥32,343	**¥25,747**	**$192,818**

Long-term debts as of March 31, 2022 and 2023 consist of the following:

	2022	2023	2023
Loans, principally from banks and maturing serially through 2040 with interest ranging from 0.1% to 5.2%			
Secured	¥ 93	**¥ 53**	**$ 396**
Unsecured	66,222	**80,549**	**603,227**
Unsecured bonds			
0.200% bonds, due December 2028	5,000	**5,000**	**37,444**
0.270% bonds, due December 2031	5,000	**5,000**	**37,444**
0.714% bonds, due September 2029	—	**10,000**	**74,889**
0.809% bonds, due September 2032	—	**10,000**	**74,889**
Subtotal	76,315	**110,602**	**828,293**
Current portion of long-term debt	(11,222)	**(12,144)**	**(90,945)**
Total	¥ 65,093	**¥ 98,457**	**$737,339**

As of March 31, 2022 and 2023, the following assets are pledged as security.

Net book value	2022	2023	2023
Land	¥ 520	**¥ 507**	**$ 3,796**
Buildings and structures	678	**708**	**5,302**
Investments in securities	637	**665**	**4,980**
Total	¥1,837	**¥1,881**	**$14,086**

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

Year ending March 31,		
2024	**¥12,382**	**$ 92,728**
2025	**17,902**	**134,067**
2026	**11,902**	**89,133**
2027	**5,927**	**44,387**
2028 and thereafter	**50,342**	**377,008**
Total	**¥98,457**	**$737,339**

Tables show ¥ in millions and US$ in thousands.

11. Income Taxes

The Company and its domestic subsidiaries are subject to a number of taxes based on earnings which, in the aggregate, resulted in a statutory rate of approximately 30.5% for both years ended March 31, 2022 and 2023. Overseas subsidiaries are subject to income taxes of the countries in which they operate.

Deferred tax assets and liabilities consist of the following:

	2022	**2023**	**2023**
Deferred tax assets			
Tax loss carryforwards	¥ 1,287	**¥ 1,405**	**$ 10,521**
Allowance for doubtful accounts	185	**179**	**1,340**
Accrued bonuses	1,648	**1,959**	**14,670**
Net defined benefit liability	1,256	**1,637**	**12,259**
Accrued enterprise taxes	526	**462**	**3,459**
Intercompany profits and write-downs (inventories, investments in securities and fixed assets)	1,401	**1,466**	**10,978**
Loss on valuation of securities	306	**368**	**2,755**
Loss on cancellation of real estate trust	328	**328**	**2,456**
Impairment loss	706	**696**	**5,212**
Other	3,243	**3,572**	**26,750**
Valuation allowance	(3,280)	**(3,060)**	**(22,916)**
Total deferred tax assets	¥ 7,610	**¥ 9,015**	**$ 67,512**
Deferred tax liabilities			
Reserve for advanced depreciation of noncurrent assets	(177)	**(176)**	**(1,318)**
Unrealized gains on securities	(9,768)	**(10,537)**	**(78,911)**
Valuation of assets and liabilities of consolidated subsidiaries on acquisition	(1,285)	**(4,906)**	**(36,740)**
Deferred gains on hedges	(1,213)	**(1,196)**	**(8,956)**
Other	(2,754)	**(3,477)**	**(26,039)**
Total deferred tax liabilities	(15,199)	**(20,294)**	**(151,980)**
Net deferred tax assets	¥ (7,588)	**¥(11,278)**	**$ (84,460)**

Reconciliation of the differences between the statutory tax rate and the effective tax rate is as follows:

	2022	**2023**
Statutory tax rate	30.5%	**—**
Permanently nondeductible expenses	1.3	**—**
Permanently nontaxable gain	(0.6)	**—**
Change in valuation allowance	1.8	**—**
Taxation on per capita basis	0.4	**—**
Equity in earnings of nonconsolidated subsidiaries and affiliates	(0.5)	**—**
Retained earnings of foreign consolidated subsidiaries	0.9	**—**
Other	(1.3)	**—**
Effective tax rate	32.5%	**—**

Note: Information for the year ended March 31, 2023 is not provided because the difference between the statutory tax rate and the effective tax rate was less than 5%.

Tables show ¥ in millions and US$ in thousands.

12. Employees' Retirement Benefits

The Company and some domestic consolidated subsidiaries have contributory funded defined benefit pension plans and lump-sum benefit plans, and some domestic and overseas consolidated subsidiaries have defined contribution plans. In addition, the Company has defined contribution corporate pension plan.

1. Defined benefit plans

(1) Movement in retirement benefit obligations

	2022	2023	2023
Balance as of April 1,	¥22,661	**¥23,086**	**$172,889**
Service cost	1,625	**2,081**	**15,584**
Interest cost	175	**200**	**1,497**
Actuarial loss (gain)	(100)	**(190)**	**(1,422)**
Benefits paid	(1,277)	**(1,794)**	**(13,435)**
Increase due to new consolidation	—	**4,335**	**32,464**
Other	2	**(1)**	**(7)**
Balance as of March 31,	¥23,086	**¥27,717**	**$207,571**

(2) Movements in plan assets

	2022	2023	2023
Balance as of April 1,	¥19,241	**¥19,758**	**$147,966**
Expected return on plan assets	339	**391**	**2,928**
Actuarial loss (gain)	(220)	**(658)**	**(4,927)**
Contributions paid by the employer	1,124	**1,292**	**9,675**
Benefits paid	(756)	**(1,136)**	**(8,507)**
Increase due to new consolidation	—	**4,858**	**36,381**
Other	30	**(39)**	**(292)**
Balance as of March 31,	¥19,758	**¥24,466**	**$183,224**

(3) Reconciliation from retirement benefit obligations and plan assets to liability (asset) for retirement benefits

	2022	2023	2023
Funded retirement benefit obligations	¥ 17,009	**¥ 20,091**	**$ 150,460**
Plan assets	(19,758)	**(24,466)**	**(183,224)**
	(2,749)	**(4,375)**	**(32,764)**
Unfunded retirement benefit obligations	6,077	**7,626**	**57,110**
Total net defined benefit liability as of March 31,	3,327	**3,251**	**24,346**
Net defined benefit liability	5,524	**6,892**	**51,613**
Net defined benefit asset	(2,197)	**(3,641)**	**(27,267)**
Total net defined benefit liability as of March 31,	¥ 3,327	**¥ 3,251**	**$ 24,346**

(4) Retirement benefit costs

	2022	2023	2023
Service cost	¥1,625	**¥2,081**	**$15,584**
Interest cost	175	**200**	**1,497**
Expected return on plan assets	(339)	**(391)**	**(2,928)**
Amortization of actuarial differences	(76)	**(163)**	**(1,220)**
Other	(30)	**39**	**292**
Total retirement benefit costs for the year ended March 31,	¥1,353	**¥1,767**	**$13,232**

(5) Remeasurements of defined benefit plans

	2022	2023	2023
Actuarial differences	¥(196)	**¥(632)**	**$(4,733)**
Total balance as of March 31,	¥(196)	**¥(632)**	**$(4,733)**

Tables show ¥ in millions and US$ in thousands.

(6) Accumulated remeasurements of defined benefit plans

	2022	2023	2023
Unrecognized actuarial differences	¥(678)	**¥(45)**	**$(337)**
Total balance as of March 31,	¥(678)	**¥(45)**	**$(337)**

(7) Plan assets

(i) Plan assets comprise

	2022	2023
Bonds	51.9%	**50.2%**
Equity securities	21.1%	**24.1%**
Cash and cash equivalents	3.1%	**5.8%**
General account	21.5%	**17.7%**
Other	2.4%	**2.2%**
Total	100.0%	**100.0%**

(ii) Long-term expected rate of return

Current and target asset allocations, historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

(8) Actuarial assumptions

The principal actuarial assumptions are set forth below:

	2022	2023
Discount rate	1.0%	**1.0%**
Expected return on plan assets	0.0–2.2%	**0.0–2.2%**
Expected rate of salary increase	4.6–7.8%	**2.5–7.8%**

2. Defined contribution plans

The Company and some domestic consolidated subsidiaries expended ¥492 million and ¥486 million ($3,639 thousand) on contributions for defined contribution plans for the years ended March 31, 2022 and 2023, respectively.

3. Multi-employer pension plans

The funded status of the multi-employer pension plans as of March 31, 2021 and 2022 (based on information available as of March 31, 2022 and 2023) to which contributions were recorded as net periodic retirement benefit costs is as follows:

	2022	2023	2023
Fair value of plan assets	¥19,234	**¥19,756**	**$147,951**
Total of actuarial liabilities and minimum reserves in the calculation of pension financing	17,018	**17,220**	**128,959**
Difference	¥ 2,216	**¥ 2,536**	**$ 18,991**

The contribution ratio of the Companies to the multi-employer pension plans from April 1, 2020 to March 31, 2021 and from April 1, 2021 to March 31, 2022 was 7.7% and 11.0%, respectively. Some domestic consolidated subsidiaries expended ¥54 million and ¥72 million ($539 thousand) on contributions for the multi-employer pension plans for the years ended March 31, 2022 and 2023, respectively.

13. Contingent Liabilities

Contingent liabilities as of March 31, 2022 and 2023 are as follows:

	2022	2023	2023
Notes receivable discounted	¥182	**¥256**	**$1,917**
Total	¥182	**¥256**	**$1,917**

	2022	2023	2023
Guarantees of loans made by:			
Nonconsolidated subsidiaries and affiliates	¥51	**¥51**	**$381**
Other	1	**0**	**0**
Total	¥52	**¥52**	**$389**

14. Leases

As lessee

Future minimum lease payments under noncancelable operating leases as of March 31, 2022 and 2023 are as follows:

	2022	2023	2023
Due within 1 year	¥ 2,142	**¥2,213**	**$16,573**
Due over 1 year	12,980	**11,276**	**84,445**
Total	¥15,122	**¥13,490**	**$101,025**

As Lessor

Lease investment assets as of March 31, 2022 and 2023 are as follows:

	2022	2023	2023
Amount of lease payments receivable	¥1,276	**¥1,292**	**$ 9,675**
Estimated residual value	—	**—**	**—**
Amount equivalent to interest receivable	(136)	**(146)**	**(1,093)**
Lease investment assets	¥1,140	**¥1,145**	**$ 8,574**

The collection schedule for lease payments from lease investment assets after March 31, 2023 is as follows:

Year ending March 31,		
2024	**¥ 404**	**$3,025**
2025	**319**	**2,388**
2026	**228**	**1,707**
2027	**167**	**1,250**
2028	**90**	**674**
2029 and thereafter	**81**	**606**
Total	**¥1,292**	**$9,675**

Future minimum lease receipts from noncancelable operating lease transactions as of March 31, 2022 and 2023 are as follows:

	2022	2023	2023
Due within 1 year	¥166	**¥141**	**$1,055**
Due over 1 year	247	**204**	**1,527**
Total	¥414	**¥345**	**$2,583**

Tables show ¥ in millions and US$ in thousands.

15. Impairment Loss on Fixed Assets

The Companies reduced the book value of a portion of their idle assets and fixed assets and recognized the reduced amount as impairment loss.

(Method of grouping)
The Companies group assets based on operating segments for which the Companies reviewed performance and profitability regularly. Idle assets not in operation and rental assets are treated individually.

Impairment loss recognized for the years ended March 31, 2022 and 2023 is as follows:

	2022	2023	2023
Land	¥129	**¥89**	**$666**
Total	¥129	**¥89**	**$666**

16. Derivative Transactions

Derivative transactions to which hedge accounting is not applied

Currency related transactions

	2022			
	Contract amount	Contract amount over 1 year	Fair value	Valuation gain (loss)
Foreign exchange forward contracts				
To sell				
U.S. dollars	¥ 797	¥ —	¥(18)	¥(18)
Other currencies	619	—	(2)	(2)
To buy				
U.S. dollars	2,830	—	(27)	(27)
Other currencies	640	—	(9)	(9)
	¥4,887	¥ —	¥(57)	¥(57)

	2023							
	Contract amount	Contract amount over 1 year	Fair value*	Valuation gain (loss)	Contract amount	Contract amount over 1 year	Fair value*	Valuation gain (loss)
Foreign exchange forward contracts								
To sell								
U.S. dollars	**¥ 538**	**¥ —**	**¥ 11**	**¥ 11**	**$ 4,029**	**$ —**	**$ 82**	**$ 82**
Other currencies	**405**	**—**	**(6)**	**(6)**	**3,033**	**—**	**(44)**	**(44)**
To buy								
U.S. dollars	**3,464**	**—**	**(164)**	**(164)**	**25,941**	**—**	**(1,228)**	**(1,228)**
Other currencies	**1,759**	**—**	**(56)**	**(56)**	**13,173**	**—**	**(419)**	**(419)**
	¥6,167	**¥ —**	**¥(216)**	**¥(216)**	**$46,184**	**$ —**	**$(1,617)**	**$(1,617)**

Tables show ¥ in millions and US$ in thousands.

Derivative transactions to which hedge accounting is applied

(1) Currency related transactions

	2022			
	Principal items hedged	Contract amount	Contract amount over 1 year	Fair value
Principle method / Allocation method Foreign exchange forward contracts	Foreign exchange forward transactions			
Foreign exchange forward contracts				
To sell				
U.S. dollars		¥14,529	¥ 3,100	¥ (400)
Other currencies		1,678	—	(79)
To buy				
U.S. dollars		26,528	8,939	3,986
Other currencies		808	—	43
Allocation method Foreign exchange forward contracts				
To sell				
U.S. dollars	Accounts receivable	6,014	—	(243)
Other currencies	Accounts receivable	418	—	(39)
To buy				
U.S. dollars	Accounts payable	2,174	—	98
Other currencies	Accounts payable	119	—	1
		¥52,272	¥12,040	¥3,367

	2023							
	Principal items hedged	Contract amount	Contract amount over 1 year	Fair value	Principal items hedged	Contract amount	Contract amount over 1 year	Fair value
Principle method / Allocation method Foreign exchange forward contracts	**Foreign exchange forward transactions**				**Foreign exchange forward transactions**			
Foreign exchange forward contracts								
To sell								
U.S. dollars		**¥11,606**	**¥ 2,928**	**¥ 409**		**$ 86,916**	**$21,927**	**$ 3,062**
Other currencies		**2,942**	**—**	**(57)**		**22,032**	**—**	**(426)**
To buy								
U.S. dollars		**33,558**	**7,272**	**3,568**		**251,314**	**54,459**	**26,720**
Other currencies		**610**	**—**	**1**		**4,568**	**—**	**7**
Allocation method Foreign exchange forward contracts								
To sell								
U.S. dollars	**Accounts receivable**	**5,170**	**—**	**(23)**	**Accounts receivable**	**38,717**	**—**	**(172)**
Other currencies	**Accounts receivable**	**305**	**—**	**(3)**	**Accounts receivable**	**2,284**	**—**	**(22)**
To buy								
U.S. dollars	**Accounts payable**	**2,911**	**—**	**32**	**Accounts payable**	**21,800**	**—**	**239**
Other currencies	**Accounts payable**	**166**	**—**	**(0)**	**Accounts payable**	**1,243**	**—**	**(0)**
		¥57,271	**¥10,201**	**¥3,927**		**$428,899**	**$76,394**	**$29,409**

Tables show ¥ in millions and US$ in thousands.

(2) Commodity related transactions

	2022			
	Major hedged items	Contract amount	Contract amount over 1 year	Fair value
Principle method				
Commodity Derivatives Variable receipt/fixed payment	Commodity purchase transactions	¥789	¥—	¥168
		¥789	¥—	¥168

Commodity related transactions had not been presented as of March 2023.

(3) Interest related transactions

Interest rate swap contracts have not been presented as of March 2022 and 2023.

17. Earnings Per Share

The basis of calculating net income per share for the years ended March 31, 2022 and 2023 is as follows:

	2022	2023	2023
Net income	¥29,964	**¥32,022**	**$239,811**
Net income attributable to common stockholders	29,964	**32,022**	**239,811**
Net income not attributable to common stockholders	¥ —	**¥ —**	**$ —**

		(Thousands)
Weighted average number of shares outstanding	57,516	**57,522**

*Diluted net income per share has not been presented for the year ended March 31, 2022 and 2023 because the Company had no potential ordinary share outstanding as of the balance sheet date.

18. Net Assets

Under the Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus. Under the Japanese Corporate Law ("the Law"), in cases in which a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve and additional paid-in capital may not be distributed as dividends. By the resolution of shareholders' meeting, legal earnings reserve and additional paid-in capital may be transferred to other retained earnings and capital surplus, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the nonconsolidated financial statements of the Company in accordance with the Law. Cash dividends charged to retained earnings during the 2 years ended March 31, 2023 represent dividends paid out during those periods. The accompanying consolidated financial statements do not include any provision for the year-end dividend of ¥95 ($0.71) per share, aggregating to ¥5,470 million ($40,964 thousand), which was approved at the Company's shareholders' meeting on June 21, 2023 in respect to the year ended March 31, 2023.

19. Expenses for Research and Development

Research and development expenses charged to selling, general and administrative expenses for the years ended March 31, 2022 and 2023 were ¥1,917 million and ¥2,056 million ($15,397 thousand), respectively.

Tables show ¥ in millions and US$ in thousands.

20. Other Income (Expenses)

Other, net consisted of the following:

	2022	2023	2023
Gain (loss) on sales of investments in securities	¥ 688	¥ 528	$ 3,954
Loss on valuation of investments in securities	(137)	(169)	(1,265)
Gain (loss) on sales and disposals of fixed assets	(685)	(426)	(3,190)
Loss on liquidation of subsidiaries and affiliates	—	(6)	(44)
Foreign exchange gains (losses)	269	493	3,692
Gain on bargain purchase	—	465	3,482
Subsidy income	1,771	2,670	19,995
Outsourcing service income	888	869	6,507
Loss on reduction of noncurrent assets	(77)	(713)	(5,339)
Product compensation expenses	(181)	—	—
Loss on sales of golf club membership	(24)	—	—
Other, net	2,112	2,128	15,936
Total	¥4,623	¥5,839	$43,728

21. Business Combinations

1. Business combinations through acquisition

At the meeting of the Board of Directors held on January 28, 2022, the Company resolved to acquire all shares of Tokico System Solutions, Ltd. Based on this resolution, the Company entered into a share transfer agreement with Polaris Capital Group Co., Ltd. on the same date and acquired all the shares as of April 1, 2022.

(1) Outline of the business combination

(i) Name and main business of the acquiree

Name of the acquiree

Tokico System Solutions, Ltd.

Business description

Energy station construction business

Engineering business

Environmental business

Maintenance service business

Medical equipment business

Various products

(ii) Main reason for the business combination

Tokico System Solutions, Ltd. is an industrial and energy infrastructure related company with technologies for measuring and controlling "Fluids," such as fuel oil and various gases, with a solid business foundation in the manufacture and sale of industrial flow meters and other products as well as expertise in the construction of energy stations and other facilities. It is also one of Japan's leading companies supporting hydrogen supply infrastructure, with strength in the development, manufacture, and sale of hydrogen dispensers for fuel cell vehicles (FCVs).

The Company has decided to acquire the shares of this company based on our judgment that further business expansion can be expected through the synergies to be generated by the collaboration of this company's manufacturer and engineering functions, products, services, and solutions in a wide range of areas and our energy and hydrogen business.

(iii) Date of business combination

April 1, 2022

(iv) Legal form of business combination

Share acquisition with cash consideration

(v) Name of the acquiree after the business combination

There is no change

(vi) Ratio of voting rights acquired

100%

(vii) Main grounds for determining the acquirer

The Company acquired the shares in exchange for cash

(2) Period for which the operations of the acquiree are included in the accompanying consolidated financial statements

From April 1, 2022 to March 31, 2023

(3) Breakdown of acquisition cost and type of consideration for the acquiree

Cash consideration for acquisition:

¥16,819 million ($125,956 thousand)

Acquisition cost: ¥16,819 million ($125,956 thousand)

(4) Description and amounts of major acquisition related expenses

Advisory fees and commissions, etc.:

¥284 million ($2,126 thousand)

(5) Amount of goodwill incurred, reason, amortization method and period

(i) Amount of goodwill incurred

¥9,424 million ($70,575 thousand)

(ii) Reason

Since the acquisition cost exceeded the net amount allocated to the assets acquired and liabilities assumed, the difference was recorded as goodwill. The allocation of the acquisition cost was not completed and was accounted for on a provisional basis from the first quarter to the third quarter of the fiscal year under review. However, it was finalized at the end of the fiscal year under review.

Tables show ¥ in millions and US$ in thousands.

(iii) Amortization method and period
Straight-line amortization over 15 years

(6) Amounts allocated to intangible assets other than goodwill, breakdown by major category, and weighted-average amortization period overall and by major category

Category	Amount	Weighted average amortization period
Customer-related intangible assets	¥8,243 million ($61,731 thousand)	15 years
Backlog of orders	¥306 million ($2,291 thousand)	2 years
Total	¥8,549 million ($64,023 thousand)	14 years

(7) Amounts of the assets acquired and the liabilities assumed on the business combination date and their major details

Current assets: ¥8,818 million ($66,037 thousand)
Non current assets: ¥14,821 million (110,993 thousand)
Assets total: ¥23,640 million ($177,038 thousand)
Current liabilities: ¥6,493 million ($48,625 thousand)
Non-current liabilities: ¥9,753 million ($73,039 thousand)
Liabilities total: ¥16,246 million ($121,665 thousand)

(8) Estimated impact on the consolidated statement of income for the year ended March 31, 2023 assuming the business combination had been completed at the beginning of the year ended March 31, 2023 and its method of calculation.

There was no impact because the acquisition date was the beginning of the current fiscal year.

2. Business combinations through acquisition

At the meeting of the Board of Directors held on April 25, 2022, the Company resolved to acquire all shares of Tokyo Gas Energy Co., Ltd. held by Tokyo Gas Liquid Holdings Co., Ltd. and INPEX CORPORATION, and to acquire 49% of the shares of Tokyo Gas LPG Terminal Co., Ltd. held by Tokyo Gas Liquid Holdings Co., Ltd. Based on this resolution, the Company entered into a share transfer agreement on the same date and acquired the shares as of June 1, 2022.

(1) Outline of the business combination

(i) Name and main business of the acquiree

Name	Tokyo Gas Energy Co., Ltd.	Tokyo Gas LPG Terminal Co., Ltd.
Business Description	Wholesale of LPG Direct sales of LPG Sales of LPG for automobiles Other (sales of gas appliances, installation of facilities, etc.)	LPG storage and shipping business

(ii) Main reason for the business combination
Since its establishment in 1960 as an LPG sales company of Tokyo Gas Co., Ltd., Tokyo Gas Energy Co., Ltd. has built an LPG supply network in the Kanto and Tokyo metropolitan areas, supplying LPG to residential and industrial customers. In addition, under the Enelife brand, the company has built a sales network in cooperation with distributors. Through this share acquisition, Tokyo Gas Energy Co., Ltd. which has concentrated its business in the Kanto and Tokyo metropolitan areas, will become a member of our group, which operates LPG business nationwide, thereby greatly expanding our business scale in the greater Kanto area. Furthermore, the Company has decided that the acquisition of shares in this company is expected to generate a variety of synergies, including not only a stable supply of LPG, but also increased sales efficiency, streamlined logistics, and operational efficiency by strengthening cooperation between the gas procurement, wholesale, and product sales functions of the two companies.

(iii) Date of business combination
June 1, 2022

(iv) Legal form of business combination
Share acquisition with cash consideration

(v) Name of the acquiree after business combination
ENELIFE CORPORATION
(The trade name was changed from Tokyo Gas Energy Co., Ltd. on June 1, 2022)
NEGISHI LIQUEFIED GAS TERMINAL CORPORATION
(The trade name was changed from Tokyo Gas LPG Terminal Co., Ltd. on June 1, 2022)

(vi) Ratio of voting rights acquired
Tokyo Gas Energy Co., Ltd.: 100%
Tokyo Gas LPG Terminal Co., Ltd.: 100% (51% indirectly held)

(vii) Main grounds for determining the acquirer
The Company acquired the shares in exchange for cash.

(2) Period for which the operations of the acquiree are included in the accompanying consolidated financial statements

From April 1, 2022 to March 31, 2023

(3) Breakdown of acquisition cost and type of consideration for the acquiree

Cash consideration for acquisition:
¥5,385 million ($40,328 thousand)
Acquisition cost: ¥5,385 million ($40,328 thousand)

(4) Description and amounts of major acquisition related expenses

Advisory fees and commissions, etc.:
¥104 million ($778 thousand)

(5) Amount of gain on bargain purchase and its reason

(i) Amount of gain on bargain purchase
¥465 million ($3,482 thousand)

(ii) Reason
Since the fair value of net assets as of the date of the business combination exceeded the acquisition cost, the difference was recorded as gain on bargain purchase. The allocation of the acquisition cost was not completed and was accounted for on a provisional basis from the first quarter to the third quarter of the fiscal year under review. However, it was finalized at the end of the fiscal year under review.

(6) Amounts of the assets acquired and the liabilities assumed on the business combination date and their major details
Current assets: ¥7,843 million ($58,735 thousand)
Non current assets: ¥6,896 million ($51,643 thousand)
Assets total: ¥14,739 million ($110,379 thousand)
Current liabilities: ¥7,990 million ($59,836 thousand)
Non-current liabilities: ¥897 million ($6,717 thousand)
Liabilities total: ¥8,888 million ($66,561 thousand)

(7) Estimated impact on the consolidated statement of income for the year ended March 31, 2023 assuming the business combination had been completed at the beginning of the year ended March 31, 2023 and its method of calculation.
There was no impact because the deemed acquisition date was April 1, the beginning of the consolidated fiscal year.

3. Business combinations through acquisition
Iwatani Corporation of America, a wholly owned subsidiary of Iwatani Corporation, concluded an equity transfer agreement on December 23, 2022 and acquired the equity shares in Aspen Air U.S., LLC on the same date.

(1) Outline of the business combination
(i) Name and main business of the acquiree
Name of the acquiree
Aspen Air U.S.,LLC

Business description
Production and sale of air-separation gases (oxygen, nitrogen, argon)

(ii) Main reason for the business combination
The acquisition of Aspen Air U.S., LLC will allow us to enter the production and sale of air-separation gases for the first time in the U.S. and to further expand our business and enhance our profitability in the U.S.. Therefore, we have decided to acquire the equity shares.

(iii) Date of business combination
December 23, 2022

(iv) Legal form of business combination
Equity shares acquisition with cash consideration

(v) Name of the acquiree after the business combination
There is no change

(vi) Ratio of voting rights acquired
100%

(vii) Main grounds for determining the acquirer
By the fact that Iwatani Corporation of America, a wholly owned subsidiary of Iwatani Corporation, acquired the equity shares in exchange for cash

(2) Period for which the operations of the acquiree are included in the accompanying consolidated financial statements
Since only the balance sheet is consolidated for the fiscal year under review, the financial results of the acquired company are not included in the consolidated statements of income.

(3) Breakdown of acquisition cost and type of consideration for the acquiree
Cash consideration for acquisition: $39 million
Acquisition cost: $39 million

(4) Description and amounts of major acquisition related expenses
Advisory fees and commissions, etc.:
¥46 million ($344 thousand)

(5) Amount of goodwill incurred, reason, amortization method and period
(i) Amount of goodwill incurred
¥3,354 million ($25,117 thousand)

(ii) Reason
Since the acquisition cost exceeded the net amount allocated to the assets acquired and liabilities assumed, the difference was recorded as goodwill. The allocation of the acquisition cost had not been completed as of the end of the fiscal year under review, and the amount of goodwill was allocated on a provisional basis.

(iii) Amortization method and period
Straight-line amortization over 14 years

(6) Amounts of the assets acquired and the liabilities assumed on the business combination date and their major details
Current assets: ¥342 million ($2,561 thousand)
Non current assets: ¥1,567 million ($11,735 thousand)
Assets total: ¥1,909 million ($14,296 thousand)
Current liabilities: ¥80 million ($599 thousand)
Non-current liabilities: ¥- million ($- thousand)
Liabilities total: ¥80 million ($599 thousand)

(7) Estimated impact on the consolidated statement of income for the year ended March 31, 2023 assuming the business combination had been completed at the beginning of the year ended March 31, 2023 and its method of calculation.
Omitted for inmateriality.
These explanatory notes have not been audited.

22. Revenue Recognition

1. Information that disaggregates revenue from contracts with customers

	2022						
	Reportable Segments					Others	Total
	Integrated Energy	Industrial Gases & Machinery	Materials	Agri-bio & Foods	Subtotal		
Japan	¥315,731	¥137,834	¥118,383	¥23,329	¥595,278	¥3,424	¥598,703
East Asia	11,044	31,796	13,290	44	56,175	170	56,345
Southeast Asia	36	11,160	9,887	2	21,087	—	21,087
Others	363	3,540	9,413	—	13,317	—	13,317
Revenue from contracts with customers	327,175	184,332	150,974	23,376	685,858	3,595	689,453
Other revenue	—	—	—	—	—	938	938
Net sales to outside customers	¥327,175	¥184,332	¥150,974	¥23,376	¥685,858	¥4,534	¥690,392

	2023						
	Reportable Segments					Others	Total
	Integrated Energy	Industrial Gases & Machinery	Materials	Agri-bio & Foods	Subtotal		
Japan	**¥379,377**	**¥175,859**	**¥195,782**	**¥28,674**	**¥779,694**	**¥3,535**	**¥783,229**
East Asia	**13,650**	**39,430**	**14,093**	**310**	**67,485**	**210**	**67,695**
Southeast Asia	**120**	**15,633**	**13,452**	**0**	**29,207**	**—**	**29,207**
Others	**573**	**9,478**	**15,124**	**—**	**25,176**	**—**	**25,176**
Revenue from contracts with customers	**393,720**	**240,403**	**238,453**	**28,986**	**901,563**	**3,746**	**905,309**
Other revenue	**—**	**—**	**—**	**—**	**—**	**951**	**951**
Net sales to outside customers	**¥393,720**	**¥240,403**	**¥238,453**	**¥28,986**	**¥901,563**	**¥4,697**	**¥906,261**

	2023						
	Reportable Segments					Others	Total
	Integrated Energy	Industrial Gases & Machinery	Materials	Agri-bio & Foods	Subtotal		
Japan	**$2,841,136**	**$1,316,999**	**$1,466,202**	**$214,738**	**$5,839,092**	**$26,473**	**$5,865,565**
East Asia	**102,224**	**295,289**	**105,541**	**2,321**	**505,392**	**1,572**	**506,964**
Southeast Asia	**898**	**117,074**	**100,741**	**0**	**218,729**	**—**	**218,729**
Others	**4,291**	**70,980**	**113,262**	**—**	**188,541**	**—**	**188,541**
Revenue from contracts with customers	**2,948,550**	**1,800,366**	**1,785,763**	**217,074**	**6,751,763**	**28,053**	**6,779,817**
Other revenue	**—**	**—**	**—**	**—**	**—**	**7,121**	**7,121**
Net sales to outside customers	**$2,948,550**	**$1,800,366**	**$1,785,763**	**$217,074**	**$6,751,763**	**$35,175**	**$6,786,946**

*1 "Others" is an operating segment not included in reportable segments. "Others" represents businesses in finance, insurance, transportation, information processing, etc.
*2 Main countries and regions outside Japan are grouped as follows:
(1) East Asia .... China, Taiwan, South Korea
(2) Southeast Asia ..... Singapore, Thailand, Malaysia, Indonesia, Vietnam
(3) Others .... United States, Australia

2. Revenues from contracts with customers

Information for understanding revenues is provided in Note 2 (13), "Accounting policy for recognition of significant revenues and expenses."

3. Revenue in the current and subsequent consolidated fiscal years

(1) Balance of contract assets and contract liabilities, etc.

	2022	**2023**	**2023**
Receivables from contracts with customers (opening balance)	¥128,767	**¥151,490**	**$1,134,501**
Receivables from contracts with customers (closing balance)	151,490	**172,969**	**1,295,356**
Contract assets (opening balance)	—	**—**	**—**
Contract assets (closing balance)	—	**870**	**6,515**
Contract liabilities (opening balance)	4,207	**4,286**	**32,097**
Contract liabilities (closing balance)	¥ 4,286	**¥ 10,500**	**$ 78,634**

Contract assets relate to rights to unbilled consideration for recognized revenues in transactions in which performance obligations are satisfied over a specified period of time. When the right to the consideration to be received becomes unconditional, it is transferred to the receivables from contracts with customers.

Contract liabilities relate mainly to advances received from customers from the obligation to transfer goods or services to

Tables show ¥ in millions and US$ in thousands.

customers. The contractual liability balances recorded at the beginning of the period are generally recognized as revenue within 1 year.

(2) The transaction prices allocated to remaining performance obligations

The Company and its consolidated subsidiaries have no significant transactions with expected contract terms exceeding 1 year. In addition, there are no material amounts of consideration arising from contracts with customers that are not included in the transaction price. The practical expedient method is applied in the notes to the transaction prices allocated to the remaining performance obligations, and the contracts are not included in the notes because the expected term of the contracts is less than 1 year at the outset.

23. Segment Information

1. General information about reportable segments

The Company's reportable segments are regularly reviewed by the Board of Directors using the financial information available within each segment to determine the allocation of management resources and evaluate business results. The Company maintains commercial divisions classified by merchandise and products. Each commercial division develops comprehensive business strategies for Japan and the world. Therefore, the Company is organized by operating segments which are classified by merchandise, products and sales channels based on commercial divisions.

The main products of the four reportable segments were as follows:

(1) Integrated Energy: LPG for household, commercial and industrial use, LPG supply equipment and facilities, LNG, petroleum products, household kitchen appliances, home energy components, Ene farm, GHP, daily necessities, portable cooking stoves and gas canisters, mineral water, health foods, electricity, etc.
(2) Industrial Gases & Machinery: air-separation gases, hydrogen, helium, other specialty gases, gas supply facilities, welding materials, welding and cutting equipment, industrial robots, pumps and compressors, facilities for hydrogen stations, disaster prevention equipment, high-pressure gas containers, semiconductor manufacturing equipment, electronic component manufacturing equipment, factory automation systems, medicine and food packing machinery, environmental equipment, etc.
(3) Materials: PET resins, general-purpose resins, biomass fuel, secondary battery materials, electronic display film, semiconductor materials, mineral sand, rare earth, ceramics materials, stainless steel, aluminum, etc.
(4) Agri-bio & Foods: frozen foods, chilled foods, agricultural equipments, agricultural materials, livestock related goods, etc.

2. Basis of measurement for reported segment profit and loss, segment assets and other material items by reportable segment

Accounting methods for reportable segments are basically the same as the accounting methods described in Note 2 "Summary of Major Accounting Policies." Income by reportable segment is equivalent to operating income. Intersegment sales and transfers are based on market values.

3. Information related to sales, operating income (loss), assets and other items by reportable segment

	2022								
	Reportable Segments					Others*1	Total	Adjustments*2	Consolidated statements of operations*3
	Integrated Energy	Industrial Gases & Machinery	Materials	Agri-bio & Foods	Subtotal				
Net sales									
Outside customers	¥327,175	¥184,332	¥150,974	¥23,376	¥685,858	¥ 4,534	¥690,392	¥ —	¥690,392
Intersegment	4,991	3,063	1,659	50	9,764	22,798	32,563	(32,563)	—
Total	332,167	187,396	152,634	23,426	695,623	27,332	722,955	(32,563)	690,392
Segment income	¥ 22,655	¥ 12,467	¥ 7,255	¥ 675	¥ 43,053	¥ 1,469	¥ 44,523	¥ (4,446)	¥ 40,076
Segment assets	¥203,388	¥146,176	¥ 93,282	¥14,558	¥457,405	¥63,351	¥520,756	¥ 37,723	¥558,479
Other items:									
Depreciation and amortization	¥ 5,537	¥ 6,830	¥ 1,698	¥ 201	¥ 14,266	¥ 5,100	¥ 19,367	¥ 1,743	¥ 21,111
Impairment loss on fixed assets	125	—	—	—	125	—	125	3	129
Amortization of goodwill	2,363	390	13	—	2,767	—	2,767	—	2,767
Increase in fixed assets and intangible assets	5,901	9,918	1,485	1,224	18,529	7,385	25,915	3,647	29,563

Tables show ¥ in millions and US$ in thousands.

	2022								
	Reportable Segments					Others*1	Total	Adjustments*2	Consolidated statements of operations*3
	Integrated Energy	Industrial Gases & Machinery	Materials	Agri-bio & Foods	Subtotal				
Net sales									
Outside customers	¥393,720	¥240,403	¥238,453	¥28,986	¥901,563	¥ 4,697	¥906,261	¥ —	¥906,261
Intersegment	5,403	5,476	2,238	40	13,158	23,417	36,576	(36,576)	—
Total	399,124	245,879	240,691	29,026	914,722	28,115	942,837	(36,576)	906,261
Segment income	¥ 14,434	¥ 16,561	¥ 12,536	¥ 567	¥ 44,099	¥ 1,364	¥ 45,463	¥ (5,428)	¥ 40,035
Segment assets	¥207,096	¥207,475	¥108,258	¥15,777	¥538,607	¥69,207	¥607,814	¥ 48,189	¥656,003
Other items:									
Depreciation and amortization	¥ 6,075	¥ 8,566	¥2,002	¥ 374	¥ 17,019	¥ 5,493	¥ 22,513	¥ 1,702	¥ 24,215
Impairment loss on fixed assets	0	—	—	—	0	—	0	88	89
Amortization of goodwill	2,412	884	—	45	3,342	—	3,342	—	3,342
Increase in fixed assets and intangible assets	13,021	39,259	3,282	3,340	58,903	7,409	66,312	3,955	70,268

	2023								
	Reportable Segments					Others*1	Total	Adjustments*2	Consolidated statements of operations*3
	Integrated Energy	Industrial Gases & Machinery	Materials	Agri-bio & Foods	Subtotal				
Net sales									
Outside customers	$2,948,550	$1,800,366	$1,785,763	$217,074	$6,751,763	$ 35,175	$6,786,946	$ —	$6,786,946
Intersegment	40,462	41,009	16,760	299	98,539	175,368	273,915	(273,915)	—
Total	2,989,021	1,841,376	1,802,523	217,374	6,850,310	210,551	7,060,862	(273,915)	6,786,946
Segment income	$ 108,095	$ 124,024	$ 93,881	$ 4,246	$ 330,255	$ 10,214	$ 340,470	$ (40,650)	$ 299,820
Segment assets	$1,550,932	$1,553,770	$ 810,739	$118,153	$4,033,602	$518,288	$4,551,890	$ 360,885	$4,912,776
Other items:									
Depreciation and amortization	$ 45,495	$ 64,150	$ 14,992	$ 2,800	$ 127,454	$ 41,136	$ 168,598	$ 12,746	$ 181,345
Impairment loss on fixed assets	0	—	—	—	0	—	0	659	666
Amortization of goodwill	18,063	6,620	–	337	25,028	—	25,028	—	25,028
Increase in fixed assets and intangible assets	97,513	294,008	24,578	25,013	441,121	55,485	496,607	29,618	526,233

*1 "Others" is an operating segment not included in reportable segments. "Others" represents businesses in finance, insurance, transportation, information processing, etc.
*2 Adjustments are as follows:
(1) Adjustments for segment income include companywide expenses not allocated to each segment and the elimination of intersegment transactions.
(2) Adjustments for segment assets is mainly assets in cash, deposits and investments in securities of the Company along with general and administrative departments of the Company.
(3) Adjustments for depreciation and amortization are mainly depreciation and amortization for general and administrative departments of the Company.
(4) Adjustments for impairment loss on fixed assets are mainly impairment loss within the general and administrative departments of the Company.
(5) Adjustments for increases in fixed assets and intangible assets are increases in fixed assets and intangible assets for general and administrative departments of the Company.
(6) "Depreciation and amortization" and "Increase in fixed assets and intangible assets" include long-term prepaid expenses and their amortization.
*3 Segment income is adjusted with operating income of the consolidated statements of income.

(Related Information)

1. Information about products and services

Since the segments' products and services are the same as those for the reportable segments, information for products and services is omitted.

Tables show ¥ in millions and US$ in thousands.

2. Information about geographic areas

(1) Net sales

2022

Japan	East Asia	Southeast Asia	Others	Total
¥599,642	¥56,345	¥21,087	¥13,317	¥690,392

2023

Japan	East Asia	Southeast Asia	Others	Total
¥784,181	**¥67,695**	**¥29,207**	**¥25,176**	**¥906,261**

2023

Japan	East Asia	Southeast Asia	Others	Total
$5,872,695	**$506,964**	**$218,729**	**$188,541**	**$6,786,946**

*1 Net sales are classified by country or region based on customer locations.
*2 Main countries and regions outside Japan are grouped as follows:
(1) East Asia .... China, Taiwan, South Korea
(2) Southeast Asia ..... Singapore, Thailand, Malaysia, Indonesia, Vietnam
(3) Others .... United States, Australia

(2) Tangible fixed assets

2022

Japan	East Asia	Southeast Asia	Others	Total
¥162,534	¥6,823	¥6,050	¥10,339	¥185,747

2023

Japan	East Asia	Southeast Asia	Others	Total
¥174,791	**¥8,547**	**¥7,790**	**¥16,312**	**¥207,442**

2023

Japan	East Asia	Southeast Asia	Others	Total
$1,309,001	**$64,008**	**$58,338**	**$122,159**	**$1,553,523**

3. Information about major customers

Since there is no customer to which sales accounted for 10% or more of the net sales on the consolidated statements of income, information by major customer is omitted.

(Information on amortization of goodwill and unamortized balance by reportable segment)

2022

	Reportable Segments					Others*	Corporate assets and elimination	Total
	Integrated Energy	Industrial Gases & Machinery	Materials	Agri-bio & Foods	Subtotal			
Goodwill								
Amortization	¥ 2,363	¥390	¥ 13	¥ —	¥ 2,767	¥ —	¥ —	¥ 2,767
Balance at end of year	11,254	975	—	—	12,229	—	—	12,229

2023

	Reportable Segments					Others*	Corporate assets and elimination	Total
	Integrated Energy	Industrial Gases & Machinery	Materials	Agri-bio & Foods	Subtotal			
Goodwill								
Amortization	**¥ 2,412**	**¥ 884**	**¥ —**	**¥ 45**	**¥ 3,342**	**¥ —**	**¥ —**	**¥ 3,342**
Balance at end of year	**10,644**	**12,939**	**—**	**374**	**23,958**	**—**	**—**	**23,958**

2023

	Reportable Segments					Others*	Corporate assets and elimination	Total
	Integrated Energy	Industrial Gases & Machinery	Materials	Agri-bio & Foods	Subtotal			
Goodwill								
Amortization	**$18,063**	**$ 6,620**	**$ —**	**$ 337**	**$ 25,028**	**$ —**	**$ —**	**$ 25,028**
Balance at end of year	**79,712**	**96,899**	**—**	**2,800**	**179,420**	**—**	**—**	**179,420**

*"Others" is an operating segment not included in reportable segments. "Others" represents business in finance, insurance, transportation, information processing, etc.

(Information on gain on bargain purchase by reportable segment)

There is no significant gain on bargain purchase to report.

Independent Auditor's Report

To the Board of Directors of Iwatani Corporation:

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

Appropriateness of the Company's determination of the accounting period in which revenue was recognized	
The key audit matter	**How the matter was addressed in our audit**
As described in the Notes to consolidated Financial Statements - Note 23. "Segment Information, 3. Information related to sales, operating income (loss), assets and other items by reportable segment," the Group's net sales to external customers by segment amounted to ¥393,720 million for Integrated Energy, ¥240,403 million for Industrial Gases & Machinery, ¥238,453 million for Materials, ¥28,986 million for Agri-bio & Foods, and ¥4,697 million for other businesses. The Company's net sales accounted for a significant portion of each of these sales amounts. Under the core principles of the Revenue Recognition Standards, entities shall recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the	The primary procedures we performed to assess whether revenue was recognized in the appropriate accounting period included the following: (1) Internal control testing We tested the design and operating effectiveness of certain of the Company's internal controls relevant to the process of recognizing revenue. In this assessment, we focused our testing on controls used to ensure that revenue is recognized for each transaction based on supporting documents evidencing that a performance obligation was satisfied. (2) Assessment of whether revenue was recognized in the appropriate accounting period

consideration to which the entities expect to be entitled in exchange for those goods or services. As described in Note 2. “Summary of Major Accounting Policies, (13) Accounting policy for recognition of significant revenues and expenses,” the Company recognizes revenue from the sale of products and goods at the time of delivery as the performance obligations are deemed to be satisfied upon delivery. However, for sales of products and goods in Japan, the Group recognizes revenue at the time of shipment when control is transferred to the customer within a normal period of time. In this regard, there is a potential risk that revenue from sales may be recognized at a time when performance obligations are not yet satisfied for the following reasons: ● The Company sells a wide variety of goods to a number of different customers, including domestic consumers, domestic small and medium-sized businesses to large-scale corporations, and overseas enterprises. Accordingly, there are various types of sales contracts; and ● A certain degree of pressure exists to achieve the Medium-term Management Plan, or “PLAN23,” covering the periods through the fiscal year ending March 31, 2024. We, therefore, determined that our assessment of the appropriateness of the Company’s determination of which accounting period revenue was recognized was the most significant matter in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.	In order to assess whether revenue was recognized in the appropriate accounting period, we performed the following procedures among others: ● We selected sales transactions that had a higher risk of exception using various analyses, including a budget vs. actual results analysis and a unit price analysis, and traced selected transactions to the supporting documents evidencing that the performance obligation for the transaction was satisfied; and ● We analyzed sales transactions for any unusual items, such as those recorded before the year-end but subsequently reversed after the year-end.

Other Information

The other information comprises the information included in the disclosure documents that contain or accompany the audited consolidated financial statements, but does not include the consolidated financial statements, and our auditor’s report thereon. Management is responsible for the preparation and presentation of the other information. Corporate auditors and the board of corporate auditors are responsible for overseeing the directors’ performance of their duties with regard to the design, implementation and maintenance of the reporting process for the other information.

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

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

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

We have nothing to report in this regard.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2023 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 4 to the consolidated financial statements.

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

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

Yoshinori Tatsuta
Designated Engagement Partner
Certified Public Accountant

Tatsuo Amekawa
Designated Engagement Partner
Certified Public Accountant

Hiroshi Kubota
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Osaka Office, Japan
July 12, 2023

<u>**Notes to the Reader of Independent Auditor’s Report**</u>**:**
This is a copy of the Independent Auditor’s Report and the original copies are kept separately by the Company and KPMG AZSA LLC.

MEMO

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