Consolidated Balance Sheet

Yokogawa Electric Corporation and Consolidated Subsidiaries
March 31, 2023

	Millions of yen 2023	Millions of yen 2022	Thousands of U.S. dollars (Note 1) 2023
ASSETS			
Current Assets:			
Cash and cash equivalents (Note 10)	¥116,378	¥115,541	$871,551
Receivables (Note 10)			
Accounts receivable	133,654	116,601	1,000,929
Trade notes receivable	10,318	11,572	77,276
Contract assets	65,297	58,155	489,011
Other	3,684	3,392	27,586
Less: Allowance for doubtful accounts	(6,106)	(5,304)	(45,730)
Net receivables	206,847	184,416	1,549,072
Inventories (Notes 6 and 7)	48,407	43,005	362,520
Other	25,628	21,232	191,927
Total current assets	397,261	364,195	2,975,072
Property, Plant, and Equipment (Notes 8 and 9):			
Land	15,570	15,448	116,605
Buildings and structures-net	46,183	46,089	345,867
Machinery, equipment, and vehicles-net	9,354	8,159	70,057
Tools, furniture, and fixtures-net	6,550	6,144	49,059
Construction in progress	1,780	2,961	13,333
Right-of-use assets-net (Note 15)	8,097	8,083	60,640
Lease assets-net (Note 15)	22	57	167
Total property, plant, and equipment	87,559	86,943	655,731
Investments and Other Assets:			
Investment securities (Notes 5, 10, and 16)	51,022	37,990	382,106
Investments in and advances to unconsolidated subsidiaries and affiliated companies (Note 16)	19,763	15,250	148,008
Goodwill (Notes 3, 9, and 23)	14,614	11,993	109,450
Software (Note 9)	14,137	13,997	105,876
Other intangible assets (Notes 9 and 23)	19,782	12,472	148,146
Deferred tax assets (Note 13)	8,921	7,154	66,811
Other	6,433	7,124	48,180
Less: Allowance for doubtful accounts	(859)	(1,154)	(6,438)
Total investments and other assets	133,815	104,829	1,002,141
Total Assets	¥618,637	¥555,968	$4,632,945

See notes to consolidated financial statements.

	Millions of yen 2023	Millions of yen 2022	Thousands of U.S. dollars (Note 1) 2023
LIABILITIES AND EQUITY			
Current Liabilities:			
Short-term loans payable (Notes 10, 16, and 18)	¥460	¥1,562	$3,450
Current portion of long-term debt (Notes 10 and 16)	20,014	13	149,886
Commercial papers (Note 10)	25,000	20,000	187,223
Current portion of lease obligations (Notes 10 and 16)	2,219	2,758	16,618
Payables (Note 10)			
Trade notes and accounts	31,226	26,590	233,852
Electronically recorded obligations-operating	10,098	10,119	75,629
Contract liabilities (Note 22)	45,837	41,124	343,278
Other	18,741	19,046	140,355
Income taxes payable	6,472	5,926	48,471
Accrued expenses	34,340	30,907	257,171
Provision for contract loss (Notes 3, 7, and 19)	7,380	6,499	55,274
Other	11,305	12,643	84,665
Total current liabilities	213,097	177,192	1,595,879
Long-Term Liabilities:			
Long-term debt (Notes 10 and 16)	4,087	24,095	30,613
Lease obligations (Notes 10 and 16)	5,292	5,619	39,638
Liability for retirement benefits (Note 11)	5,081	4,687	38,051
Deferred tax liabilities (Notes 13 and 23)	2,519	2,240	18,865
Other	1,732	1,792	12,976
Total long-term liabilities	18,713	38,435	140,145
Commitments and Contingent Liabilities (Notes 15, 17, and 18)			
Equity (Notes 12 and 24):			
Common stock, authorized, 600,000,000 shares; issued, 268,624,510 shares in 2023 and 2022	43,401	43,401	325,028
Capital surplus	54,392	54,392	407,340
Retained earnings (Note 23)	251,277	221,431	1,881,803
Treasury stock, 1,695,433 shares in 2023 and 1,694,095 shares in 2022	(1,410)	(1,407)	(10,561)
Accumulated other comprehensive income			
Net unrealized gain on available-for-sale securities	19,106	11,592	143,084
Deferred loss on derivatives under hedge accounting	(98)		(738)
Foreign currency translation adjustments	13,812	5,137	103,442
Defined retirement benefit plans	(854)	(976)	(6,401)
Total	31,965	15,753	239,387
Noncontrolling interests	7,200	6,769	53,921
Total equity	386,825	340,340	2,896,919
Total Liabilities and Equity	¥618,637	¥555,968	$4,632,945

Consolidated Statement of Income

Yokogawa Electric Corporation and Consolidated Subsidiaries
Year Ended March 31, 2023

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Net Sales (Note 22)	¥456,479	¥389,901	$3,418,554
Cost of Sales (Notes 14 and 19)	252,019	217,091	1,887,363
Gross profit	204,459	172,810	1,531,191
Selling, General, and Administrative Expenses (Notes 14 and 19)	160,050	142,142	1,198,612
Operating income (Note 23)	44,409	30,668	332,578
Other Income (Expenses):			
Interest and dividend income	3,029	2,391	22,689
Interest expense	(1,423)	(928)	(10,664)
Loss on valuation of investment securities (Note 5)		(1,758)	
Net gain on sales of investment securities and investment in affiliated companies (Note 5)	834	58	6,250
Foreign exchange (loss) gain-net	(1,009)	1,346	(7,563)
Net gain (loss) on sales and disposal of property, plant, and equipment (Note 19)	88	(339)	663
Loss on impairment of long-lived assets (Note 9)	(558)	(1,410)	(4,181)
Equity in earnings of affiliates	3,374	3,128	25,270
Gain on step acquisition	1,066		7,989
Net loss on sale of investment in affiliates		(139)	
Business structure improvement expense (Note 19)	(240)	(2,058)	(1,803)
Provision for allowance for doubtful accounts	(21)	(294)	(163)
Other-net	251	(572)	1,880
Other expenses-net	5,390	(576)	40,368
Income before Income Taxes (Note 23)	49,799	30,092	372,946
Income Taxes (Note 13):			
Current	11,662	8,165	87,338
Deferred	(3,799)	(1,732)	(28,451)
Total income taxes	7,863	6,432	58,886
Net income	41,936	23,659	314,059
Net income attributable to noncontrolling interests	3,015	2,392	22,584
Net income attributable to owners of the parent	¥38,920	¥21,267	$291,474

	Yen		U.S. dollars (Note 1)
Per Share of Common Stock (Note 21):			
Basic net income	¥145.81	¥79.67	$1.09
Cash dividends applicable to the year	34.00	34.00	0.25

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Yokogawa Electric Corporation and Consolidated Subsidiaries
Year Ended March 31, 2023

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Net Income	¥41,936	¥23,659	$314,059
Other Comprehensive Income (Note 20):			
Net unrealized gain on available-for-sale securities	7,529	221	56,388
Deferred loss on derivatives under hedge accounting	(98)		(738)
Foreign currency translation adjustments	8,826	12,971	66,101
Defined retirement benefit plans	57	81	429
Share of other comprehensive income in affiliates	63	356	477
Total other comprehensive income	16,378	13,630	122,658
Comprehensive Income	¥58,314	¥37,290	$436,718
Total Comprehensive Income Attributable to:			
Owners of the parent	¥55,131	¥34,327	$412,879
Noncontrolling interests	3,183	2,963	23,838

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Yokogawa Electric Corporation and Consolidated Subsidiaries
Year Ended March 31, 2023

		Millions of yen										
						Accumulated other comprehensive income						
	Outstanding number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized gain on available-for-sale securities	Deferred loss on derivatives under hedge accounting	Foreign currency translation adjustments	Defined retirement benefit plans	Total	Non controlling interests	Total equity
Balance, April 1, 2021	266,931,916	¥43,401	¥54,392	¥209,240	¥(1,404)	¥11,351		¥(7,568)	¥(1,088)	¥2,694	¥6,447	¥314,770
Net income attributable to owners of the parent				21,267								21,267
Cash dividends, ¥34 per share				(9,075)								(9,075)
Purchase of treasury stock	(1,580)				(3)							(3)
Disposal of treasury stock	79		0		0							0
Net change in the year						241		12,706	111	13,059	321	13,381
Balance, March 31, 2022	266,930,415	¥43,401	¥54,392	¥221,431	¥(1,407)	¥11,592		¥5,137	¥(976)	¥15,753	¥6,769	¥340,340
Net income attributable to owners of the parent				38,920								38,920
Cash dividends, ¥34 per share				(9,075)								(9,075)
Purchase of treasury stock	(1,338)				(2)							(2)
Net change in the year						7,513	¥(98)	8,674	122	16,211	431	16,642
Balance, March 31, 2023	266,929,077	¥43,401	¥54,392	¥251,277	¥(1,410)	¥19,106	¥(98)	¥13,812	¥(854)	¥31,965	¥7,200	¥386,825

	Thousands of U.S. dollars (Note 1)										
					Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized gain on available-for-sale securities	Deferred loss on derivatives under hedge accounting	Foreign currency translation adjustments	Defined retirement benefit plans	Total	Non controlling interests	Total equity
Balance, April 1, 2022	$325,028	$407,340	$1,658,292	$(10,539)	$86,817		$38,476	$(7,316)	$117,977	$50,693	$2,548,793
Net income attributable to owners of the parent			291,474								291,474
Cash dividends, $0.25 per share			(67,964)								(67,964)
Purchase of treasury stock				(22)							(22)
Net change in the year					56,266	$(738)	64,966	915	121,409	3,228	124,638
Balance, March 31, 2023	$325,028	$407,340	$1,881,803	$(10,561)	$143,084	$(738)	$103,442	$(6,401)	$239,387	$53,921	$2,896,919

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Yokogawa Electric Corporation and Consolidated Subsidiaries
Year Ended March 31, 2023

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Operating Activities:			
Income before income taxes	¥49,799	¥30,092	$372,946
Adjustments for:			
Income taxes paid	(11,080)	(8,528)	(82,977)
Depreciation and amortization	18,037	16,935	135,079
Goodwill amortization	1,659	1,020	12,424
Equity in earnings of affiliates	(3,374)	(3,128)	(25,270)
Net (gain) loss on sales and disposal of property, plant, and equipment	(88)	339	(663)
Loss on valuation of investment securities		1,758	
Gain on sales of investment securities and investment in affiliated companies	(834)	(58)	(6,250)
Gain on step acquisition	(1,066)		(7,989)
Loss on impairment of long-lived assets	558	1,410	4,181
Changes in assets and liabilities:			
(Increase) decrease in trade notes and accounts receivable	(13,692)	13,684	(102,542)
Increase in inventories	(5,415)	(4,906)	(40,558)
Increase in trade notes and accounts payable	3,421	858	25,624
Increase in other payables	587	714	4,403
Increase in allowance for doubtful accounts	128	185	965
Increase (decrease) in liability for retirement benefits	49	(64)	367
Decrease in provision for loss from program errors	(272)	(259)	(2,041)
Other assets and liabilities	2,216	(49)	16,601
Other-net	(211)	1,639	(1,580)
Total adjustments	(9,377)	21,551	(70,226)
Net cash provided by operating activities	40,422	51,644	302,720
Investing Activities:			
Purchases of property, plant, and equipment	(8,637)	(8,281)	(64,684)
Proceeds from sale of property, plant, and equipment	79	140	593
Acquisitions of intangible assets	(12,205)	(9,838)	(91,403)
Proceeds from sale of investment securities	1,087	807	8,144
Purchases of investment securities	(2,540)	(1,310)	(19,029)
Proceeds from business divestiture	428		3,211
Purchases of investments in subsidiaries with changes in consolidation scope	(6,744)	(9,330)	(50,507)
Purchases of investments in affiliates	(2,021)	(438)	(15,142)
Other-net	(2,385)	(76)	(17,863)
Net cash used in investing activities	(32,939)	(28,327)	(246,681)
Forward	¥7,482	¥23,316	$56,038

(Continued)

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2 Value Creation Process
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Consolidated Statement of Cash Flows

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Forward	¥7,482	¥23,316	$56,038
Financing Activities:			
Net decrease in short-term loans payable	(1,144)	(1,388)	(8,569)
Net increase in commercial papers	5,000		37,444
Proceeds from long-term debt		4,000	
Repayments of long-term debt		(4,080)	
Repayments of lease obligations	(3,432)	(3,116)	(25,704)
Cash dividends paid	(9,078)	(9,072)	(67,987)
Cash dividends paid to noncontrolling shareholders	(2,274)	(2,261)	(17,036)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation		(242)	
Other-net	(2)	(3)	(22)
Net cash used in financing activities	(10,932)	(16,165)	(81,875)
Foreign Currency Translation Adjustments on Cash and Cash Equivalents	4,286	7,186	32,101
Net Increase in Cash and Cash Equivalents	836	14,337	6,263
Cash and Cash Equivalents, Beginning of Year	115,541	101,204	865,287
Cash and Cash Equivalents, End of Year	¥116,378	¥115,541	$871,551

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Yokogawa Electric Corporation and Consolidated Subsidiaries
Year Ended March 31, 2023

1. Basis of Presentation of the Consolidated Financial Statements

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

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued in Japan in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2022 consolidated financial statements to conform to the classifications used in 2023.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Yokogawa Electric Corporation (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥133.53 to $1, the approximate rate of exchange at March 31, 2023. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

Japanese yen figures less than a million yen and U.S. dollar figures less than a thousand dollars are rounded down to the nearest million yen and thousand dollars, except for per share data. As a result, totals in millions of yen and thousands of U.S. dollars may not add up exactly.

2. Summary of Significant Accounting Policies

- **a. Consolidation** —The consolidated financial statements as of March 31, 2023 include the accounts of the Company and its 123 (116 in 2022) significant subsidiaries (together, the "Group"). Changes include i) purchases of Dublix Technology ApS and Yokogawa Votiva Solutions Pte. Ltd. (formerly Votiva Singapore Pte. Ltd.) and its five subsidiaries; ii) establishment of Yokogawa Digital Corporation and another subsidiary; iii) additional purchase of Yokogawa Fluence Analytics, Inc. (formerly, Fluence Analytics Inc.) accounted for by the equity method; and iv) liquidation of three subsidiaries.

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in one (one in 2022) unconsolidated subsidiary and four (four in 2022) affiliated companies are accounted for by the equity method. Changes include i) purchase of SynCrest Inc. and ii) exclusion due to additional purchase of Yokogawa Fluence Analytics, Inc., (formerly Fluence Analytics Inc.)

The excess of the cost of acquisition over the fair value of the net assets of the acquired subsidiary at the date of acquisition is being amortized on a straight-line basis over a period of up to 20 years. However, any insignificant amount of goodwill is amortized in full upon its recognition.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is also eliminated.

- **b. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements**—Under Accounting Standards Board of Japan (ASBJ) Practical Issues Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements," the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or accounting principles generally accepted in the United States of America (Financial Accounting Standards Board Accounting Standards Codification—FASB ASC) tentatively may be used for the consolidation process, except for the following items which should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material: (1) amortization of goodwill; (2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in equity through other comprehensive income; (3) expensing capitalized development costs of research and development; (4) cancellation of the fair value model of accounting for property, plant, and equipment and investment properties and incorporation of the cost model of accounting; and (5) recording a gain or loss through profit or loss on the sale of an investment in an equity instrument for the difference between the acquisition cost and selling price, and recording impairment loss through profit or loss for other-than-temporary declines in the fair value of an investment in an equity instrument, where a foreign subsidiary elects to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument.

c. Business Combinations—Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees are accounted for as expenses in the periods in which the costs are incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date. The acquirer recognizes any bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation. A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as capital surplus as long as the parent retains control over its subsidiary.

d. Cash Equivalents—Cash equivalents are short-term investments that are readily convertible into cash and exposed to insignificant risk of changes in value. Specifically, cash equivalents represent time deposits that mature within three months of the date of placement.

e. Inventories—Inventories are stated at the lower of cost or the net selling value. Cost is mainly determined by the specific identification method for finished goods and work in process, and by the average method for merchandise, raw materials, and supplies.

f. Investment Securities— Investment securities comprised available-for-sale securities. Except for equity securities without market price, available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported under accumulated other comprehensive income in a separate component of equity. Costs of securities sold are calculated primarily by the moving-average method.

Equity securities without market price are stated at cost determined by the moving-average method. For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

g. Property, Plant, and Equipment— Property, plant, and equipment are stated at cost, less accumulated depreciation and any impairment loss. Depreciation of property, plant, and equipment is mainly calculated by the straight-line method over their estimated useful lives.

The estimated useful lives range principally from three to 50 years for buildings, and from four to 10 years for machinery and equipment. The estimated useful lives for leased assets are the terms of the respective leases.

h. Intangible Assets— Intangible assets consist mainly of software, technology assets, customer-related intangible assets, and goodwill. Amortization of intangible assets is mainly calculated by the straight-line method over their estimated useful lives. The estimated useful lives range principally from five to 10 years for software for internal use and are amortized using the straight-line method over periods of future revenue to be generated (mainly 18 years) for customer-related intangible assets and technology assets.

i. Leases— Finance lease transactions are capitalized by recognizing lease assets and lease obligations in the consolidated balance sheet.

Depreciation of leased assets is calculated by the straight-line method over their lease periods. The residual value of leased assets with residual value guarantee clause is the guaranteed amount and zero for leased assets without such clause.

Depreciation of right-of-use assets is calculated by the straight-line method over shorter of their lease periods or their estimated useful lives.

j. Long-lived Assets— The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss is measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

k. Allowance for Doubtful Accounts— The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Group's past credit loss experience and an evaluation of potential losses in the receivables outstanding.

l. Provision for Contract Loss—When it is probable that the total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for a loss on such construction contracts.

m. Retirement and Pension Plans—The Company and most of its consolidated subsidiaries have defined contribution plans, and some other consolidated subsidiaries have defined benefit plans for employees. Certain overseas subsidiaries account for their pension plans in conformity with the accounting principles generally accepted in the United States of America ("US GAAP") or IFRS.

The main method used to attribute expected benefits to each period is the benefit formula basis.

Actuarial gains or losses are amortized on a straight-line basis over a period within the average remaining years of service of the employees from the following year in which they arise.

Prior service cost is amortized on a straight-line basis over a period within the average remaining years of service.

n. Research and Development Costs—Research and development costs are charged to income as incurred.

o. Bonuses to Directors—Bonuses to directors are accrued at the end of the year to which such bonuses are attributable.

p. Revenue Recognition—The Group applied ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition" and ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition" from the beginning of the year ended March 31, 2021, as they become effective for the annual periods beginning on or after April 1, 2018. As a result, the Group recognizes revenue at the time of the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services based on the following five steps.

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Regarding Step 4 above, the Group utilizes cost plus a margin approach in determining stand-alone selling prices and allocates transaction prices to performance obligations.

(1) Sales of Products

With regard to sales of products, such as field instruments and others which are placed at production sites, performance obligations are determined based on each product, and contract prices are used as a basis for transaction prices if one contract contains multiple products. Revenues are recognized at the time of delivery as the customers obtain control of the assets at the time of delivery and performance obligations are deemed to be satisfied at the same time. Revenues are recognized at the time of shipment if contracts satisfy requirements of Paragraph 98 of the guidance. Considerations for performance obligations are received approximately within one year after the performance obligations are satisfied.

(2) Construction Contracts

Transactions in the forms of construction contracts, including engineering, involve the creation of assets, which cannot be directed to another customer or assets with no alternative use and accompany rights to payments for the completed work. Percentage of progress regarding satisfaction of performance obligations for construction contracts is estimated and revenues are recognized based on the estimated percentage over certain period of time. The percentage of progress is determined based on a ratio of actual costs incurred against the estimated total costs to satisfy the performance obligation. Net sales recorded using this method was ¥200,146 million (U.S.$1,498,888 thousand) for the year ended March 31, 2023. If order amounts or total construction costs to satisfy the performance obligation cannot be reliably estimated, a portion of actual costs incurred of which collection is probable is recognized as revenue. Considerations for performance obligations are generally received as the performance obligations are satisfied in accordance with contract milestones. Transactions arising from maintenance services are recognized over the contract periods.

q. Income Taxes—The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

The Company and certain domestic subsidiaries file their tax returns under the group tax sharing system from the fiscal year ended March 31, 2023, which allows these companies to base tax payments on the combined profits or losses of the parent company and its wholly owned subsidiaries in Japan.

With regard to differences under the group tax sharing system established by "Act on Partial Revision of the Income Tax Act (Act No. 8, 2020)" and differences under the single tax return filing system reexamined together with transition to the group tax sharing system, the Company and certain domestic subsidiaries calculated the amounts of deferred tax assets and deferred tax liabilities based on the Income Tax Act before the revision for the fiscal year ended March 31, 2022, not applying Paragraph 44 of ASBJ Guidance No. 28, "Implementation Guidance on Tax Effect Accounting," issued on February 16, 2018, as permitted by Paragraph 3 of the PITF No. 39 "Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System," issued on March 31, 2020.

● **r. Foreign Currency Transactions**—Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Japanese yen at the exchange rate as of that date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income.

● **s. Foreign Currency Financial Statements**—The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the prevailing exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income and noncontrolling interests in a separate component of equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

● **t. Fair Value Measurement**—From the beginning of the year ended March 31, 2022, the Group adopted ASBJ Statement No. 30, "Accounting Standard for Fair Value Measurement," issued on July 4, 2019, and other related standards and guidance. The new accounting policies as stipulated in these standards and guidance are applied prospectively in accordance with the transitional treatment as stipulated in Paragraph 19 of the "Accounting Standard for Fair Value Measurement" and Paragraph 44-2 of the ASBJ Statement No. 10, "Accounting Standard for Financial Instruments," issued on July 4, 2019. The effects of applying these standards and guidance on consolidated financial statements were immaterial. From the beginning of the year ended March 31, 2023, the Group adopted ASBJ Guidance No. 31, "Implementation Guidance on Accounting Standard for Fair Value Measurement," revised on June 17, 2021. The new accounting policies applied prospectively in accordance with the transitional treatment as stipulated in Paragraph 27-2 of the "Implementation Guidance on Accounting Standard for Fair Value Measurement." The effects of applying this guidance on consolidated financial statements were immaterial.

● **u. Derivatives and Hedging Activities**—The Company and certain consolidated subsidiaries use a variety of derivative financial instruments, including foreign currency forward contracts, currency options, and interest rate swaps, as a means of hedging foreign currency and interest rate risks. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: a) all derivatives other than those which qualify for hedge accounting are measured at fair value, and gains or losses are recognized in the consolidated statement of income; and b) for derivatives used for hedging purposes, if the derivatives qualify for hedge accounting because of high correlation between the hedging instruments and the hedged items, gains or losses are deferred until maturity of the hedged transactions. These amounts are shown as "deferred gain on derivative under hedge accounting" under accumulated other comprehensive income in a separate component of equity.

Foreign currency forward contracts are utilized to hedge the foreign currency risk of trade receivables denominated in foreign currencies. If the forward contracts qualify for hedge accounting, these trade receivables are translated at the contracted rates. Interest rate swaps are utilized to hedge the interest rate risk of long-term debt. Those interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income.

If the hedging relationships qualify for the application of ASBJ PITF No. 40 "Practical Solution on the Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR," the special treatment as prescribed in the PITF No. 40 is applied to those hedging relationships. The hedging relationships to which the PITF No. 40 is applied are the interest rate swaps that meet specific matching criteria.

● **v. Per Share Information**—Basic net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

● **w. New Accounting Pronouncements**—ASBJ Statement No. 27, "Accounting Standard for Current Income Taxes," ASBJ Statement No. 25, "Accounting Standard for Presentation of Comprehensive Income" and ASBJ Guidance No. 28, "Guidance on Accounting Standard for Tax Effect Accounting" were revised on October 28, 2022. ASBJ issued ASBJ Statement No. 28 "Partial Amendments to Accounting Standard for Tax Effect Accounting" and related guidance ("Statement No. 28, etc.") in February 2018 and transfer of the practical guidance on tax effect accounting issued by Japanese Institute of Certified Public Accountants to ASBJ has been completed. ASBJ issued the results of the deliberations for the following two issues which have been identified during the process of initial deliberation for further examination after the issuance of Statement No. 28, etc.

—Presentation of income tax expenses (income taxes on items of other comprehensive income)

—Tax effects on sales of shares of subsidiaries and other companies (shares of subsidiaries and affiliates) when the group tax sharing system has been applied

The standards and guidance will be applied from the beginning of the fiscal year ending March 31, 2025.

The Group is currently in the process of determining the effects of applying the standards and guidance on the consolidated financial statements.

3. Significant Accounting Estimates

Provision for contract loss

(1) Carrying amounts

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Provision for contract loss	¥7,380	¥6,499	$55,274

(2) Information on the significant accounting estimate

Provision for contract loss is provided when it is probable that the total construction costs will exceed total construction revenue and if the outcome of a construction contract can be estimated reliably. The amount of provision for contract loss is calculated as the excess amount (contract loss) deducted by profit or loss already recognized for the construction contract. Variation in the estimated amount of contract loss due to profitability, production, and quality issues that may arise in future may have a material impact on the future consolidated financial statements.

Goodwill

(1) Carrying amounts

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Goodwill	¥14,614	¥11,993	$109,450

(2) Information on the significant accounting estimate

Goodwill is recognized if acquisition costs exceeded the amount allocated for all of the assets acquired and all of the liabilities assumed. The Group annually determines whether impairment indicators exist for its goodwill based on changes in business environment and deteriorated business results. Whenever the circumstance indicates the carrying amount of goodwill may not be recoverable, undiscounted future cash flows are estimated based on business plans. An impairment loss is recognized if the carrying amount of goodwill exceeds the sum of the undiscounted future cash flows and the carrying amount of the goodwill is reduced to its recoverable amount. Any changes in assumptions including growth rates and discount rates used in estimation of future cash flows may have a material impact on the future consolidated financial statements.

Impairment losses of ¥261 million (U.S.$1,959 thousand) related to Yokogawa RAP Limited and ¥1,084 million related to Grazper Technologies ApS have been recognized for the years ended March 31, 2023 and 2022, respectively.

4. Additional Information

The Company is continuously reducing its business in Russia considering the prolonged conflict between Russia and Ukraine and it is expected that the situation will continue for some time. Allowance for doubtful accounts has been recorded by reflecting the effects of this situation.

5. Investment Securities

Investment securities as of March 31, 2023 and 2022, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Noncurrent:			
Equity securities	¥51,022	¥37,990	$382,106

The cost and aggregate fair values of investment securities at March 31, 2023 and 2022, were as follows:

	Millions of yen			
March 31, 2023	Cost	Unrealized gain	Unrealized loss	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥6,202	¥26,736	¥(118)	¥32,819

March 31, 2022				
Securities classified as:				
Available-for-sale:				
Equity securities	¥5,883	¥15,968		¥21,851

	Thousands of U.S. dollars			
March 31, 2023	Cost	Unrealized gain	Unrealized loss	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	$46,447	$200,227	$(888)	$245,786

The information for available-for-sale securities sold during the years ended March 31, 2023 and 2022, was as follows:

	Millions of yen		
2023	Proceeds	Realized gain	Realized loss
Available-for-sale:			
Equity securities	¥1,087	¥834	

	Millions of yen		
2022	Proceeds	Realized gain	Realized loss
Available-for-sale:			
Equity securities	¥893	¥58	

	Thousands of U.S. dollars		
2023	Proceeds	Realized gain	Realized loss
Available-for-sale:			
Equity securities	$8,144	$6,250	

Impairment losses are recognized for available-for-sale securities except for equity securities without market price if declines in fair value are 50% or more. If declines in fair value are 30% to 50%, impairment losses may be recognized for amount deemed to be irrecoverable considering the declines are other than temporary. Impairment losses for equity securities without market price may be recognized for amounts deemed to be irrecoverable if declines in fair value are 50% or more considering the declines are other than temporary.

Loss on valuation of investment securities for the years ended March 31, 2023 and 2022, was nil and ¥1,758 million, respectively.

6. Inventories

Inventories at March 31, 2023 and 2022 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Merchandise and finished goods	¥18,467	¥16,662	$138,304
Work in process	4,932	4,584	36,940
Raw materials and supplies	25,006	21,758	187,275
Total	¥48,407	¥43,005	$362,520

7. Expected Loss on Construction Contracts

The Group recognizes an expected loss on construction contracts when it is probable that total contract costs will exceed total contract revenue. The inventory and the expected loss on construction contracts are not offset, but are separately presented in the consolidated balance sheet.

The balance of inventories relating to the expected loss on construction contracts for the years ended March 31, 2023 and 2022, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Merchandise and finished goods	¥518	¥255	$3,884
Work in process	46	148	345
Total	¥564	¥403	$4,230

8. Property, Plant, and Equipment

Accumulated depreciation on property, plant, and equipment as of March 31, 2023 and 2022, was ¥150,406 million (U.S.$1,126,390 thousand) and ¥148,739 million, respectively.

9. Long-lived Assets

The Group reviewed its long-lived assets for impairment as of and for the years ended March 31, 2023 and 2022. As a result, impairment losses of ¥558 million (U.S.$4,181 thousand) and ¥1,410 million were recognized for the years ended March 31, 2023 and 2022, respectively.

The main components of loss on impairment of long-lived assets for the year ended March 31, 2023, were as follows:

			Millions of yen	Thousands of U.S. dollars
Location	Use	Category	Impairment loss	
United Kingdom	Business assets	Goodwill	¥261	$1,959
Norway	Business assets	Other intangible assets	296	2,222
		Total	¥558	$4,181

The Group's business assets are grouped in accordance with management accounting classification.

The carrying amount of business assets (goodwill) arising at the time of acquisition of shares of the UK-based subsidiary, Yokogawa RAP Limited, has been reduced to their respective recoverable amounts as the business results of Yokogawa RAP Limited are expected to fall below initially forecasted business plans in line with changes made to the company's positioning with respect to business expansion. The differences between the carrying amounts and recoverable amounts have been recorded as impairment losses.

Business assets are measured at their recoverable amounts, which are value in use that is calculated by discounting future cash flows at 10%.

The book value of business assets (other intangible assets) arising at the time of acquisition of shares of the Norway-based subsidiary, Yokogawa TechInvent AS, has been reduced to their respective recoverable amounts as the business results of Yokogawa TechInvent AS fell below initially forecasted business plans due to changes in its business environment surrounding the company. The differences between the book values and recoverable amounts have been recorded as impairment losses.

Business assets are measured at their recoverable amounts, which are value in use that is calculated by discounting future cash flows at 10%.

The main components of loss on impairment of long-lived assets for the year ended March 31, 2022, were as follows:

			Millions of yen
Location	Use	Category	Impairment loss
Denmark	Business assets	Goodwill	¥1,084
Japan	Business assets	Buildings and structures	7
		Machinery, equipment, and vehicles	8
		Tools, furniture, and fixtures	50
		Software	68
United States	Idle asset	Right-of-use assets	191
		Total	¥1,410

The Group's business assets are grouped in accordance with management accounting classification. Idle assets are valued on the basis of individual assets.

The book value of business assets (goodwill) arising at the time of acquisition of shares of the Denmark-based subsidiary, Grazper Technologies ApS, has been reduced to the respective recoverable amount as the business results of Grazper Technologies ApS fell below initially forecasted business plans due to changes in its business environment. The differences between the book values and recoverable amounts have been recorded as impairment losses.

Business assets are measured at their recoverable amounts, which are value in use that is calculated by discounting future cash flows at 10%.

The book value of the idle assets was reduced to recoverable amounts (net selling price at disposition) as the future use of the assets was no longer planned. The differences between the book value and the recoverable amounts have been recorded as impairment losses.

10. Short-term Loans, Commercial Papers, Lease Obligations, and Long-term Debt

Short-term bank loans at March 31, 2023 and 2022, included bank overdrafts. The annual average interest rates on the short-term bank loans were 3.612% and 3.088% for the years ended March 31, 2023 and 2022, respectively.

The annual average interest rates on commercial papers were 0.003% and (0.007)% for the years ended March 31, 2023 and 2022, respectively.

Long-term debt as of March 31, 2023 and 2022, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Loans from banks and other financial institutions	¥24,102	¥24,109	$180,500
Lease obligations	7,512	8,378	56,257
Total	31,614	32,487	236,757
Less: Current portion	22,233	2,772	166,505
Long-term debt, less current portion	¥9,380	¥29,715	$70,251

Annual maturities of long-term loans from banks and other financial institutions at March 31, 2023, were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2024	¥20,014	$149,886
2025	87	657
2026	Nil	Nil
2027	4,000	29,955
2028 and thereafter	Nil	Nil
Total	¥24,102	$180,500

The annual average interest rates on long-term loans (excluding current portion) from banks were 0.434% and 0.340% for the years ended March 31, 2023 and 2022, respectively.

Annual maturities of leases obligations at March 31, 2023, were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2024	¥2,219	$16,618
2025	2,159	16,175
2026	1,074	8,046
2027	541	4,056
2028 and thereafter	1,516	11,359
Total	¥7,512	$56,257

The annual average interest rates on lease obligations (excluding current portion) were 3.233% and 3.249% for the years ended March 31, 2023 and 2022, respectively.

Collateral and secured debt at March 31, 2023 and 2022, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Collateral:			
Deposits	¥12	¥12	$93
Investment securities	4	4	34
Assets in consolidated subsidiaries outside Japan*	10,829	10,602	81,104
Total	¥10,847	¥10,619	$81,233

*"Assets in consolidated subsidiaries outside Japan" represents the aggregate amount of accounts receivable and other assets of such subsidiaries.

	Millions of yen 2023	2022	Thousands of U.S. dollars 2023
Secured debt:			
Trade notes and accounts payable	¥25	¥19	$188

The Group's interest-bearing debt includes financial covenants which require the Company to maintain certain levels of equity and income on a consolidated basis. The balance of such debt as of March 31, 2023 and 2022, was ¥20,000 million (U.S.$ 149,779 thousand) and ¥20,000 million, respectively.

11. Retirement and Pension Plans

The Company and most of its consolidated subsidiaries have defined contribution plans, while some other subsidiaries have defined benefit plans. In certain circumstances, additional payments are made upon the retirement of employees.

The simplified method is used to calculate defined benefit obligation for certain consolidated subsidiaries.

(a) The changes in defined benefit obligation for the years ended March 31, 2023 and 2022, were as follows:

	Millions of yen 2023	2022	Thousands of U.S. dollars 2023
Balance at beginning of year	¥12,492	¥12,784	$93,552
Current service cost	780	544	5,843
Interest cost	287	231	2,156
Recognized prior service cost	(24)	(32)	(184)
Actuarial gain	(818)	(504)	(6,132)
Benefits paid	(885)	(712)	(6,632)
Others	886	180	6,637
Balance at end of year	¥12,717	¥12,492	$95,241

(b) The changes in plan assets for the years ended March 31, 2023 and 2022, were as follows:

	Millions of yen 2023	2022	Thousands of U.S. dollars 2023
Balance at beginning of year	¥8,238	¥8,664	$61,698
Expected return on plan assets	432	328	3,241
Actuarial loss	(855)	(448)	(6,406)
Contributions from the employer	468	380	3,511
Benefits paid	(784)	(589)	(5,875)
Others	539	(97)	4,037
Balance at end of year	¥8,039	¥8,238	$60,206

(c) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets as of March 31, 2023 and 2022, was as follows:

	Millions of yen 2023	2022	Thousands of U.S. dollars 2023
Funded defined benefit obligation	¥12,717	¥12,492	$95,241
Plan assets	(8,039)	(8,238)	(60,206)
Total	4,678	4,253	35,034
Net liability for defined benefit obligation	¥4,678	¥4,253	$35,034

	Millions of yen 2023	2022	Thousands of U.S. dollars 2023
Liability for retirement benefits	¥5,081	¥4,687	$38,051
Asset for retirement benefits	(402)	(434)	(3,017)
Net liability for defined benefit obligation	¥4,678	¥4,253	$35,034

(d) The components of net periodic benefit costs for the years ended March 31, 2023 and 2022, were as follows:

	Millions of yen 2023	2022	Thousands of U.S. dollars 2023
Service cost	¥780	¥544	$5,843
Interest cost	287	231	2,156
Expected return on plan assets	(432)	(328)	(3,241)
Amortization of actuarial loss	121	74	909
Amortization of prior service cost	(24)	(32)	(184)
Others	270	175	2,022
Net periodic benefit costs	¥1,002	¥664	$7,506

(e) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2023 and 2022, were as follows:

	Millions of yen 2023	2022	Thousands of U.S. dollars 2023
Actuarial gain	¥84	¥130	$635

(f) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2023 and 2022, were as follows:

	Millions of yen 2023	2022	Thousands of U.S. dollars 2023
Unrecognized actuarial loss	¥(1,163)	¥(1,248)	$(8,712)

(g) Plan assets as of March 31, 2023 and 2022, were as follows:

(1) Components of plan assets

Plan assets:

	2023	2022
Equity investments	2%	2%
Debt investments	65	68
Cash and cash equivalents	28	25
Others	5	5
Total	100%	100%

(2) Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined based on the expected long-term rates of return for the various plan asset components.

(h) Assumptions used for the years ended March 31, 2023 and 2022, were as follows:

	2023	2022
Discount rate	3.51%	3.63%
Expected rate of return on plan assets	3.81%	3.85%

(i) Payments to defined contribution plans amounted to ¥4,114 million (U.S.$30,809 thousand) and ¥4,886 million for the years ended March 31, 2023 and 2022, respectively.

12. Equity

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon the passing of a resolution at the shareholders' meeting. For companies that meet certain criteria such as; (1) having a board of directors, (2) having independent auditors, (3) having an audit and supervisory board, and (4) prescribing a one-year term of service for directors (rather than the conventional two-year term) in its articles of incorporation, the board of directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation.

Semiannual interim dividends may also be paid once a year upon resolution by the board of directors if the articles of incorporation of the company so stipulates. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases/decreases and transfer of common stock, reserve, and surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the board of directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

13. Income Taxes

The tax effects of significant temporary differences and tax loss carry forwards that resulted in deferred tax assets and liabilities at March 31, 2023 and 2022, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Deferred tax assets:			
Provision for bonuses	¥3,203	¥2,710	$23,994
Write-down of inventories	1,920	1,705	14,384
Unrealized profit of inventories	2,717	2,060	20,354
Impairment loss on investment securities	795	1,342	5,957
Tax losses carryforwards (Note b)	5,808	6,653	43,496
Other	14,453	12,079	108,239
Subtotal	28,899	26,552	216,427
Less: Valuation allowance for tax loss carryforwards (Note b)	(2,397)	(5,834)	(17,951)
Less: Valuation allowance for temporary differences	(7,704)	(8,128)	(57,701)
Total valuation allowance (Note a)	(10,101)	(13,962)	(75,653)
Total	¥18,797	¥12,590	$140,774
Deferred tax liabilities:			
Net realized gain on available-for-sale securities	¥(7,661)	¥(4,451)	$(57,375)
Undistributed earnings of consolidated subsidiaries outside Japan	(2,285)	(780)	(17,118)
Intangible assets recognized on business combination	(197)	(285)	(1,479)
Property, plant, and equipment	(457)	(464)	(3,423)
Other	(1,793)	(1,694)	(13,432)
Total	(12,395)	(7,675)	(92,828)
Net deferred tax assets	¥6,402	¥4,914	$47,945

Notes:

(a) Valuation allowance decreased by ¥3,860 million (U.S.$28,909 thousand). Major reasons are a decrease in valuation allowance for tax loss carryforwards in relation to expiration of tax loss carryforwards due to maturity and a decrease in valuation allowance due to recognition of deferred tax assets.

(b) The expiration of tax loss carryforwards, the related valuation allowances, and the resulting net deferred tax assets as of March 31, 2023 and 2022, were as follows:

	Millions of yen						
	2023						
	One year or less	After one year through two years	After two years through three years	After three years through four years	After four years through five years	After five years	Total
Deferred tax assets relating to tax loss carryforwards*	¥717	¥1,791	¥594	¥271	¥124	¥2,309	¥5,808
Less valuation allowance for tax loss carryforwards	(76)	(264)	(217)	(163)	(29)	(1,645)	(2,397)
Net deferred tax assets relating to tax loss carryforwards	641	1,527	376	108	94	663	3,411

	Millions of yen						
	2022						
	One year or less	After one year through two years	After two years through three years	After three years through four years	After four years through five years	After five years	Total
Deferred tax assets relating to tax loss carryforwards*	¥1,651	¥498	¥1,655	¥463	¥376	¥2,008	¥6,653
Less valuation allowance for tax loss carryforwards	(1,588)	(480)	(1,582)	(452)	(134)	(1,594)	(5,834)
Net deferred tax assets relating to tax loss carryforwards	62	17	72	10	242	414	819

	Thousands of U.S. dollars						
	2023						
	One year or less	After one year through two years	After two years through three years	After three years through four years	After four years through five years	After five years	Total
Deferred tax assets relating to tax loss carryforwards*	$5,374	$13,416	$4,448	$2,034	$929	$17,293	$43,496
Less valuation allowance for tax loss carryforwards	(572)	(1,978)	(1,627)	(1,224)	(223)	(12,324)	(17,951)
Net deferred tax assets relating to tax loss carryforwards	4,801	11,437	2,821	809	706	4,968	25,545

*Deferred tax assets relating to tax loss carryforwards were calculated by applying the normal effective statutory tax rate.

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statement of income for the years ended March 31, 2023 and 2022, was as follows:

	2023	2022
Normal effective statutory tax rate	30.6%	30.6%
Inhabitant taxes per capita	0.3	0.9
Permanent difference		
Expenses not deductible for income tax purposes	1.4	2.6
Foreign withholding taxes	2.4	2.2
Loss on impairment of long-lived assets	0.3	1.1
Changes in valuation allowance	(8.6)	(3.2)
Lower income tax rates applicable to certain consolidated subsidiaries outside Japan	(9.5)	(8.8)
Equity in earnings of affiliates	(2.1)	(3.2)
Other-net	1.0	(0.8)
Actual effective tax rate	15.8%	21.4%

The Company and certain domestic subsidiaries file their tax returns under the group tax sharing system from the fiscal year ended March 31, 2023. The PITF No. 42, "Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System," issued on August 12, 2021, is applied with regard to accounting treatment and disclosures of national and local taxes and tax effect accounting.

14. Research and Development Costs

Research and development costs were ¥30,492 million (U.S.$228,356 thousand) and ¥28,520 million for the years ended March 31, 2023 and 2022, respectively and were included in the cost of sales and selling, general, and administrative expenses in the consolidated statement of income.

15. Leases

The Group leases certain tools, furniture, and fixtures; and other assets.

Right-of-use assets comprised primarily of building and structures.

16. Financial Instruments and Related Disclosures

(1) Information regarding financial instruments

(a) Group policy on financial instruments

In accordance with the Group's capital expenditure program for the industrial automation and control business and the test and measurement business, the Group uses financial instruments such as bank loans to obtain necessary funding. Cash surpluses are invested in low-risk financial assets. Short-term bank loans are used to fund ongoing operations. Derivatives are used to manage exposure to financial risks as described in Note 17 and are not used for speculative purposes.

(b) Nature of the financial instruments and risk management

Receivables such as trade notes and trade accounts, are exposed to customer credit risk. Those securities are mainly issued by the Group's customers and suppliers, and are managed by regularly monitoring market value and the financial position of the issuers.

Investment securities are exposed to the risk of market price fluctuations. The Group reviews its holdings of these securities, whose issuers are mainly its customers and suppliers, by regularly checking their market value and the financial position of the issuers.

Payment terms of payables such as trade notes and trade accounts, are less than one year.

Long-term debt is used for capital expenditures and investments. In order to manage exposure to market risks from fluctuations in interest rates, the Group principally uses fixed-rate contracts; otherwise, interest rate swap contracts are used for variable rate loans.

Lease obligations are used primarily for capital expenditures and are exposed to liquidity risk at the time of settlement. The Group manages the risk by reviewing funding plan monthly by the group companies.

Foreign currency trade receivables and payables are exposed to market risk resulting from fluctuations in foreign currency exchange rates. Such foreign exchange risk is hedged principally by foreign currency forward contracts and range forward options.

Basic policies on derivative transactions are set out in the Group's internal guidelines. The guidelines prescribe a control policy, designate authorized departments, specify the purpose of the transactions, define the basis for selecting financial institutions, and specify the reporting route.

The fair value of financial instruments is based on the quoted price in an active market. If a quoted price is not available, other valid valuation techniques are used instead.

(2) Fair value of financial instruments

The carrying amounts in the consolidated balance sheet, fair value, and unrealized gain (loss) as of March 31, 2023 and 2022, were as detailed below. Equity securities without market price and investments in partnerships are not included.

	Millions of yen		
	2023		
	Carrying amount	Fair value	Difference
Investment securities	¥32,819	¥32,819	
Total	¥32,819	¥32,819	
Long-term debt (*2)	¥24,102	¥24,014	¥(87)
Lease obligations (*3)	7,512	7,298	(213)
Total	¥31,614	¥31,312	¥(301)
Derivatives (*4)	¥(500)	¥(500)	

	Millions of yen		
	2022		
	Carrying amount	Fair value	Difference
Investment securities	¥21,851	¥21,851	
Total	¥21,851	¥21,851	
Long-term debt (*2)	¥24,109	¥24,034	¥(75)
Lease obligations (*3)	8,378	8,358	(19)
Total	¥32,487	¥32,392	¥(95)
Derivatives (*4)	¥(1,435)	¥(1,435)	

	Thousands of U.S. dollars		
	2023		
	Carrying amount	Fair value	Difference
Investment securities	$245,786	$245,786	
Total	$245,786	$245,786	
Long-term debt (*2)	$180,500	$179,843	$(657)
Lease obligations (*3)	56,257	54,654	(1,602)
Total	$236,757	$234,497	$(2,259)
Derivatives (*4)	$(3,747)	$(3,747)	

(*1) Disclosure of cash and cash equivalents, trade notes receivable, accounts receivable, trade notes and accounts payable, electronically recorded obligations-operating, commercial papers, payables-other, income taxes payable is omitted since their carrying amounts approximate their fair values because of their short maturities.
(*2) Long-term debt includes current portion of long-term debt which is presented on the consolidated balance sheet.
(*3) Current portion of lease obligations is included.
(*4) Assets/liabilities arising from derivative transactions are disclosed as the net amount, and the net payable is shown in parentheses.
(*5) Investments in partnerships are not included in the above table in accordance with Paragraph 24-16 of ASBJ Guidance No. 31, "Implementation Guidance on Accounting Standard for Fair Value Measurement," revised on June 17, 2021 (Paragraph 27 of the guidance issued on July 4, 2019 in the year ended March 31, 2022). The carrying amounts of investments in partnerships were ¥295 million (U.S.$2,215 thousand) and ¥198 million as of March 31, 2023 and 2022, respectively.

Notes:
(a) Equity securities without market price as of March 31, 2023 and 2022, are as follows:

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Equity securities without market price	¥37,670	¥31,191	$282,112

Equity securities without market price include unlisted equity securities which are not subject to the fair value disclosure in accordance with Paragraph 5 of ASBJ Guidance No. 19, "Implementation Guidance on Disclosures about Fair Value of Financial Instruments," revised on March 31, 2020.

(b) Maturity analysis for financial assets and securities with contractual maturities as of March 31, 2023, is as follows:

	Millions of yen		Thousands of U.S. dollars	
	2023		2023	
	Due in one year or less	Due after one to five years	Due in one year or less	Due after one to five years
Cash and cash equivalents	¥121,438		$909,447	
Trade notes receivables	10,318		77,276	
Accounts receivable	133,088	¥565	996,696	$4,233
Total	¥264,846	¥565	$1,983,420	$4,233

(c) Fair value measurement of financial instruments and breakdown by level of fair values

Fair values of financial instruments are categorized into following three levels depending on observability and materiality of inputs used for the measurement of fair values.

Level 1: Fair values determined based on unadjusted quoted prices in active markets for identical assets or liabilities.
Level 2: Fair values determined based on inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3: Fair values determined based on unobservable inputs for the asset or liability.

If multiple inputs that have significant impact on the fair value measurement are used, the fair value is categorized in the level of the lowest-level input used in the fair value measurement.

(i) Financial assets and liabilities whose fair values are presented as carrying amounts in the consolidated balance sheets

	Millions of yen			
	2023			
	Fair value			
	Level 1	Level 2	Level 3	Total
Investment securities:				
Equity securities	¥32,603			¥32,603
Total	¥32,603			¥32,603
Derivatives				
Foreign exchange related		¥(122)		¥(122)
Currency related		(377)		(377)
Total		¥(500)		¥(500)

	Millions of yen			
	2022			
	Fair value			
	Level 1	Level 2	Level 3	Total
Investment securities:				
Equity securities	¥21,748			¥21,748
Total	¥21,748			¥21,748
Derivatives				
Foreign exchange related		¥(462)		¥(462)
Currency related		(973)		(973)
Total		¥(1,435)		¥(1,435)

	Thousands of U.S. dollars			
	2023			
	Fair value			
	Level 1	Level 2	Level 3	Total
Investment securities:				
Equity securities	$244,165			$244,165
Total	$244,165			$244,165
Derivatives				
Foreign exchange related		$(919)		$(919)
Currency related		(2,828)		(2,828)
Total		$(3,747)		$(3,747)

Investment trusts are not included in the above table in accordance with Paragraph 24-3 of ASBJ Guidance No. 31, "Implementation Guidance on Accounting Standard for Fair Value Measurement," revised on June 17, 2021 (Paragraph 26 of the guidance issued on July 4, 2019 in the year ended March 31, 2022). The carrying amounts of investment trusts were ¥216 million (U.S.$1,621 thousand) and ¥103 million as of March 31, 2023 and 2022, respectively.

(ii) Financial assets and liabilities whose carrying amounts in the consolidated balance sheets are not based on fair values

	Millions of yen			
	2023			
	Fair value			
	Level 1	Level 2	Level 3	Total
Long-term debt		¥24,014		¥24,014
Lease obligations		7,298		7,298
Total		¥31,312		¥31,312

	Millions of yen			
	2022			
	Fair value			
	Level 1	Level 2	Level 3	Total
Long-term debt		¥24,034		¥24,034
Lease obligations		8,358		8,358
Total		¥32,392		¥32,392

	Thousands of U.S. dollars			
	2023			
	Fair value			
	Level 1	Level 2	Level 3	Total
Long-term debt		$179,843		$179,843
Lease obligations		54,654		54,654
Total		$234,497		$234,497

Explanation on techniques and inputs used for fair value measurement

Investment securities:
The fair values of listed equity shares are determined based on quoted market prices and categorized in Level 1 as they are actively traded on stock exchanges.

Long-term debt and lease obligations:
The fair values of long-term debt and lease obligations are determined by discounting cash flows related to the debt at the Group's assumed corporate borrowing rate and categorized in Level 2.

Derivatives:
The fair values of derivatives are determined by discounting cash flows using observable inputs, including interest rates, foreign exchange rates and others and categorized in Level 2.

17. Derivatives

Derivative transactions are used to manage foreign exchange risk and the risk of market rate fluctuations that occur in the normal course of business. The Group does not use derivatives for speculative purposes or for highly leveraged transactions.

(1) Derivative transactions to which hedge accounting was not applied at March 31, 2023 and 2022, are as follows:

	Millions of yen			
	2023			
	Contract amount			
	Total	Due after one year	Fair value	Unrealized gain (loss)
Forward exchange contracts				
Selling contracts				
U.S. dollar	¥10,244		¥2	¥2
Others	3,979		20	20
Buying contracts				
U.S. dollar	440		(23)	(23)
Currency swaps				
	13,289		(377)	(377)
Total	¥27,953		¥(378)	¥(378)

	Millions of yen			
	2022			
	Contract amount			
	Total	Due after one year	Fair value	Unrealized gain (loss)
Forward exchange contracts				
Selling contracts				
U.S. dollar	¥7,180		¥(332)	¥(332)
Others	3,493		(129)	(129)
Currency swaps				
	15,191		(973)	(973)
Total	¥25,865		¥(1,435)	¥(1,435)

	Thousands of U.S. dollars			
	2023			
	Contract amount			
	Total	Due after one year	Fair value	Unrealized gain (loss)
Forward exchange contracts				
Selling contracts				
U.S. dollar	$76,717		$19	$19
Others	29,798		152	152
Buying contracts				
U.S. dollar	3,300		(179)	(179)
Currency swaps				
	99,526		(2,828)	(2,828)
Total	$209,342		$(2,835)	$(2,835)

Note: The contract amount, fair value and unrealized gain (loss) on the above tables include those for currency and interest rate related derivative transactions that are executed for hedging foreign exchange and other risks associated with receivables and payables between consolidated companies which are eliminated on the consolidated balance sheets.

(2) Derivative transactions to which hedge accounting was applied at March 31, 2023 and 2022, are as follows:

		Millions of yen		
		2023		
		Contract amount		
	Hedged item	Total	Due after one year	Fair value
Forward exchange contracts				
Buying contracts				
U.S. dollar	Payables	¥2,533	¥330	¥(121)
Interest rate swaps				
Pay fixed/receive floating	Long-term debt	¥20,000		Note (b)

		Millions of yen		
		2022		
		Contract amount		
	Hedged item	Total	Due after one year	Fair value
Interest rate swaps				
Pay fixed/receive floating	Long-term debt	¥20,000	¥20,000	Note (b)

		Thousands of U.S. dollars		
		2023		
		Contract amount		
	Hedged item	Total	Due after one year	Fair value
Forward exchange contracts				
Buying contracts				
U.S. dollar	Payables	$18,975	$2,475	$(911)
Interest rate swaps				
Pay fixed/receive floating	Long-term debt	$149,779		Note (b)

Notes:

(a) The above interest rate swaps, which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income.

(b) The fair value of such interest rate swaps is included in that of hedged items disclosed in Note 16.

The contract or notional amounts of the derivatives shown in the above table do not represent the amounts exchanged by the parties and are not a measure of the Group's exposure to credit or market risk.

18. Commitment Line Agreements

The Company has commitment line agreements with financial institutions in order to obtain funds for stable and efficient operation.

The commitment line of credit as of March 31, 2023 and 2022, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Total commitment line of credit	¥45,000	¥45,000	$337,002
Outstanding borrowings	Nil	Nil	Nil
Unused credit line	¥45,000	¥45,000	$337,002

19. Other Notes to Consolidated Statement of Income

(1) Provision for contract loss

The following provision for contract loss was included in the cost of sales in the consolidated statement of income:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Provision for contract loss	¥672	¥(1,293)	$5,032

(2) Selling, general, and administrative expenses

The major components of selling, general, and administrative expenses were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Salaries	¥48,403	¥43,457	$362,493
Net periodic retirement benefit costs	4,428	3,963	33,162
Provision for bonuses	7,531	5,809	56,402
Allowance for doubtful accounts	379	1,900	2,840
Research and development costs	30,169	28,319	225,935

(3) Net gain (loss) on sales and disposal of property, plant, and equipment

The net gain (loss) on sales and disposal of property, plant, and equipment was as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Buildings and structures	¥(314)	¥(235)	$(2,355)
Machinery, equipment, and vehicles	5	(13)	42
Tools, furniture, and fixtures	(12)	(19)	(91)
Other intangible assets	409	(72)	3,068
Total	¥88	¥(339)	$663

(4) Gain on step acquisition

Gain on step acquisition was recorded due to the step acquisition of shares of Yokogawa Fluence Analytics, Inc. (formerly Fluence Analytics Inc.) for the year ended March 31, 2023.

(5) Business structure improvement expense

Business structure improvement expense was recorded for special initiatives taken for optimization of the Group. For the year ended March 31, 2022, business structure improvement expense was mainly associated with sales of aviation equipment business.

20. Other Comprehensive Income

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

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Net unrealized gain on available-for-sale securities:			
Gains (losses) arising during the year	¥11,574	¥(1,210)	$86,678
Reclassification adjustments to profit or loss	(834)	1,559	(6,250)
Amount before income tax effect	10,739	348	80,428
Income tax effect	(3,210)	(127)	(24,039)
Total	¥7,529	¥221	$56,388
Deferred loss on derivatives under hedge accounting:			
Losses arising during the year	¥(132)		$(994)
Reclassification adjustments to profit or loss			
Amount before income tax effect	(132)		(994)
Income tax effect	34		256
Total	¥(98)		$(738)
Foreign currency translation adjustments:			
Adjustments arising during the year	¥8,825	¥13,031	$66,091
Reclassification adjustments to profit or loss	1	(60)	9
Amount before income tax effect	8,826	12,971	66,101
Income tax effect			
Total	¥8,826	¥12,971	$66,101
Defined retirement benefit plans:			
Adjustments arising during the year	¥(12)	¥88	$(90)
Reclassification adjustments to profit or loss	96	41	725
Amount before income tax effect	84	130	635
Income tax effect	(27)	(48)	(205)
Total	¥57	¥81	$429
Share of other comprehensive income in affiliates:			
Gains arising during the year	¥187	¥378	$1,407
Reclassification adjustments to profit or loss	(124)	(21)	(930)
Total	¥63	¥356	$477
Total other comprehensive income	¥16,378	¥13,630	$122,658

21. Per Share Information

Basic net earnings per share (EPS) for the years ended March 31, 2023 and 2022, were as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars
	Net income attributable to owners of the parent	Weighted-average shares	EPS	
2023				
Basic EPS				
Net income attributable to common shareholders	¥38,920	266,929	¥145.81	$1.09
2022				
Basic EPS				
Net income attributable to common shareholders	¥21,267	266,931	¥79.67	

Diluted net income per share was not disclosed because there were no dilutive securities for the years ended March 31, 2023 and 2022.

Per share information for the year ended March 31, 2023 reflects the significant revision of initial allocation of acquisition costs upon finalization of provisional accounting treatment as described in 23. Business Combination.

22. Revenue Recognition

Breakdown of revenue arising from contracts with customers for the years ended March 31, 2023 and 2022, was as follows:

	Millions of yen			
	2023			
	Reportable segment			
	Industrial automation and control	Measuring instruments	New business and others	Consolidated
Goods transferred at one point of time	¥201,878	¥25,049	¥3,844	¥230,772
Service transferred over certain period of time	225,691	16		225,707
Sales to customers	¥427,569	¥25,065	¥3,844	¥456,479

	Millions of yen			
	2022			
	Reportable segment			
	Industrial automation and control	Measuring instruments	Aviation and other	Consolidated
Goods transferred at one point of time	¥168,173	¥21,218	¥6,274	¥195,665
Service transferred over certain period of time	194,235	0		194,235
Sales to customers	¥362,408	¥21,218	¥6,274	¥389,901

	Thousands of U.S. dollars			
	2023			
	Reportable segment			
	Industrial automation and control	Measuring instruments	New business and others	Consolidated
Goods transferred at one point of time	$1,511,857	$187,591	$28,792	$1,728,241
Service transferred over certain period of time	1,690,191	121		1,690,313
Sales to customers	$3,202,049	$187,713	$28,792	$3,418,554

Basic information to understand the revenue arising from contracts with customers are disclosed in Note 2, "Summary of Significant Accounting Policies."

The amounts of contract liabilities as of March 31, 2022 and 2021, for which revenue was recognized during the years ended March 31, 2023 and 2022, were ¥35,085 million (U.S.$ 262,757 thousand) and ¥30,300 million, respectively.

As of March 31, 2023 and 2022, the amounts of revenue expected to be recognized in future for performance obligations, which are fully or partially unsatisfied, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Within one year	¥278,674	¥224,398	$2,086,978
After one year	84,342	66,562	631,634
Total	¥363,016	¥290,961	$2,718,612

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23. Business Combination

Business divestiture

The Company transferred the aviation equipment business of the Company and Yokogawa Manufacturing Corporation, a consolidated subsidiary of the Company, to Oki Electric Industry Co., Ltd. ("Oki Electric") on April 1, 2022.

(1) Outline of the business divestiture

(a) Name of the successor company
Oki Electric Industry Co., Ltd.

(b) Outline of the divested business
Aviation equipment business

(c) Major reason for the business divestiture
Under its "Accelerate Growth 2023" mid-term business plan, the Company is aiming to create new value by focusing on the energy and sustainability, materials, and life industry business areas. Oki Electric, on the other hand, is focusing on possibilities of developing new products that combine the technological assets held by Oki Electric and the Company and opening up new markets by leveraging the Company's aviation equipment technology and know-how as well as its customer base. The Company has decided to transfer its aviation equipment business to Oki Electric since both Oki Electric and the Company share interest in continued growth of this business.

(d) Date of the business divestiture
April 1, 2022

(e) Other matters regarding the outline of the business divestiture, including legal form
Transfer of business with consideration received only in forms of assets such as cash

(2) Outline of the accounting treatment

(a) Amount of gain on the share transfer

	Millions of yen	Thousands of U.S. dollars
Gain on sale of investment in a subsidiary	Nil	Nil

Loss on share transfer and other expenses relating to the business divesture of ¥1,390 million was included in business structure improvement expense in other expenses for the year ended March 31, 2022.

(b) Details of consolidated balance sheet amount of assets and liabilities of divested business

	Millions of yen	Thousands of U.S. dollars
Current assets	¥1,443	$10,810
Non-current assets	39	295
Total assets	¥1,483	$11,106

(c) Accounting treatment
The business divestiture is accounted for in accordance with the ASBJ Statement No. 7, "Accounting Standard for Business Divestitures," issued on September 13, 2013, and the ASBJ Guidance No.10, "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures," issued on January 16, 2019.

(3) Reportable segment in which the divested business was included

Aviation and other
The name of reportable segment was changed to new business and others from the year ended March 31, 2023.

(4) Estimated income or loss of the divested business included in the consolidated statement of income for the year ended March 31, 2023

Income or loss of the divested business is not included in the consolidated statement of income for the year ended March 31, 2023 since the business divestiture was executed on April 1, 2022.

Finalization of provisional accounting treatment for business combinations

For business combination of Insilico Biotechnology AG on December 31, 2021, a provisional accounting treatment had been applied for the year ended March 31, 2022 and it was finalized for the year ended March 31, 2023.

Following the finalization of the provisional accounting treatment, comparative information included in the consolidated financial statements for the year ended March 31, 2023 reflected the significant revision of initial allocation of acquisition costs.

As a result, the amount of goodwill totaled ¥3,460 million, which is a decrease of ¥362 million from the provisional amount of ¥3,823 million. The decrease in goodwill was due to increase in intangible assets (technology related assets) of ¥522 million and deferred tax liabilities of ¥159 million.

In addition, goodwill and retained earnings decreased by ¥385 million and ¥15 million, respectively, and other intangible assets and deferred tax liabilities increased by ¥532 million and ¥162 million, respectively, as of March 31, 2022.

For business combination of PXiSE Energy Solutions, LLC on December 1, 2021, a provisional accounting treatment had been applied for the year ended March 31, 2022 and it was finalized for the year ended March 31, 2023.

As a result, the amount of goodwill totaled ¥2,502 million, which is a decrease of ¥3,203 million from the provisional amount of ¥5,706 million. The decrease in goodwill was due to increase in intangible assets (technology related assets) of ¥3,203 million.

The financial statements of PXiSE Energy Solutions, LLC are prepared in conformity with the US GAAP and Accounting Standards Updates ("ASU") 2015-16 is applied. Comparative information did not reflect the revision of initial allocation of acquisition costs because ASU 2015-16 requires the acquiring company to recognize adjustments to the provisional accounting treatment recognized in the measurement period in the reporting period of such adjustments were determined.

As a result, operating income and income before income taxes increased by ¥557 million (U.S.$4,173 thousand) for the year ended March 31, 2023.

Business combination by acquisition

A subsidiary of the Company agreed with Fluence Analytics Inc. (Headquarters: Texas, U.S.A.) on January 21, 2023, to start the procedures to acquire shares of Fluence Analytics Inc. and make it a wholly owned subsidiary and acquired the shares on January 30, 2023.

(1) Outline of the business combination

(a) Name of acquired company and its business outline

Name:	Fluence Analytics Inc.
Business outline:	Development and provision of real-time analytics solutions to development and manufacturing of polymer and bio-pharmaceutical industry

(b) Major reason for the business combination
The Company and Fluence Analytics Inc. have been exploring potential business opportunities since signing investment and collaboration agreements in August 2021. Through this acquisition, Fluence Analytics Inc. will integrate its operations with existing business of the Group and further enhance its technological capabilities.

(c) Date of the business combination
January 30, 2023 (date of share acquisition)
January 1, 2023 (deemed date of acquisition)

(d) Legal form of the business combination
Share acquisition in consideration for cash

(e) Name of the company after the business combination
Yokogawa Fluence Analytics, Inc.

(f) Ratio of voting rights acquired

Ratio of voting rights held by the Company immediately before the acquisition:	19.40%
Ratio of voting rights additionally acquired on the date of business combination:	80.60%
Ratio of voting rights after the acquisition:	100.00%

(g) Basis for determining the acquirer
It is based on the fact that a subsidiary of the Company acquired shares in consideration for cash.

(2) Period for which the acquired company's business results are included in the consolidated financial statements
Business results of the acquired company for the period from January 1, 2023 to March 31, 2023, are included in the consolidated financial statements. Business results before January 1, 2023, are reflected in equity in earnings of affiliates as the deemed acquisition date is January 1, 2023.

(3) Details of acquisition cost and consideration by type

		Millions of yen	Thousands of U.S. dollars
Market value of stock held before acquisition as of the acquisition date		¥1,325	$9,876
Additional purchase consideration	cash	5,395	40,215
Purchase price		¥6,720	$50,092

Note: Contingent consideration (fair value) for acquisition is included in the consideration for acquisition.

(4) Difference between cost of acquisition and total of individual transactions leading to the acquisition
Gain on step acquisition: ¥1,066 million (U.S.$7,989 thousand)

(5) Details and amounts of main acquisition costs
Advisory fees: ¥399 million (U.S.$2,989 thousand)

(6) Amount, reason, and amortization method and period of goodwill recognized
(a) Amount of goodwill recognized
¥6,093 million (U.S.$45,630 thousand)
At March 31, 2023, allocation of the acquisition cost has not been completed since identifiable assets and liabilities as of the business combination date have not been identified and measurement of the fair values has not been completed. Accordingly, the provisional accounting treatment has been applied for the amount of goodwill based on the reasonable information available at that time.

(b) Reason for goodwill recognized
The future excess earning power expected as a result of business development going forward

(c) Method and period of amortization
Straight-line method over six years

(7) Outline of contingent considerations defined in the business combination contract and accounting policy applied effective from the fiscal year ended March 31, 2023
(a) Summary of contingent considerations
The Company, as the acquirer, shall pay an additional consideration in proportion to reaching a specified milestone.

(b) Accounting policy applied effective from the fiscal year ended March 31, 2023
Changes in contingent consideration above are recorded in accordance with US GAAP.

(8) Details of assets acquired and liabilities assumed at the acquisition date

	Millions of yen	Thousands of U.S. dollars
Current assets	¥329	$2,464
Noncurrent assets	615	4,607
Total assets	¥944	$7,071
Current liabilities	¥115	$865
Long-term liabilities	201	1,507
Total liabilities	¥316	$2,372

(9) Estimated impact on the consolidated statement of income for the year ended March 31, 2023, assuming the business combination was completed at the beginning of the current fiscal year
The information is not disclosed because the estimated impact is immaterial.

24. Subsequent Events

Appropriation of retained earnings
The board of directors proposed the following appropriation of retained earnings at March 31, 2023, which was approved at the general meeting of the shareholders of the Company held on June 27, 2023.

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥17.0 (U.S.$0.12) per share	¥4,537	$33,983

Acquisition of treasury stock

At the meeting of the Board of Directors held on May 9, 2023, the Company resolved the following matters concerning the acquisition of treasury stock, pursuant to the provisions of Article 156 of the Companies Act, as applied by replacing the relevant terms pursuant to the provisions of Article 165, paragraph (3) of the same Act.

(1) Reason for the acquisition of treasury stock
In order to enhance shareholder return and improve capital efficiency as well as to enable execution of flexible capital policy in response to changes in business environment.

(2) Details of the acquisition of treasury stock
(a) Class of shares to be acquired: Common stock

(b) Total number of shares to be acquired: Up to 16,000,000 shares
(6.0% of issued and outstanding number of shares, excluding treasury stock)

(c) Total amount of acquisition price of shares: Up to ¥20,000 million (U.S.$149,779 thousand)

(d) Period of acquisition: From May 22, 2023 through December 29, 2023

(e) Method of acquisition: Through market purchase on the Tokyo Stock Exchange

Sale of investment securities

The Company resolved to sell part of investment securities it holds at the meeting of the Board of Directors held on February 7, 2023 and the transaction has been completed as described below:

(1) Reason for the sale of investment securities

In order to improve capital efficiency by reevaluating cross-shareholdings.

(2) Detail of the sale of investment securities

(a) Description of securities sold: One issue of unlisted shares held by the Company

(b) Date of the transaction: May 18, 2023

(c) Gain on sales of investment securities: ¥16,500 million (U.S.$123,570 thousand)

25. Segment Information

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures," and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

(1) Description of reportable segments

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group. The Group operates in three business segments: industrial automation and control, measuring instruments, and new business and others.

The industrial automation and control business offers comprehensive solutions, including field instruments such as flow meters, differential pressure/pressure transmitters, and process analyzers; control systems and programmable controllers; various types of software to enhance productivity; and services that minimize plant life cycle costs.

The measuring instruments business mainly offers waveform measuring instruments; optical communications measuring instruments; signal generators; and electric voltage, current, and power measuring instruments.

The new business and others mainly offer services that utilize IoT and AI, and manufacturing and distribution of biomass materials, etc.

(2) Accounting methods for each reportable segment's sales, income (loss), assets, and other items

The accounting policies for each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies."

The aggregate of the income or loss for each reportable segment corresponds to the operating income or loss in the consolidated statement of income.

The assets of a reportable segment consist of trade notes receivable; accounts receivable; contract assets; inventories; property, plant, and equipment; and intangible assets.

(3) Changes in reportable segments

As a result of transfer of aviation equipment business, the name of reportable segment has been changed from aviation and other to new business and others. There are no change in business segment classifications due to this change.

(4) Information on segment assets

During the year ended March 31, 2023, the aviation equipment business of the Company and Yokogawa Manufacturing Corporation, which comprised the aviation and other business, was transferred. As a result, segment assets of the new business and others decreased by ¥1,483 million compared to the segment assets as of March 31, 2022.

(5) Information about sales, income (loss), assets, and other items

Millions of yen

	2023				
	Reportable segment				
	Industrial automation and control	Measuring instruments	New business and others	Eliminations/ Corporate	Consolidated
Sales to customers	¥427,569	¥25,065	¥3,844		¥456,479
Intersegment sales					
Total sales	¥427,569	¥25,065	¥3,844		¥456,479
Segment income (loss)	¥41,081	¥4,632	¥(1,304)		¥44,409
Segment assets	373,695	12,491	7,585		393,772
Depreciation and amortization	17,081	784	172		18,037
Loss on impairment of long-lived assets	558				558
Increase in property, plant, and equipment and intangible assets	28,395	996	190		29,582
Amortization of goodwill	1,659				1,659
Goodwill	14,614				14,614

Millions of yen

	2022				
	Reportable segment				
	Industrial automation and control	Measuring instruments	Aviation and other	Eliminations/ Corporate	Consolidated
Sales to customers	¥362,408	¥21,218	¥6,274		¥389,901
Intersegment sales					
Total sales	¥362,408	¥21,218	¥6,274		¥389,901
Segment income (loss)	¥29,753	¥3,419	¥(2,504)		¥30,668
Segment assets	331,534	12,462	10,742		354,740
Depreciation and amortization	15,889	815	230		16,935
Loss on impairment of long-lived assets	191		1,219		1,410
Increase in property, plant, and equipment and intangible assets	30,019	969	396		31,385
Amortization of goodwill	885		135		1,020
Goodwill	11,993				11,993

	Thousands of U.S. dollars				
	2023				
	Reportable segment				
	Industrial automation and control	Measuring instruments	New business and others	Eliminations/ Corporate	Consolidated
Sales to customers	$3,202,049	$187,713	$28,792		$3,418,554
Intersegment sales					
Total sales	$3,202,049	$187,713	$28,792		$3,418,554
Segment income (loss)	$307,653	$34,692	$(9,767)		$332,578
Segment assets	2,798,587	93,550	56,804		2,948,942
Depreciation and amortization	127,919	5,871	1,289		135,079
Loss on impairment of long-lived assets	4,181				4,181
Increase in property, plant, and equipment and intangible assets	212,653	7,465	1,425		221,544
Amortization of goodwill	12,424				12,424
Goodwill	109,450				109,450

Note: Segment information for the year ended March 31, 2022 reflects the significant revision of initial allocation of acquisition costs upon finalization of provisional accounting treatment as described in 23. Business Combinations.

(6) Information about geographical areas

(a) Sales

Millions of yen									
2023									
Japan	Southeast Asia, Far East	China	India	Europe	Russia	North America	Middle East, Africa	Middle and South America	Total
¥124,329	¥73,064	¥74,865	¥19,528	¥38,298	¥7,199	¥44,475	¥59,730	¥14,987	¥456,479

Millions of yen									
2022									
Japan	Southeast Asia, Far East	China	India	Europe	Russia	North America	Middle East, Africa	Middle and South America	Total
¥118,960	¥60,708	¥61,044	¥15,407	¥33,012	¥13,239	¥33,160	¥43,409	¥10,959	¥389,901

Thousands of U.S. dollars									
2023									
Japan	Southeast Asia, Far East	China	India	Europe	Russia	North America	Middle East, Africa	Middle and South America	Total
$931,094	$547,178	$560,666	$146,248	$286,814	$53,920	$333,073	$447,317	$112,240	$3,418,554

Note: Sales are categorized in each country or area based on the location of end users.

(b) Property, plant, and equipment

Millions of yen									
2023									
Japan	Southeast Asia, Far East	China	India	Europe	Russia	North America	Middle East, Africa	Middle and South America	Total
¥53,426	¥10,498	¥6,740	¥1,668	¥8,980	¥324	¥2,621	¥2,980	¥317	¥87,559

Millions of yen									
2022									
Japan	Southeast Asia, Far East	China	India	Europe	Russia	North America	Middle East, Africa	Middle and South America	Total
¥53,774	¥10,346	¥6,860	¥1,306	¥8,694	¥481	¥2,283	¥2,790	¥405	¥86,943

Thousands of U.S. dollars									
2023									
Japan	Southeast Asia, Far East	China	India	Europe	Russia	North America	Middle East, Africa	Middle and South America	Total
$400,110	$78,621	$50,478	$12,497	$67,258	$2,430	$19,633	$22,319	$2,381	$655,731

(7) Information about major customers

No customer accounts for 10% or more of total sales of the Group.

Deloitte.

Deloitte Touche Tohmatsu LLC
Marunouchi Nijubashi Building
3-2-3 Marunouchi
Chiyoda-ku, Tokyo 100-8360
Japan

Tel: +81 (3) 6213 1000
Fax: +81 (3) 6213 1005
www2.deloitte.com/jp/en

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Yokogawa Electric Corporation:

Opinion

We have audited the consolidated financial statements of Yokogawa Electric Corporation and its consolidated subsidiaries (the "Group"), which comprise the consolidated balance sheet as of March 31, 2023, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

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

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside 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 provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. 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.

Estimation of the total costs of construction contracts	
Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
The Group sells products and provides services related to engineering and maintenance in the Industrial Automation and Control business, which is a core business of the Group. As described in Note 2(p), "Summary of Significant Accounting Policies - Revenue Recognition" to the consolidated financial statements, the Group recognizes revenue based on the progress measured if the progress towards satisfaction of performance obligations for construction contracts related to engineering services can be reasonably measured. Of the total net sales of 456,479 million yen for the year ended March 31, 2023, 200,146 million yen was revenue recognized in accordance with this accounting policy. In addition, as described in Note 2(l) "Summary of Significant Accounting Policies - Provision for Contract Loss" to the consolidated financial statements, an estimated loss on the contract is provided for as a provision for contract loss when it is probable that the estimated total costs of the construction contract will exceed total construction revenue and the excess amount can be reasonably estimated. Provision for contract loss as of March 31, 2023, was 7,380 million yen. The progress towards satisfaction of performance obligations, which is used to recognize revenue for certain construction contracts that contain engineering services, is measured on the basis of the percentage of actual costs incurred up to the end of the year against the estimated total future costs. In addition, the provision for contract loss is calculated by deducting the amount of profit or loss already recognized from the excess, if any, of the total estimated cost of construction over the contract amount. Therefore, the estimation of total costs of construction contracts has a significant impact on both revenue recognition and the calculation of the provision for contract loss. Some construction contracts are large scale and have a wide scope, and others involve a high degree of complexity, such as those requiring advanced system integration. Therefore, events that were not anticipated at the beginning of the construction may occur during the construction period, and conversion costs, such as labor and subcontracting costs as well as expenses related to the event, could be incurred. In such instances, estimating the total costs of a construction contract may involve a high degree of uncertainty. Therefore, we determined that the estimation of	Our audit procedures related to the estimation of the total costs of construction contracts that may affect both the revenue recognition of construction contracts and the calculation of the provision for contract loss included the following, among others: (1) Evaluation of internal controls We tested the design and operating effectiveness of the following controls over the estimation of the total costs of construction contracts. • Internal controls to monitor the progress of construction with qualitative or quantitative significance on a regular basis in order to keep track of any changes in the status after the commencement of construction and to take corrective measures in a timely manner • Internal controls to ensure the reasonableness of the estimated total costs of construction contracts at the commencement of construction and to revise such costs in a timely manner in accordance with any changes in circumstances after the commencement of construction • Internal controls to ensure the completeness of the provision for contract loss for the construction contracts of which the estimated total costs will exceed the total construction revenue (2) Evaluation of the reasonableness of the estimated total costs of construction contracts We obtained the relevant documents related to controls that monitor the progress of construction contracts, selected contracts in which the estimated total costs significantly increased or are expected to increase in the future in comparison with the initial total costs estimated at the commencement of construction, and performed the following procedures for the selected construction contracts: • We assessed the reasonableness of the assumptions used by the Group by making inquiries of the personnel in charge of monitoring the progress of construction regarding their estimates for additional conversion costs, which are labor and subcontracting costs, and expenses that are required to respond to events that cause a significant increase in total construction costs.

the total costs of construction contracts that contain engineering services was a key audit matter as it affects both the measurement of the progress towards satisfying performance obligations, which is used to recognize revenue for certain construction contracts, and the calculation of the provision for contract loss.	• We compared the estimated total costs of construction with the latest construction schedule plan, the cost calculation sheet, and other related documents to evaluate their consistency. • We compared the estimated total costs of construction at the end of the year with the initial estimated total costs of construction at the commencement of construction or with the estimated total costs after the change if there was a change during the year to evaluate the accuracy of the estimated total costs of construction.

Validity of fair value assessment of intangible assets identified in business combination	
Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
As described in Note 23, "Business Combination - Finalization of provisional accounting treatment for business combinations" to the consolidated financial statements, the Group applied provisional accounting for the business combinations with Insilico Biotechnology AG ("Insilico") and PXiSE Energy Solutions, LLC ("PXiSE") in the previous year during which the Group made them subsidiaries through the acquisition of shares. In the current year, the Group finalized the provisional accounting and revised the original allocation of the acquisition costs. As a result, the preliminary goodwill amount of 3,823 million yen for Insilico decreased by 362 million yen while other intangible assets consisting primarily of technology-related assets increased by 522 million yen. In addition, the preliminary goodwill amount of 5,706 million yen for PXiSE decreased by 3,203 million yen while technology-related assets increased by 3,203 million yen. The acquisition cost must be allocated to the acquired assets and assumed liabilities from the acquired company within one year after the date of the business combination based on the fair value of the identifiable assets and liabilities as of the date of the business combination. In particular, the fair value of intangible assets is determined using a professional valuation model because there is no observable market price. The Group uses the excess earnings method to determine fair value by discounting the future cash flows to be generated in relation to the intangible assets to the present value. The estimation of discount rates requires a high degree of expertise, and its validity can have a significant impact on the calculation of fair values. In addition, the future outlook for sales growth rates included in the forecasts of the future cash flows is subject to uncertainty in the estimates and requires a high level of management judgment because it may be affected by external factors, such as future demand trends and the competitive environment. Therefore, it is determined as a significant assumption. As the fair value of intangible assets identified in connection with the business combinations is calculated using a professional valuation model based on information that includes significant assumptions involving uncertainties, we determined that the validity of the fair value measurement in the business combinations was a key audit matter.	Our audit procedures related to the validity of the fair value measurement of intangible assets identified in the business combinations included the following, among others: (1) Internal control assessment We tested the design and operating effectiveness of the internal controls related to the allocation of the acquisition costs in the business combinations, including the estimation of the future cash flows of the acquired company and the selection of discount rates. (2) Consideration of significant assumptions included in the forecasts of the future cash flows In order to assess the appropriateness of the future outlook for the sales growth rate included in the future cash flow plans, we performed the following procedures: • We understood the management estimation process and measures to achieve the business plans and assessed the feasibility of the measures by making inquiries of management and personnel in the relevant departments and inspecting the related meeting minutes. • We assessed the appropriateness of the assumptions by comparing them with available external data, such as relevant market statistics. (3) Test of the present value calculated using the excess earning method We evaluated the capabilities, competence, and objectivity of the external experts used by management. In addition, with the assistance of our fair value specialists, we evaluated the appropriateness of the valuation model adopted by management, the appropriateness of the discount rates, the mathematical accuracy of the calculation, and examined whether the present value calculation by management was within an acceptable range developed by the auditor.

Other Information

Management is responsible for the other information. Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the other information. The other information comprises the information included in the Integrated Report (Yokogawa Report), but does not include the consolidated financial statements and our auditor's report thereon. The Integrated Report (Yokogawa Report) is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will 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 identified above when it becomes available 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.

Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

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

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

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we 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, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as 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 Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

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

Deloitte Touche Tohmatsu LLC
August 10, 2023