Daikin Industries, Ltd. and Consolidated Subsidiaries

Consolidated Financial Statements for the Year Ended March 31, 2023, and Independent Auditor's Report

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Daikin Industries, Ltd.:

Opinion

We have audited the consolidated financial statements of Daikin Industries, Ltd. 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.

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.

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 Matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. The matter was 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 the matter.

<table>
<tr><th colspan="2">Valuation of Goodwill and Intangible Assets</th></tr>
<tr><th>Key Audit Matter Description</th><th>How the Key Audit Matter Was Addressed in the Audit</th></tr>
<tr><td>As discussed in Note 3, "SIGNIFICANT ACCOUNTING ESTIMATES" to the consolidated financial statements, the carrying amounts of goodwill, customer relationships and other intangible assets on the consolidated balance sheet as of March 31, 2023 (collectively, the "Goodwill") were as follows:

Daikin Comfort Technologies North America, Inc. (hereinafter, "DNA")
・ Goodwill ¥184,032 million
・ Customer relationships ¥134,055 million
・ Other intangible assets ¥57,155 million

AHT Cooling Systems GmbH (hereinafter, "AHT")
・ Goodwill ¥17,812 million
・ Customer relationships ¥48,100 million
・ Other intangible assets ¥31,790 million

OYL Industries. Bhd. (currently, Daikin Malaysia Sdn. Bhd. and others, hereinafter, "OYL")
・ Goodwill ¥38,202 million

The Goodwill accounted for 12% of the total assets.

As discussed in Note 6, "LONG-LIVED ASSETS" to the consolidated financial statements, the Group revised AHT's medium-term business plan due to its underperformance this fiscal year compared to the business plan established at the time of the acquisition. Based on the revised business plan, the Group recognized an impairment loss of ¥8,583 million since the recoverable amount was lower than the carrying amount related to the Goodwill of AHT.

For valuation of the Goodwill, the Group assesses whether any indication of impairment exists, and then determines whether to recognize impairment losses based on the future cash flows when there are indications of impairment. If it is necessary to recognize impairment, the carrying amount is reduced to the recoverable amount, and the amount of such reduction is recognized as impairment losses.

The indication of impairment includes continuing operating losses, significant deterioration in the business environment, deviation from the business plan and other factors.

The future cash flows are estimated based on the business plan authorized by management. For the period beyond the term of the business plan, estimated future cash flows include considerations of uncertainties in the future. The significant assumptions in estimating the future cash flows are the revenue growth rate and the expected profit margin used in the business plan as well as for the period beyond the term of the business plan. Also, the significant assumption in calculating the discounted present value of the future cash flows is the discount rate.

As the Goodwill accounts for a large portion of the consolidated balance sheet, the appropriateness of its valuation is significant to our audit. Also, estimating the future cash flows and their discounted present value involves uncertainty and requires management judgment. Therefore, we identified the valuation of the Goodwill as a key audit matter.</td>
<td>Our audit procedures related to the valuation of the Goodwill, partly assisted by the auditors for related subsidiaries under our direction and supervision, included the following, among others:

(1) Testing on internal controls

We tested the design and operating effectiveness of internal controls over the valuation of the Goodwill focusing on the controls relevant to ensuring the reasonableness of the management's estimates on the future cash flows.

(2) Reasonableness of management's determination as to whether there was an indication of impairment

We assessed the reasonableness of management's determination as to whether there was an indication of impairment at DNA, AHT and OYL by performing an analysis of the historical financial performance, inquiring of management regarding changes in the business environment, comparing the actual financial performance to the business plan, and inspecting the related documents.

(3) Appropriateness of estimating the future cash flows and their discounted present value at AHT

・ We determined whether the future cash flows and the underlying business plan authorized by management were consistent.

・ We evaluated the revenue growth rate and the expected profit margin used in the business plan as well as for the period beyond the term of the business plan, which were the significant assumptions in estimating the future cash flows, by inquiring of management and inspecting the related documents. For the revenue growth rate, we compared the long-term market forecast for the regions where the related business operates to available external market reports and inspected the documents related to the revenue increase measures. For the expected profit margin, we compared the profit margin used by management to the competitors' profit margin and inspected the documents related to the cost reduction measures.

・ We evaluated the reasonableness of the valuation methodology and the discount rate with the assistance of our network's firm fair value specialists.</td></tr>
</table>

Other Information

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

We determined that no such information existed and therefore, we did not perform any work thereon.

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
July 10, 2023

Daikin Industries, Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheet
March 31, 2023

ASSETS	Millions of Yen 2023	Millions of Yen 2022
CURRENT ASSETS:		
Cash and cash equivalents (Notes 11 and 19)	¥ 548,242	¥ 717,803
Short-term investments (Notes 4 and 19)	72,740	99,817
Trade receivables and contract assets (Notes 5, 10, 11, 19 and 23):		
Notes and accounts receivable, and contract assets	706,315	595,076
Allowance for doubtful receivables	(19,180)	(16,928)
Inventories (Note 6)	993,384	671,463
Prepaid expenses and other current assets	125,582	98,392
Total current assets	2,427,083	2,165,623
PROPERTY, PLANT AND EQUIPMENT:		
Land (Note 11)	75,357	68,052
Buildings and structures (Note 11)	653,123	566,510
Machinery and equipment (Note 11)	889,422	781,741
Furniture and fixtures (Note 11)	261,629	236,067
Lease assets (Note 18)	6,585	5,411
Construction in progress (Note 11)	139,716	94,706
Total	2,025,832	1,752,487
Accumulated depreciation	(1,124,887)	(1,009,123)
Net property, plant and equipment	900,945	743,364
INVESTMENTS AND OTHER ASSETS:		
Investment securities (Notes 8, 11 and 19)	159,621	191,557
Investments in and advances to unconsolidated subsidiaries and associated companies	27,241	24,712
Goodwill (Notes 3 and 9)	304,332	270,468
Customer relationships (Note 3)	237,221	202,224
Other intangible assets (Note 3)	116,902	104,317
Deferred tax assets (Note 16)	41,011	41,666
Assets for retirement benefits (Note 13)	23,190	26,332
Other assets	66,137	52,775
Total investments and other assets	975,655	914,051
TOTAL	¥ 4,303,683	¥ 3,823,038

LIABILITIES AND EQUITY	Millions of Yen 2023	Millions of Yen 2022
CURRENT LIABILITIES:		
Short-term borrowings (Notes 11 and 19)	¥ 372,542	¥ 97,377
Current portion of long-term debt (Notes 11 and 19)	73,901	364,528
Current portion of long-term lease obligations (Notes 18 and 19)	30,442	25,876
Trade payables (Notes 11 and 19)	352,648	302,622
Income taxes payable (Note 19)	37,727	36,746
Provision for product warranties	85,529	72,443
Accrued expenses (Note 10)	247,869	206,357
Other current liabilities (Notes 10, 12 and 23)	248,664	200,290
Total current liabilities	1,449,322	1,306,239
LONG-TERM LIABILITIES:		
Long-term debt (Notes 11 and 19)	314,149	260,526
Long-term lease obligations (Notes 18 and 19)	96,598	76,509
Liabilities for retirement benefits (Note 13)	18,176	16,116
Deferred tax liabilities (Note 16)	103,554	121,354
Other long-term liabilities (Note 12)	42,789	35,144
Total long-term liabilities	575,266	509,649
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 18 and 20)		
EQUITY (Notes 14, 15 and 25):		
Common stock - authorized 500,000,000 shares; issued 293,113,973 shares	85,032	85,032
Capital surplus	79,478	83,835
Stock acquisition rights	3,116	2,547
Retained earnings	1,712,166	1,529,148
Treasury stock, at cost: 389,416 shares in 2023 and 429,774 shares in 2022	(1,676)	(1,847)
Accumulated other comprehensive income (loss):		
Unrealized gains on available-for-sale securities	51,980	59,535
Deferred gains on derivatives under hedge accounting	460	3,437
Foreign currency translation adjustments	315,393	212,278
Remeasurements of defined benefit plans	(7,802)	(2,691)
Total	2,238,147	1,971,274
Noncontrolling interests	40,948	35,876
Total equity	2,279,095	2,007,150
TOTAL	¥ 4,303,683	¥ 3,823,038

See notes to consolidated financial statements.

Daikin Industries, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Income
Year Ended March 31, 2023

	Millions of Yen	
	2023	2022
NET SALES (Notes 10 and 23)	¥ 3,981,578	¥ 3,109,106
COST OF SALES (Note 17)	2,650,102	2,051,768
Gross profit	1,331,476	1,057,338
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 9, 10 and 17)	954,443	740,987
Operating income	377,033	316,351
OTHER INCOME (EXPENSES):		
Interest and dividend income	16,981	12,889
Interest expense	(20,294)	(8,825)
Equity in earnings of associated companies	1,698	1,401
Exchange gains	3,796	4,492
Subsidy income	3,213	2,192
Settlement payments	(4,240)	
Inflation accounting adjustment (Note 2.z)	(8,542)	
Gain on sales of land		312
Losses on disposals of property, plant and equipment and other intangible assets	(1,037)	(582)
Losses on sales of land	(10)	(65)
Losses on impairment of long-lived assets (Note 7)	(8,583)	(3,668)
Gains on sales of investment securities (Note 8)	16,086	5,750
Gain on sales of investments in capital of associates		227
Losses on sale of shares of an associate	(1)	(33)
Impairment losses on investment securities (Notes 8 and 19)	(343)	(308)
Gains on liquidation of subsidiaries	475	19
Loss on liquidation of subsidiaries and associates	(94)	
Loss on restructuring of a subsidiary	(293)	
Gain on reversal of stock acquisition rights	6	
Gain on insurance claims	933	
Loss on disaster		(1,091)
Other – net	(3,400)	(1,004)
Other (expenses) income – net	(3,649)	11,706
INCOME BEFORE INCOME TAXES	373,384	328,057
INCOME TAXES (Note 16):		
Current	128,378	110,658
Deferred	(20,437)	(7,871)
Total income taxes	107,941	102,787
NET INCOME	265,443	225,270
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(7,688)	(7,560)
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 257,755	¥ 217,710

	Yen	
AMOUNTS PER COMMON SHARE (Note 22):		
Basic net income	¥880.59	¥743.88
Diluted net income	880.05	743.46
Cash dividends applicable to the year	240.00	200.00

See notes to consolidated financial statements.

Daikin Industries, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income
Year Ended March 31, 2023

	Millions of Yen	
	2023	2022
NET INCOME	¥ 265,443	¥ 225,270
OTHER COMPREHENSIVE INCOME (Note 21):		
Unrealized losses on available-for-sale securities	(7,556)	(9,165)
Deferred (loss) gain on derivatives under hedge accounting	(2,977)	2,144
Foreign currency translation adjustments	103,267	143,222
Remeasurements of defined benefit plans	(5,123)	1,826
Share of other comprehensive income in affiliates accounted for using the equity method	1,175	2,844
Total other comprehensive income	88,786	140,871
COMPREHENSIVE INCOME	¥ 354,229	¥ 366,141
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Owners of the parent	¥345,227	¥355,320
Noncontrolling interests	9,002	10,821

See notes to consolidated financial statements.

Daikin Industries, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Changes in Equity
Year Ended March 31, 2023

		Millions of Yen											
							Accumulated Other Comprehensive Income (Loss)						
	Outstanding Number of Common Shares Issued	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Unrealized Gains on Available-for-Sale Securities	Deferred Gains on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Remeasurements of Defined Benefit Plans	Total	Noncontrolling Interests	Total Equity
BALANCE, APRIL 1, 2021 (as previously reported)	292,644,378	¥85,032	¥84,215	¥2,019	¥1,363,505	¥(2,013)	¥68,700	¥ 1,293	¥ 69,470	¥(4,513)	¥1,667,708	¥30,787	¥1,698,495
Cumulative effect of an accounting change (Note 2.x)					(960)						(960)		(960)
BALANCE, APRIL 1, 2021 (as restated)	292,644,378	85,032	84,215	2,019	1,362,545	(2,013)	68,700	1,293	69,470	(4,513)	1,666,748	30,787	1,697,535
Net income					217,710						217,710		217,710
Cash dividends, ¥200 per share					(49,753)						(49,753)		(49,753)
Effect of change of the fiscal year-end of a certain consolidated subsidiary (Note 2.a)					(1,354)						(1,354)		(1,354)
Repurchase of treasury stock	(279)					(7)					(7)		(7)
Disposal of treasury stock	40,100		266			173					439		439
Change in parent's ownership interest due to transactions with noncontrolling interests			(646)								(646)		(646)
Net change in the year				528			(9,165)	2,144	142,808	1,822	138,137	5,089	143,226
BALANCE, MARCH 31, 2022 (as restated)	292,684,199	85,032	83,835	2,547	1,529,148	(1,847)	59,535	3,437	212,278	(2,691)	1,971,274	35,876	2,007,150
Hyperinflation adjustment (Note 2.z)					(13,071)						(13,071)		(13,071)
BALANCE, APRIL 1, 2022 (as restated)	292,684,199	85,032	83,835	2,547	1,516,077	(1,847)	59,535	3,437	212,278	(2,691)	1,958,203	35,876	1,994,079
Net income					257,755						257,755		257,755
Cash dividends, ¥240 per share					(61,468)						(61,468)		(61,468)
Effect of change of the fiscal year-end of certain consolidated subsidiaries (Note 2.a)					(198)						(198)		(198)
Repurchase of treasury stock	(242)					(5)					(5)		(5)
Disposal of treasury stock	40,600		317			176					493		493
Change in parent's ownership interest due to transactions with noncontrolling interests			(4,674)								(4,674)		(4,674)
Net change in the year				569			(7,555)	(2,977)	103,115	(5,111)	88,041	5,072	93,113
BALANCE, MARCH 31, 2023	292,724,557	¥85,032	¥79,478	¥3,116	¥1,712,166	¥(1,676)	¥51,980	¥ 460	¥315,393	¥(7,802)	¥2,238,147	¥40,948	¥2,279,095

See notes to consolidated financial statements.

Daikin Industries, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows
Year Ended March 31, 2023

	Millions of Yen	
	2023	2022
OPERATING ACTIVITIES:		
Income before income taxes	¥ 373,384	¥ 328,057
Adjustments for:		
Income taxes – paid	(127,708)	(96,736)
Depreciation and amortization	182,224	148,063
Losses on impairment of long-lived assets	8,583	3,668
Gains on sales of investment securities	(16,086)	(5,750)
Impairment losses on investment securities	343	308
Losses on disposals of property, plant and equipment and other intangible assets	1,037	582
Equity in earnings of associated companies	(1,698)	(1,401)
Changes in assets and liabilities, net of effects of the purchase of subsidiaries:		
Trade receivables and contract assets	(61,423)	(74,681)
Inventories	(267,555)	(151,026)
Other current assets	(21,640)	(17,501)
Assets for retirement benefits	3,265	(6,317)
Trade payables	24,179	45,539
Accrued expenses	25,089	34,074
Other current liabilities	33,316	28,933
Liabilities for retirement benefits	858	822
Other – net	2,729	8,437
Total adjustments	(214,487)	(82,986)
Net cash provided by operating activities	158,897	245,071
INVESTING ACTIVITIES:		
Payments for purchases of property, plant and equipment	(175,076)	(114,106)
Proceeds from sales of property, plant and equipment	6,858	5,345
Payments for acquisition of newly consolidated subsidiaries, net of cash and cash equivalents acquired	(105,156)	(42,730)
Increase in investments in and advances to an unconsolidated subsidiary and associated companies	(910)	
Decrease in investments in and advances to an unconsolidated subsidiary and associated companies		448
Payments for transfer of business	(5,496)	(2,380)
Proceed from transfer of business		437
Payments for acquisition of investment securities	(2,776)	(1,593)
Proceeds from sales of investment securities (Note 8)	40,593	8,884
Net decrease (increase) in time deposits	31,968	(14,186)
Other – net	(19,799)	(20,909)
Net cash used in investing activities	(229,794)	(180,790)
FINANCING ACTIVITIES:		
Net increase in short-term borrowings	270,218	57,048
Proceeds from long-term debt	115,954	68,369
Repayments of long-term debt	(387,476)	(89,575)
Cash dividends paid to owners of the parent	(61,469)	(49,747)
Cash dividends paid to noncontrolling interests	(8,146)	(7,807)
Repayments of lease obligations	(40,954)	(27,508)
Other – net	(1,216)	522
Net cash used in financing activities	(113,089)	(48,698)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	14,996	41,540
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(168,990)	57,123
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	717,803	662,267
EFFECT OF CHANGE OF THE FISCAL YEAR-END OF CONSOLIDATED SUBSIDIARIES (Note 2.a)	(571)	(1,587)
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 548,242	¥ 717,803

See notes to consolidated financial statements.

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Daikin Industries, Ltd. (the "Company") and its consolidated subsidiaries 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 to the application and disclosure requirements of International Financial Reporting Standards (IFRSs).

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the Company's consolidated financial statements issued domestically 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Principles of Consolidation and Accounting for Investments in Unconsolidated Subsidiaries and Associated Companies – The accompanying consolidated financial statements include the accounts of the Company and its 347 (322 in 2022) significant subsidiaries (collectively, the "Group").

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control are fully consolidated, and those 16 (15 in 2022) companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

The Group applies the equity method of accounting for investments in unconsolidated subsidiaries and associated companies except for certain insignificant companies. Investments in such insignificant companies are stated at cost, except investments for which the value has been permanently impaired, for which appropriate write-downs are recorded. If these 6 (6 in 2022) subsidiaries and 8 (8 in 2022) associated companies had been consolidated or accounted for using the equity method, respectively, the effect on the accompanying consolidated financial statements would not have been material.

For the year ended March 31, 2023, Daikin Compounding Italy S.p.A. changed its fiscal year-end from December 31 to March 31, and Grupo CYVSA, SA de CV and sixteen other companies changed its fiscal year-end from February 28 to March 31. The Company included the subsidiaries' operating results for the 12-month period in the consolidated statement of income and included their operating results for the 3-month period for Daikin Compounding Italy S.p.A. and 1-month period for Grupo CYVSA, SA de CV and 16 other companies in the consolidated statement of changes in equity by directly charging to retained earnings as Effect of change of the fiscal year-end of certain consolidated subsidiaries.

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 eliminated.

b. ***Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements*** – In accordance with the 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 IFRSs or generally accepted accounting principles in the United States of America ("U.S. GAAP") (Financial Accounting Standards Board Accounting Standards Codification) 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: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of research and development; (d) 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 (e) 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. ***Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method*** – In accordance with ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments," adjustments are to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method unless it is impracticable to determine such adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either IFRSs or U.S. GAAP tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of research and development; (d) 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 (e) 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.

d. ***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. 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 a capital surplus as long as the parent retains control over its subsidiary.

e. ***Cash Equivalents*** – Cash equivalents are short-term investments that are readily convertible into cash and exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, which mature within three months of the date of acquisition. Time deposits that mature in more than three months, but within a year of the date of acquisition, are recorded as short-term investments.

f. ***Allowance for Doubtful Receivables*** – The allowance for doubtful receivables is stated in amounts considered to be appropriate based on the past credit loss experience and an evaluation of potential losses in receivables outstanding.

g. ***Inventories*** – Inventories of the Company and its consolidated domestic subsidiaries are stated at the lower of cost, principally determined by the average method, or net selling value. Inventories of consolidated foreign subsidiaries are stated at the lower of cost, principally determined by the average method, or market value.

h. ***Property, Plant and Equipment*** – Property, plant and equipment is stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated subsidiaries is principally computed by the straight-line method based on the estimated useful lives of the assets.

The range of useful lives is from 15 to 50 years for buildings and structures, and from 5 to 15 years for machinery and equipment. The useful lives for lease assets are dependent on the terms of the respective leases.

i. ***Asset Retirement Obligations*** – An asset retirement obligation is recorded for a legal obligation imposed either by law or contract that results from the acquisition, construction, development and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is adjusted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

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 would be 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. ***Leases*** – Non-ownership finance lease transactions and right-of-use assets within the scope of IFRS 16 "Lease" and Accounting Standards Update (ASU) 2016-02 "Lease" are capitalized by recognizing lease assets and lease obligations in the consolidated balance sheet.

All other leases are accounted for as operating leases.

l. ***Investment Securities*** – All marketable securities held by the Group are classified as available-for-sale securities and are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. The cost of securities sold is principally determined based on the moving-average method.

Non-marketable available-for-sale equity securities are stated at cost, principally determined by the moving-average method. For other-than-temporary declines in fair value, available-for-sale securities are reduced to net realizable value by charging such losses to income.

Investments in investment limited partnerships and similar partnerships (investments deemed to be securities pursuant to Article 2, Paragraph 2 of the Financial Instruments and Exchange Act) are valued at the net amount proportionate to the Company's equity based on the latest financial statements available depending on the reporting date specified in the partnership agreement.

m. ***Goodwill and Intangible Assets*** – Goodwill and intangible assets arise principally from business combinations. Goodwill represents the excess of the purchase price over the fair value of the identifiable net assets acquired. Goodwill is amortized over a period of 6 to 20 years. Intangible assets primarily include customer relationships. Customer relationships are amortized using the straight-line method over the estimated useful lives (mainly 30 years).

n. ***Provision for Product Warranties*** – The Group repairs or exchanges certain products without charge under specific circumstances. The provision for product warranties is stated in amounts considered to be appropriate based on past experience and an evaluation of potential losses on the product warranties.

o. ***Employees' Retirement Benefits*** – The Company and its consolidated domestic subsidiaries have non-contributory funded pension plans covering substantially all of their employees. Certain consolidated foreign subsidiaries have pension plans.

The Company accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a benefit formula basis. Actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects and are recognized in profit or loss over certain periods (mainly 10 years) no longer than the expected average remaining service period of the employees. The discount rate is determined using a single weighted-average discount rate reflecting the estimated timing and amount of benefit payment.

p. ***Stock Options*** – The cost of employee stock options is measured based on the fair value at the date of grant and recognized as compensation expense over the vesting period as consideration for receiving goods or services. The Company accounts for stock options granted to non-employees based on the fair value of either the stock options of the goods or services received. In the consolidated balance sheet, the stock options are presented as a stock acquisition right as a separate component of equity until exercised.

q. ***Foreign Currency Transactions*** – All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the consolidated balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.

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

s. ***Bonuses to Directors and Audit & Supervisory Board Members*** – Bonuses to Directors and Audit & Supervisory Board Members are accrued at year-end to which such bonuses are attributable. Accrued bonuses are included in accrued expenses.

t. ***Income Taxes*** – The provision for current income taxes is computed based on income before income taxes 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 tax laws to the temporary differences.

u. ***Derivative Financial Instruments*** – The Group uses foreign exchange forward contracts, currency swaps and currency options to manage foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies.

The Group uses mainly interest rate swaps and interest rate options to manage its exposure to fluctuations in interest rates.

The Group uses commodity futures contracts to manage the risk of fluctuation of commodity prices for materials.

The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments are classified and accounted for as follows: (1) derivatives are principally recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statement of income and (2) for derivatives used for hedging purposes, if such derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses are deferred until maturity of the hedged transactions.

The 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.

v. ***Amounts Per Common Share*** – Basic net income per common share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period, retrospectively adjusted for stock splits.

Diluted net income per share of common stock assumes full exercise of the outstanding stock options which have a dilutive effect at the beginning of year (or at the time of issuance).

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

w. ***Recognition Criteria for Revenue and Expenses*** – The Group primarily manufactures and sells air-conditioning and refrigeration equipment for residential, commercial and marine vessel use, chemical products such as fluorine products, oil hydraulics-related products such as hydraulic equipment, defense systems-related products such as ammunition, components for guided missiles for the Ministry of Defense, and electronics-related products. The Group deems that its principal performance obligation is to deliver finished goods to customers. As a rule, such performance obligation is deemed to have been satisfied when control over the product is transferred to the customer on the delivery date, etc., under the terms of contracts, etc., and revenue is recognized at that point of time. In addition, the Group provides services such as construction contracts or maintenance services. In those services, the control of goods or services is transferred to customers and the Group's performance obligation is satisfied over a certain period of time. Therefore, as a rule, revenue is recognized according to the degree of progress or the period. Revenue is measured at the amount of consideration promised in a contract with a customer, from which discount, rebate, etc., are deducted. Consideration in the product sales contract is collected primarily within one year from the date when the product is delivered to the customer. In such product sales contracts, no material financial elements are involved.

x. Changes in Accounting Policy

Introduction costs in a cloud computing arrangement – From this consolidated fiscal year, the Group has changed its accounting policy to recognize the cost of configuration or customization services as an expense when they are received, in accordance with the IFRS Interpretations Committee's agenda decision published in April 2021, in some overseas subsidiaries that have applied IFRSs and conventionally have applied International Accounting Standard 38 (IAS 38) "Intangible Assets" to recognize configuration or customization costs in the cloud computing arrangement.

This change in accounting policy has been applied retrospectively, and the retrospective application is reflected in the consolidated financial statements for the previous fiscal year. As a result, compared with the consolidated balance sheet as of March 31, 2022 prior to the retrospective application, intangible assets decreased by ¥1,280 million and deferred tax assets increased by ¥320 million. In addition, the cumulative impact of the change in accounting policy has been reflected in the book value of net assets at the beginning of the previous fiscal year, and accordingly, retained earnings decreased by ¥960 million. The impact from this change on the Consolidated Statement of Income is minimal.

y. New Accounting Pronouncements

Current income taxes – On October 28, 2022, the ASBJ issued ASBJ Statement No. 27, "Accounting Standard for Current Income Taxes," and ASBJ Statement No. 25, "Accounting Standard for Presentation of Comprehensive Income," and ASBJ Guidance No. 28, "Guidance on Accounting Standard for Tax Effect Accounting." The core principle of the standard and guidance is that the tax treatment of income taxes on sales of shares of subsidiaries and other securities in the case where other comprehensive income is subject to taxation and group corporate taxation is applied.

The Group expects to apply the accounting standard and guidance for annual period beginning on April 1, 2024 and is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

z. Additional Information

Accounting estimates related to the impact of COVID-19 – With regard to COVID-19, while it is difficult to predict when the situation will return to normal, the Group has made accounting estimates, such as impairment of long-lived assets, based on the assumption that socio-economic activities will recover gradually because of increased vaccination and the effect of the economic measures adopted by governments.

Application of hyperinflationary accounting to Turkish subsidiaries – As Turkey's cumulative inflation rate over the previous three years has exceeded 100%, from the consolidated fiscal year under review, the Group has consolidated the financial statements of Turkish subsidiaries upon adjustment in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies." As a result, the cumulative impact of the application of this accounting standard has been reflected as a decrease of ¥13,071 million in the balance of retained earnings at the beginning of the consolidated fiscal year under review. Additionally, the effect of inflation on the net monetary position of the Group for the consolidated fiscal year under review is presented as "inflation accounting adjustment" under "non-operating expenses."

3. SIGNIFICANT ACCOUNTING ESTIMATES

(1) Amounts of goodwill and other intangible assets recognized at March 31, 2023 and 2022

	Millions of Yen	
	2023	2022
Goodwill	¥ 304,332	¥ 270,468
Customer relationships	237,221	202,224
Other intangible assets	116,902	104,316

The breakdown is as follows:

		Millions of Yen	
		2023	2022
Daikin Comfort Technologies North America, Inc.	Goodwill	¥ 184,032	¥ 169,011
	Customer relationships	134,055	119,144
	Other intangible assets	57,155	51,807
AHT Cooling Systems GmbH	Goodwill	17,812	22,790
	Customer relationships	48,100	53,370
	Other intangible assets	31,790	30,572
OYL Industries. Bhd. (Daikin Malaysia Sdn. Bhd. and others)	Goodwill	38,202	48,309

As stated in Note 2.x, the change in accounting policy for Introduction costs in a cloud computing arrangement has been applied retrospectively and the consolidated financial statements for the year ended March 31, 2022 were restated.

(2) Information on the contents of significant accounting estimates for identified items

For the valuation of goodwill, customer relationships and other intangible assets (hereinafter the "Goodwill"), the Group assesses whether any indication of impairment exists for the Goodwill, and then determines whether to recognize impairment losses based on the future cash flows when any indication of impairment is identified.

The indication of impairment includes continuing operating losses, significant deterioration in the business environment, deviation from the business plan and other factors.

The future cash flows are estimated based on the business plan authorized by management. For the period beyond the term of the business plan, estimated future cash flows include considerations of uncertainties in the future. The significant assumptions in estimating the future cash flows are the revenue growth rate and the expected profit margin used in the business plan as well as for the period beyond the term of the business plan. Also, the significant assumption in calculating the discounted present value of the future cash flows is the discount rate. These assumptions are affected by future uncertain economic conditions and the business conditions of those companies and may have a material impact on the consolidated financial statements for the following consolidated fiscal years. The Company continuously monitors its business performance and strives to take measures before it becomes difficult to recover its investment.

4. SHORT-TERM INVESTMENTS

Short-term investments at March 31, 2023 and 2022 consisted of the following:

	Millions of Yen	
	2023	2022
Time deposits that mature in more than three months	¥69,421	¥99,817
Other short-term investments	3,319	
Total	¥72,740	¥99,817

5. TRADE RECEIVABLES AND CONTRACT ASSETS

Notes receivable, Accounts receivable and Contract assets arising from contracts with customers are as follows:

	Millions of Yen	
	2023	2022
Notes receivable	¥ 79,067	¥ 62,338
Accounts receivable	604,654	517,053
Contract assets	22,594	15,685

6. INVENTORIES

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

	Millions of Yen	
	2023	2022
Finished products and merchandise	¥668,311	¥450,975
Semi-finished products and work in process	65,518	44,931
Raw materials and supplies	259,555	175,557
Total	¥993,384	¥671,463

7. LONG-LIVED ASSETS

The Group recognized impairment losses for the years ended March 31, 2023 and 2022. The details were as follows:

March 31, 2023

Use	Location	Asset Category	Millions of Yen
Other Business use	Rottenmann, AUSTRIA	Goodwill	¥2,954
		Customer relationships	5,629
		Total	¥8,583

In the AHT Cooling Systems GmbH Group, consolidated subsidiaries that manufacture and sell commercial refrigerating and freezing showcases, etc., goodwill and customer relationships were recorded upon the acquisition of equity interest based on anticipated excess earnings. However, the business conducted by the subsidiaries is underperformance compared to the business plan established at the time of the acquisition despite the subsidiaries' efforts to strengthen their production and sales structure. As a result of the conservative review of its medium-term business plan, the book value has been reduced to the recoverable value, and the amount of such reduction has been recognized as losses on impairment of long-lived assets.

The recoverable amounts of these assets were measured by value in use, and the discount rate used to determine the present value of future cash flows was 10.2%.

March 31, 2022

Use	Location	Asset Category	Millions of Yen
Other	Provincia di Mantova, ITALY	Goodwill	¥3,668
		Total	¥3,668

In the Zanotti S.P.A. Group, consolidated subsidiaries that manufacture and sell commercial refrigeration and freezing equipment, etc., goodwill was recorded upon the acquisition of the shares based on anticipated excess earnings. However, the business conducted by the subsidiaries is underperformance compared to the business plan established at the time of the acquisition despite the subsidiaries' efforts to strengthen their production and sales structure. As a result of the conservative review of its medium-term business plan, the book value has been reduced to the recoverable value, and the amount of such reduction has been recognized as losses on impairment of long-lived assets.

The recoverable amounts of these assets were measured by value in use, and the discount rate used to determine the present value of future cash flows was 11.4%.

8. MARKETABLE AND INVESTMENT SECURITIES

The acquisition costs and aggregate fair values of marketable available-for-sale securities included in investment securities at March 31, 2023 and 2022 were as follows:

	Millions of Yen			
	2023			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	¥75,904	¥71,846	¥(590)	¥147,160
Debt securities	4,479	82	(33)	4,528
Others	108		(7)	101
Total	¥80,491	¥71,928	¥(630)	¥151,789

	Millions of Yen			
	2022			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	¥95,319	¥82,365	¥(1,029)	¥176,655
Debt securities	402	0	(8)	394
Total	¥95,721	¥82,365	¥(1,037)	¥177,049

Marketable available-for-sale securities that were sold during the years ended March 31, 2023 and 2022 were as follows:

	Millions of Yen		
March 31, 2023	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	¥40,593	¥16,086	

	Millions of Yen		
March 31, 2022	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	¥8,884	¥5,750	

The impairment losses on marketable available-for-sale securities for the years ended March 31, 2023 and 2022 were ¥3 million and ¥10 million, respectively.

9. GOODWILL

Amortization expenses for goodwill were ¥39,496 million and ¥32,685 million for the years ended March 31, 2023 and 2022, respectively, which were included in selling, general and administrative expenses.

10. RELATED PARTY TRANSACTIONS

Material transactions and balances with related parties for the years ended March 31, 2023 and 2022 were as follows:

(1) 2023

Not applicable

(2) 2022

(a) The Company

			Millions of Yen			
			Transactions		Resulting Account Balances	
Name	Description of Post	Ownership of the Company (%)	Description of Transaction	2022	Account	2022
Chiyono Terada	External Director/President and Representative Director of Art Group Holdings, Co., Ltd.	0.00	Commissions for moving business and delivery business	¥102	Accrued expenses and other current liabilities	¥61

(b) The Company's consolidated subsidiaries

			Millions of Yen			
			Transactions		Resulting Account Balances	
Name	Description of Post	Ownership of the Company (%)	Description of Transaction	2022	Account	2022
Chiyono Terada	External Director/President and Representative Director of Art Group Holdings, Co., Ltd.	0.00	Commissions for moving business and delivery business	¥ 19	Accrued expenses and other current liabilities	¥ 2
			Sales of products	176	Accounts receivable	29

The terms and conditions applicable to the above-mentioned transactions have been determined on an arm's-length basis and by reference to the normal market price.

Chiyono Terada resigned as an External Director of Daikin group on June 29, 2021.

The transactions are the amount for the period up to the time of resignation, and the Resulting Account Balances is the amount as of the time of resignation.

11. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings of the Group at March 31, 2023 and 2022 consisted of the following:

	Millions of Yen	
	2023	2022
Bank overdrafts and notes to banks	¥ 293,542	¥ 97,377
Commercial paper	79,000	
Total	¥ 372,542	¥ 97,377

Unused short-term bank credit lines were ¥203,412 million at March 31, 2023. The weighted-average interest rates of bank overdrafts and notes to banks at March 31, 2023 and 2022 were 4.06% and 1.32%, respectively. The weighted-average interest rate of commercial paper at March 31, 2023 was 0.01%.

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

	Millions of Yen	
	2023	2022
1.20% unsecured bonds, due 2022		¥ 30,000
0.001% unsecured bonds, due 2023	¥ 20,000	20,000
0.68% unsecured bonds, due 2024	10,000	10,000
0.12% unsecured bonds, due 2025	15,000	15,000
0.21% unsecured bonds, due 2026	10,000	10,000
0.13% unsecured bonds, due 2026	15,000	15,000
0.18% unsecured bonds, due 2029	15,000	15,000
0.29% unsecured bonds, due 2029	10,000	10,000
0.46% unsecured bonds, due 2029	20,000	
0.26% unsecured bonds, due 2030	15,000	15,000
0.34% unsecured bonds, due 2032	10,000	10,000
0.54% unsecured bonds, due 2032	20,000	
Unsecured loans from banks and others, payable in foreign currencies, with interest ranging from 0.00% to 6.09% (2023) and from 0.00% to 7.10% (2022), due through 2031	213,730	237,856
Unsecured loans from banks and others with interest ranging from 0.23% to 1.50% (2023) and from 0.25% to 3.56% (2022), due through 2034	14,320	237,198
Total	388,050	625,054
Less current portion	(73,901)	(364,528)
Long-term debt, less current portion	¥ 314,149	¥ 260,526

Annual maturities of long-term debt outstanding at March 31, 2023 were as follows:

	Millions of Yen
2024	¥ 73,901
2025	57,190
2026	63,475
2027	88,055
2028	3,845
2029 and thereafter	101,584
Total	¥ 388,050

The assets pledged as collateral at March 31, 2023 and 2022 were as follows:

	Millions of Yen	
	2023	2022
Cash and cash equivalents	¥ 945	¥ 570
Trade receivables and contract assets	1,747	4,419
Land		390
Buildings and structures		342
Machinery and equipment		96
Furniture and fixtures		37
Construction in progress		7
Debt corresponding to the above:		
Short-term borrowings		107
Current portion of long-term debt	22	300
Trade payables	1,157	12,811
Long-term debt	239	13

In addition, investment securities pledged as collateral for the investee's borrowings from financial institutions at March 31, 2023 and 2022 were as follows:

	Millions of Yen	
	2023	2022
Investment securities	¥800	¥800

In addition, shares of consolidated subsidiaries eliminated in consolidation pledged as collateral at March 31, 2023 and 2022 were as follows:

	Millions of Yen	
	2023	2022
Investments in consolidated subsidiaries eliminated in consolidation	¥12	¥12

As is customary in Japan, additional securities must be provided if requested by a lending bank. Certain banks have the right to offset cash deposited against any debt or obligation that becomes due, or, in case of default and certain other specified events, against all other debt payable to them. To date, none of the lenders have ever exercised these rights with respect to debt of the Group.

12. CONTRACT LIABILITIES

Contract liabilities included in "Other current liabilities" and "Other long-term liabilities" at March 31, 2023 and 2022 were as follows:

	Millions of Yen	
	2023	2022
Contract liabilities (current)	¥95,578	¥71,874
Contract liabilities (long-term)	22,706	18,583

13. SEVERANCE INDEMNITIES AND PENSION PLANS

Under the Group's severance indemnities and pension plans, employees terminating their employment are, in most circumstances, entitled to severance and pension payments based on their average pay during their employment, length of service and certain other factors.

The Group accounts for part of the defined benefit obligations and benefit costs for retirement lump-sum payment using the simplified method.

1. Defined benefit plans

(1) The changes in defined benefit obligations for the years ended March 31, 2023 and 2022 were as follows (excluding the benefit plans for which the simplified method was applied):

	Millions of Yen	
	2023	2022
Balance at beginning of year	¥117,899	¥120,492
Service cost	1,752	3,024
Interest cost	1,474	1,135
Net actuarial gains	(11,333)	(1,762)
Past service cost	362	(2,348)
Benefits paid	(6,704)	(5,646)
Effect of changes in the scope of consolidation	304	
Effect of change of the fiscal year-end	0	18
Foreign currency translation adjustments	2,282	2,948
Others	1,137	38
Balance at end of year	¥107,173	¥117,899

(2) The changes in plan assets for the years ended March 31, 2023 and 2022 were as follows (excluding the benefit plan for which the simplified method was applied):

	Millions of Yen	
	2023	2022
Balance at beginning of year	¥131,418	¥128,729
Expected return on plan assets	3,469	3,696
Net actuarial losses	(17,355)	(259)
Contributions from the employer	1,434	1,952
Benefits paid	(5,621)	(4,977)
Effect of changes in the scope of consolidation	1,211	
Foreign currency translation adjustments	1,855	2,194
Others	(62)	83
Balance at end of year	¥116,349	¥131,418

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

	Millions of Yen	
	2023	2022
Balance at beginning of year	¥3,303	¥2,817
Periodic benefit cost	1,178	899
Benefits paid	(329)	(413)
Others	10	
Balance at end of year	¥4,162	¥3,303

(4) Reconciliations between the liabilities and assets recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets at March 31, 2023 and 2022 were as follows (including the benefit plan for which the simplified method was applied):

	Millions of Yen	
	2023	2022
Funded defined benefit obligation	¥(100,136)	¥(111,118)
Plan assets	116,349	131,417
Total	16,213	20,299
Unfunded defined benefit obligation	(11,199)	(10,083)
Net amount of liabilities and assets recorded in the consolidated balance sheet	¥ 5,014	¥ 10,216
Liabilities for retirement benefits	¥(18,176)	¥(16,116)
Assets for retirement benefits	23,190	26,332
Net amount of liabilities and assets recorded in the consolidated balance sheet	¥ 5,014	¥ 10,216

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

	Millions of Yen	
	2023	2022
Service cost	¥ 1,752	¥ 3,024
Interest cost	1,474	1,135
Expected return on plan assets	(3,469)	(3,696)
Recognized net actuarial gains	(287)	(378)
Amortization of past service cost	(196)	(318)
Periodic benefit cost calculated by the simplified method	1,178	899
Others	71	121
Total	¥ 523	¥ 787

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

	Millions of Yen	
	2023	2022
Past service cost	¥ 657	¥(1,982)
Net actuarial loss (gain)	6,639	(706)
Total	¥7,296	¥(2,688)

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

	Millions of Yen	
	2023	2022
Unrecognized past service cost	¥ (599)	¥(1,255)
Unrecognized net actuarial losses	10,535	3,896
Total	¥ 9,936	¥ 2,641

(8) Plan assets

(a) Components of plan assets

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

	2023	2022
Domestic debt securities	1%	0%
Domestic equity securities	0	0
Foreign debt securities	33	29
Foreign equity securities	12	12
Insurance assets (general account)	15	16
Cash and deposits	2	1
Alternative investments	37	42
Total	100%	100%

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

To determine the expected long-term rate of return on plan assets, we consider current and target asset allocations, as well as historical and expected returns on various categories of plan assets.

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

	2023	2022
Discount rate	Mainly 0.3%	Mainly 0.3%
Expected rate of return on plan assets	Mainly 2.5%	Mainly 2.5%
Expected rate of future salary increases	Mainly 5.9%	Mainly 5.9%

2. Defined contribution plan

The amounts of contribution required for the defined contribution plan paid by the Group were ¥14,447 million and ¥8,763 million for the years ended March 31, 2023 and 2022, respectively.

14. 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 resolution at the shareholders' meeting. For companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by 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. However, the Company cannot do so because it does not meet all the above criteria.

The Companies Act permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to certain limitations and additional requirements.

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 stipulate. 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 that was 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 within equity 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. Purchase of treasury stock acquisition rights are presented as either a separate component of equity or any purchased stock acquisition rights deducted directly from stock acquisition rights.

15. STOCK OPTIONS

The stock options outstanding at March 31, 2023, were as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2015 Stock Option	9 directors 46 employees	53,200 shares	2015.7.13	¥1	From July 14, 2018 to July 13, 2030
2016 Stock Option	8 directors 53 employees	58,100 shares	2016.7.14	¥1	From July 15, 2019 to July 14, 2031
2017 Stock Option	8 directors 53 employees	48,800 shares	2017.7.14	¥1	From July 15, 2020 to July 14, 2032
2018 Stock Option	7 directors 59 employees	42,700 shares	2018.7.13	¥1	From July 14, 2021 to July 13, 2033
2019 Stock Option	7 directors 54 employees	46,100 shares	2019.7.12	¥1	From July 13, 2022 to July 12, 2034
2020 Stock Option	7 directors 57 employees	39,000 shares	2020.7.10	¥1	From July 11, 2023 to July 10, 2035
2021 Stock Option	7 directors 70 employees	46,700 shares	2021.7.16	¥1	From July 17, 2024 to July 16, 2036
2022 Stock Option	7 directors 73 employees	52,800 shares	2022.7.15	¥1	From July 16, 2025 to July 15, 2037

The stock option activity was as follows:

	Shares							
	2015 Stock Option	2016 Stock Option	2017 Stock Option	2018 Stock Option	2019 Stock Option	2020 Stock Option	2021 Stock Option	2022 Stock Option
Year Ended March 31, 2022								
Vested								
April 1, 2021 - Outstanding	6,300	9,700	14,100	42,000	46,100	39,000		
Granted							46,700	
Exercised	(2,800)	(2,800)	(7,700)	(26,800)				
Canceled								
March 31, 2022 - Outstanding	3,500	6,900	6,400	15,200	46,100	39,000	46,700	
Year Ended March 31, 2023								
Vested								
April 1, 2022 - Outstanding	3,500	6,900	6,400	15,200	46,100	39,000	46,700	
Granted								52,800
Exercised	(1,400)	(1,700)	(1,400)	(6,800)	(29,300)			
Canceled				(500)				
March 31, 2023 - Outstanding	2,100	5,200	5,000	7,900	16,800	39,000	46,700	52,800
Exercise price	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1
Average stock price at exercise	¥22,210	¥21,932	¥21,985	¥23,121	¥23,550			
Fair value price at grant date	¥7,726	¥7,859	¥10,711	¥11,670	¥12,777	¥17,035	¥20,685	¥20,238

The assumptions used to measure the fair value of 2022 Stock Option

Estimate method:	Black-Scholes option-pricing model
Volatility of stock price:	28.8%
Estimated remaining outstanding period:	9 years
Estimated dividend:	¥200 per share
Risk-free interest rate:	(0.22)%

16. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes that, in the aggregate, resulted in a normal effective statutory tax rate of approximately 30.6% for the years ended March 31, 2023 and 2022.

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

	Millions of Yen	
	2023	2022
Deferred tax assets:		
Provision for product warranties	¥ 22,823	¥ 17,497
Tax loss carryforwards	18,196	16,400
Software and other intangible assets	17,969	14,616
Unrealized profit on inventories	21,503	13,113
Inventories	14,141	8,003
Accrued bonus	8,542	7,242
Allowance for doubtful receivables	4,518	4,026
Deferred revenue	3,289	3,911
Liabilities for retirement benefits	2,646	3,172
Investment securities	2,579	3,371
Foreign income tax credit	129	1,036
Other	40,388	35,785
Total of tax loss carryforwards and temporary differences	156,723	128,172
Less valuation allowance for tax loss carryforwards	(15,284)	(13,877)
Less valuation allowance for temporary differences	(9,240)	(7,192)
Total valuation allowance	(24,524)	(21,069)
Total deferred tax assets	¥ 132,199	¥ 107,103
Deferred tax liabilities:		
Undistributed earnings of consolidated subsidiaries	¥ 68,846	¥ 60,889
Intangible assets	68,470	66,474
Unrealized gains on available-for-sale securities	20,112	22,376
Assets for retirement benefits	6,205	8,002
Deferred gains on sales of property	1,695	1,698
Other	29,414	27,352
Total deferred tax liabilities	¥ 194,742	¥ 186,791
Net deferred tax liabilities	¥ (62,543)	¥ (79,688)

As stated in Note 2.x, the change in accounting policy for Introduction costs in a cloud computing arrangement has been applied retrospectively and the consolidated financial statements for the year ended March 31, 2022 were restated.

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

	Millions of Yen						
March 31, 2023	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	Total
Deferred tax assets relating to tax loss carryforwards	¥ 582	¥ 81	¥ 143	¥ 383	¥ 512	¥ 16,495	¥ 18,196
Less valuation allowances for tax loss carryforwards	(570)	(77)	(125)	(344)	(281)	(13,887)	(15,284)
Net deferred tax assets relating to tax loss carryforwards	12	4	18	39	231	2,608	2,912

	Millions of Yen						
March 31, 2022	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	Total
Deferred tax assets relating to tax loss carryforwards	¥ 218	¥ 84	¥134	¥ 416	¥ 564	¥ 14,984	¥ 16,400
Less valuation allowances for tax loss carryforwards	(194)	(30)	(75)	(161)	(304)	(13,113)	(13,877)
Net deferred tax assets relating to tax loss carryforwards	24	54	59	255	260	1,871	2,523

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 year ended March 31, 2023, was as follows:

	2023
Normal effective statutory income tax rate	30.6%
Differences in foreign subsidiaries' tax rates	(6.9)
Taxes and tax effects on dividends from foreign subsidiaries	4.3
Tax credit for research and development	(2.6)
Amortization of goodwill	2.5
Permanently non-deductible expenses, such as entertainment expenses	0.5
Valuation allowance	0.3
Impairment loss of goodwill	0.2
Permanently non-taxable income, such as dividend income	(0.2)
Other – net	0.2
Actual effective income tax rate	28.9%

A reconciliation of the difference between the normal effective statutory tax rate and the actual effective tax rate is not disclosed since the difference is less than 5% of the normal effective statutory income tax rate for the year ended March 31, 2022.

The Company and some domestic consolidated subsidiaries transitioned from the consolidated taxation system to the group tax sharing system from the fiscal year ended March 31, 2023. Accordingly, the Company and some domestic consolidated subsidiaries comply with the treatment prescribed in "Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System" (PITF No. 42, August 12, 2021) regarding the accounting treatment and disclosure of corporate and local income taxes and tax effect accounting.

17. RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in cost of sales and selling, general and administrative expenses were ¥102,208 million and ¥81,535 million for the years ended March 31, 2023 and 2022, respectively.

18. LEASES

The Group mainly leases certain buildings, land and vehicles.

Obligations for future minimum payments on non-cancelable operating leases at March 31, 2023 was as follows:

	Millions of Yen
	Operating Leases
Due within one year	¥ 4,822
Due after one year	18,133
Total	¥ 22,955

19. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

Group policy for financial instruments

The Group uses financial instruments, mainly bank loans and bonds, based on its capital financing plan. Short-term bank loans and commercial paper are used to fund the Group's ongoing operations, and cash surpluses are invested in low-risk financial assets. Derivatives are not used for speculative purposes, but to manage exposure to financial risks as described below.

Nature and extent of risks arising from financial instruments and risk management for financial instruments

Receivables, such as trade notes and trade accounts, are exposed to customer credit risk. The Group manages its credit risk from receivables based on the internal policies, which include monitoring of payment terms and balances of major customers to identify the default risk of the customers.

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

Although receivables and payables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, the net position of receivables and payables in each foreign currency is hedged by using mainly forward foreign currency contracts and currency swaps. In addition, receivables and payables in foreign currencies, which are expected from forecasted transactions, are hedged by using forward foreign currency contracts and currency swaps.

Investment securities, mainly equity instruments of customers and suppliers of the Group, are exposed to the risk of market price fluctuations. Investment securities are periodically managed by monitoring market values and financial position of issuers.

Short-term bank loans and commercial papers are mainly used to fund the Group's ongoing operations. Long-term bank loans and bonds are used mainly for capital expenditures. Although the payables such as trade notes and trade accounts, bank loans and bonds are exposed to liquidity risk, the Group manages the liquidity risk through adequate financial planning by the corporate finance department. In addition, the Group has short-term bank credit lines. Some long-term bank loans are exposed to market risk from changes in interest rates, which is hedged by mainly using interest rate swaps.

Derivatives mainly include forward foreign currency contracts, interest rate swaps and commodity futures contracts, which are used to manage exposure to market risks from changes in foreign currency exchange rates of receivables and payables, interest rates of bank loans, and market value fluctuation of raw materials.

Derivative transactions entered into by the Group have been made in accordance with internal policies which regulate the authorization and credit limit amount.

Because the counterparties to these derivatives are limited to financial institutions with high creditworthiness, the Group does not anticipate any losses arising from credit risk.

Fair values of financial instruments

The carrying amounts, fair values and unrealized loss of significant financial instruments were as follows. Investments that do not have a market price are not included in the below chart. "Cash and cash equivalents," "Short-term investments," "Trade receivables and contract assets," "Short-term borrowings," "Trade payables" and "Income taxes payable" are omitted because they are cash, or they are settled in a short period of time and their carrying amount approximates fair value:

	Millions of Yen		
	March 31, 2023		
	Carrying Amount	Fair Value	Unrealized Gain
Investment securities	¥ 148,470	¥ 148,470	
Total	¥ 148,470	¥ 148,470	
Long-term debt	¥ 388,050	¥ 378,275	¥ (9,775)
Lease obligations	127,040	121,574	(5,466)
Total	¥ 515,090	¥ 499,849	¥ (15,241)
Derivatives	¥(108)	¥(108)	

	Millions of Yen		
	March 31, 2022		
	Carrying Amount	Fair Value	Unrealized Gain
Investment securities	¥ 177,049	¥ 177,049	
Total	¥ 177,049	¥ 177,049	
Long-term debt	¥ 625,054	¥ 622,578	¥ (2,476)
Lease obligations	102,385	101,272	(1,113)
Total	¥ 727,439	¥ 723,850	¥ (3,589)
Derivatives	¥3,363	¥3,363	

Financial instruments whose fair values cannot be readily determinable

	Millions of Yen	
	2023	2022
Nonlisted equity securities and other investments	¥8,397	¥12,027
Total	¥8,397	¥12,027

Equity investments in partnerships and other similar entities that are recorded in the consolidated balance sheets at a net amount equivalent to equity interests are omitted. The amount of these investments recorded on the consolidated balance sheets as of March 31, 2023 and 2022 were ¥2,754 million and ¥2,481 million, respectively.

The impairment losses on nonlisted equity securities for the years ended March 31, 2023 and 2022 were ¥340 million and ¥298 million, respectively.

Maturity analysis for financial assets and securities with contractual maturities

	Millions of Yen			
	March 31, 2023			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and cash equivalents	¥ 548,242			
Short-term investments	72,740			
Trade receivables and contract assets	705,251	¥939	¥114	¥ 11
Investment securities:				
Available-for-sale securities with contractual maturities (corporate bonds)				300
Available-for-sale securities with contractual maturities (others)			237	200
Total	¥ 1,326,233	¥939	¥351	¥511

	Millions of Yen			
	March 31, 2022			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and cash equivalents	¥ 717,803			
Short-term investments	99,817			
Trade receivables and contract assets	594,146	¥758	¥114	¥ 58
Investment securities:				
Available-for-sale securities with contractual maturities (corporate bonds)				300
Available-for-sale securities with contractual maturities (others)				100
Total	¥ 1,411,766	¥758	¥114	¥458

Please see Note 11 for annual maturities of long-term debt.

Financial Instruments Categorized by Fair Value Hierarchy

The fair value of financial instruments is categorized into the following three levels, depending on the observability and significance of the inputs used in making fair value measurements:

Level 1: Fair values measured by using quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Fair values measured by using inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly

Level 3: Fair values measured by using unobservable inputs for the assets or liabilities

If multiple inputs are used that have a significant impact on the measurement of fair value, fair value is categorized at the lowest level in the fair value measurement among the levels to which each of these inputs belongs.

(1) The financial instruments and liabilities measured at the fair values in the consolidated balance sheet

	Millions of Yen			
March 31, 2023	Level 1	Level 2	Level 3	Total
Investment securities:				
Investment securities - other:				
Equity securities	¥ 147,160			¥ 147,160
Available-for-sale securities with contractual maturities (corporate bonds)		¥ 300		300
Available-for-sale securities with contractual maturities (others)		167	¥ 742	909
Others	101			101
Total assets	¥ 147,261	¥ 467	¥ 742	¥ 148,470
Derivative transactions:				
Foreign currency forward contracts		¥(1,217)		¥(1,217)
Interest rate swaps		132		132
Commodity futures contracts		977		977

	Millions of Yen			
March 31, 2022	Level 1	Level 2	Level 3	Total
Investment securities:				
Investment securities - other:				
Equity securities	¥ 176,655			¥ 176,655
Available-for-sale securities with contractual maturities (corporate bonds)		¥ 302		302
Available-for-sale securities with contractual maturities (others)		92		92
Total assets	¥ 176,655	¥ 394		¥ 177,049
Derivative transactions:				
Foreign currency forward contracts		¥1,294		¥1,294
Interest rate swaps		109		109
Commodity futures contracts		1,960		1,960

Net credits/debts arising from derivative transactions are shown at net value, and items that total to a net debt are shown in parentheses.

(2) The financial instruments not measured at the fair values in the consolidated balance sheet

	Millions of Yen			
March 31, 2023	Level 1	Level 2	Level 3	Total
Long-term debt		¥378,275		¥378,275
Lease obligations		121,574		121,574
Total liabilities		¥499,849		¥499,849

	Millions of Yen			
March 31, 2022	Level 1	Level 2	Level 3	Total
Long-term debt		¥622,578		¥622,578
Lease obligations		101,272		101,272
Total liabilities		¥723,850		¥723,850

The following is a description of valuation methodologies and inputs used for measurement of the fair value of assets and liabilities:

Investment securities

Since listed shares are traded on active markets, their fair value is categorized as Level 1 fair value. The fair value of corporate bonds, etc., is calculated mainly by the discounted present value method based on the total amount of principal and interest and an interest rate that takes into account the remaining term of the bonds and credit risk and is categorized as Level 2 fair value. The fair value of other debt securities is calculated using unobservable inputs and categorized as Level 3 fair value.

Derivatives

The fair value of foreign exchange contracts, currency swaps, interest rate swaps, and commodity futures is calculated by the discounted present value method, etc., using observable inputs such as interest rates, foreign exchange rates and the market value of futures, and is categorized as Level 2 fair value.

Long-term debt

The fair value of bonds payable issued by the Company is valued at the market price. The Company's bonds are categorized as Level 2 fair value because they have a market price but are not traded on an active market. The fair value of long-term borrowings is calculated by the discounted present value method based on the total amount of principal and interest and an interest rate that takes into account the remaining term of the obligation and credit risk and is categorized as Level 2 fair value. The fair value of long-term borrowings with variable interest rates that are subject to the preferential treatment for interest rate swaps is calculated by the discounted present value method based on the total amount of principal and interest treated together with the interest rate swap, and an interest rate that takes into account the remaining term of the obligation and credit risk and is categorized as Level 2 fair value.

Lease obligations

The fair value of lease obligations is calculated by the discounted present value method based on the total amount of principal and interest and an interest rate that takes into account the remaining term of the obligation and credit risk and is categorized as Level 2 fair value.

Derivative transactions to which hedge accounting is not applied

		Millions of Yen			
		March 31, 2023			
		Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Forward exchange contracts:					
Selling:	GBP	¥ 4,462		¥ (9)	¥ (9)
	EUR	46,412		120	120
	USD	48,544		(445)	(445)
	AUD	9,079		25	25
	NZD	661		1	1
	ZAR	375		(8)	(8)
	CZK	20,286		(373)	(373)
	PLN	3,274		(85)	(85)
	HKD	1,973		(31)	(31)
	SGD	3,290		(38)	(38)
	MYR	5,084		(26)	(26)
	TRY	802		12	12
	BRL	240		(5)	(5)
	IDR	8,631		(63)	(63)
	INR	2,671		(3)	(3)
	PHP	1,929		(20)	(20)
	THB	6,059		(74)	(74)
	MXN	1,793		(11)	(11)
	EGP	3,996		40	40
Buying:	CNY	6,214		(186)	(186)
	EUR	390		11	11
	USD	1,335		24	24
Currency swaps					
JPY receipt, USD payment		¥21,425	¥21,425	¥(782)	¥(782)

		Millions of Yen			
		March 31, 2022			
		Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Forward exchange contracts:					
Selling:	GBP	¥ 4,150		¥ 4	¥ 4
	EUR	19,649		(163)	(163)
	USD	38,835		(131)	(131)
	AUD	11,537		1	1
	NZD	1,382		(47)	(47)
	ZAR	228		1	1
	CZK	6,522		(187)	(187)
	HKD	1,528		(1)	(1)
	SGD	3,737		(24)	(24)
	MYR	6,888		(55)	(55)
	TRY	719		(4)	(4)
	IDR	3,481		(7)	(7)
	INR	979		0	0
	PHP	1,941		(14)	(14)
	CHY	9		0	0
	MXN	1,743		(284)	(284)
Buying:	CNY	5,393		426	426
	EUR	110		(1)	(1)
Currency swaps					
JPY receipt, USD payment		¥12,796	¥12,796	¥(590)	¥(590)

Derivative transactions to which hedge accounting is applied

			Millions of Yen		
			March 31, 2023		
		Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Forward exchange contracts:					
Selling:	GBP	Receivables	¥ 6,722		¥ (22)
	EUR	Receivables	69,760		814
	USD	Receivables	6,196		(115)
	CZK	Receivables	10,553		(328)
	TRY	Receivables	9,185		371
Buying:	CNY	Payables	29,907		(12)
Interest rate swaps:					
Fixed-rate payment, floating-rate receipt		Long-term debt	¥5,998	¥657	¥132
Commodity futures contracts:					
Buying:	Metal	Raw materials	¥9,689		¥977

			Millions of Yen		
			March 31, 2022		
		Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Forward exchange contracts:					
Selling:	GBP	Receivables	¥ 7,449		¥ 60
	EUR	Receivables	57,956		1,125
	USD	Receivables	11,052		(227)
	CZK	Receivables	10,506		(146)
	TRY	Receivables	14,337		(293)
Buying:	CNY	Payables	27,927		1,849
Interest rate swaps:					
Fixed-rate payment, floating-rate receipt		Long-term debt	¥75,014	¥9,896	¥109
Commodity futures contracts:					
Buying:	Metal	Raw materials	¥9,349		¥1,960

20. COMMITMENTS AND CONTINGENT LIABILITIES

Commitments for capital expenditures outstanding at March 31, 2023 totaled approximately ¥98,464 million.

The Group had the following contingent liabilities at March 31, 2023 and 2022.

	Millions of Yen	
	2023	2022
Trade notes endorsed	¥3,416	¥3,369

21. COMPREHENSIVE INCOME

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

	Millions of Yen	
	2023	2022
Unrealized losses on available-for-sale securities:		
Gain (loss) arising during the year	¥ 5,839	¥ (7,124)
Reclassification adjustments to profit or loss	(15,660)	(5,739)
Amount before income tax effect	(9,821)	(12,863)
Income tax effect	2,265	3,698
Total	¥ (7,556)	¥ (9,165)
Deferred (loss) gain on derivatives under hedge accounting:		
Gains arising during the year	¥ 7,250	¥ 3,300
Reclassification adjustments to profit or loss	(11,429)	(186)
Amount before income tax effect	(4,179)	3,114
Income tax effect	1,202	(970)
Total	¥ (2,977)	¥ 2,144
Foreign currency translation adjustments:		
Adjustments arising during the year	¥ 102,820	¥ 143,222
Reclassification adjustments to profit or loss	447	
Amount before income tax effect	103,267	143,222
Total	¥ 103,267	¥ 143,222
Remeasurements of defined benefit plans:		
Adjustments arising during the year	¥ (6,813)	¥ 3,384
Reclassification adjustments to profit or loss	(483)	(696)
Amount before income tax effect	(7,296)	2,688
Income tax effect	2,173	(862)
Total	¥ (5,123)	¥ 1,826
Share of other comprehensive income in affiliates accounted for using the equity method:		
Gains arising during the year	¥ 1,173	¥ 2,036
Reclassification adjustments to profit or loss	2	808
Total	¥ 1,175	¥ 2,844
Total other comprehensive income	¥ 88,786	¥ 140,871

22. NET INCOME PER SHARE

Reconciliations of the differences between basic and diluted net income per share (EPS) for the years ended March 31, 2023 and 2022 were as follows:

	Millions of Yen	Thousands of Shares	Yen
	Net Income	Weighted-Average Shares	EPS
Year Ended March 31, 2023			
Basic EPS:			
Net income available to common shareholders	¥257,755	292,708	¥880.59
Effect of dilutive securities:			
Stock options		178	
Diluted EPS:			
Net income for computation	¥257,755	292,886	¥880.05
Year Ended March 31, 2022			
Basic EPS:			
Net income available to common shareholders	¥217,710	292,667	¥743.88
Effect of dilutive securities:			
Stock options		168	
Diluted EPS:			
Net income for computation	¥217,710	292,835	¥743.46

As stated in Note 2.x, the change in accounting policy for Introduction costs in a cloud computing arrangement has been retrospectively applied to the consolidated financial statements for the year ended March 31, 2022. However, the impact of these changes on basic and diluted EPS for the year ended March 31, 2022 was insignificant.

23. REVENUE

1. Disaggregation of Revenue

   Revenues from contracts with customers on a disaggregated basis are disclosed in Note 24, "SEGMENT INFORMATION."

2. Basic Information to Understand Revenues from Contracts with Customers

   Basic information to understand revenues is disclosed in Note 2, "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, w. Recognition Criteria for Revenue and Expenses."

3. Contract Balances

Receivables from contract with customers, contract assets and contract liabilities at the beginning and end of the years ended March 31, 2023 and 2022 are as follows:

Year Ended March 31, 2023

	Millions of Yen	
	End of the Fiscal Year (March 31, 2023)	Beginning of the Fiscal Year (April 1, 2022)
Receivables from contracts with customers	¥683,720	¥579,391
Contract assets	22,595	15,685
Contract liabilities	118,284	90,457

Year Ended March 31, 2022

	Millions of Yen	
	End of the Fiscal Year (March 31, 2022)	Beginning of the Fiscal Year (April 1, 2021)
Receivables from contracts with customers	¥579,391	¥451,063
Contract assets	15,685	17,268
Contract liabilities	90,457	72,249

Contract assets relate primarily to the Group's rights to consideration for performance obligations that have been recognized as revenue but not yet invoiced, in contracts where the performance obligation is fulfilled over a specific period of time. Contract assets are reclassified to receivables when the right to consideration becomes unconditional. Contract liabilities mainly consist of consideration received by the Group from customers prior to the delivery of products and the completion of services.

Revenue recognized in the years ended March 31, 2023 and 2022 that was included in the contract liability balance at the beginning of the period was ¥73,277 million and ¥56,069 million, respectively.

Revenue recognized in the years ended March 31, 2023 and 2022 from performance obligations satisfied (or partially satisfied) in previous periods was not material.

4. Transaction Prices Allocated to Remaining Performance Obligations

The following table shows the summary of the transaction prices allocated to remaining performance obligations that are unsatisfied as of March 31, 2023 and 2022. The Group applies the convenience method of accounting in practice and does not provide information on remaining performance obligations with original expected terms of one year or less:

	Millions of Yen	
	2023	2022
Within one year	¥ 72,006	¥42,482
After one year	40,995	36,134
Total	¥113,001	¥78,616

24. 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 regularly evaluated by the Company's Board of Directors in order to decide how resources are allocated among the Group. Therefore, the Group's reportable segments consist of the Air Conditioning segment and the Chemicals segment.

   The Air Conditioning segment manufactures, distributes and installs air conditioning and refrigeration equipment. The Chemicals segment manufactures and distributes chemicals.

2. Methods of measurement for the amounts of sales, profit, assets and other items for each reportable segment

   The accounting policies of each reportable segment are generally consistent with those disclosed in Note 2, "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES."

   (Introduction costs in a cloud computing arrangement)

   As stated in Note 2.x, the change in accounting policy for Introduction costs in a cloud computing arrangement has been applied retrospectively and the consolidated financial statements for the year ended March 31, 2022 were restated.

   As a result of this change, Segment assets of the Air Conditioning segment for the year ended March 31, 2022 decreased by ¥960 million.

3. Information about sales, profit, assets and other items

	Millions of Yen						
	March 31, 2023						
	Reportable Segment						
	Air Conditioning	Chemicals	Total	Other	Total	Reconciliations	Consolidated
Sales:							
Japan	¥ 553,044	¥ 70,086	¥ 623,130	¥60,999	¥ 684,129		¥ 684,129
USA	1,204,712	58,219	1,262,931	12,087	1,275,018		1,275,018
Europe	657,426	42,363	699,789	8,963	708,752		708,752
Asia and Oceania	543,354	34,569	577,923	2,475	580,398		580,398
China	430,064	55,817	485,881	2,656	488,537		488,537
Other	241,166	2,363	243,529	1,216	244,745		244,745
Revenues from contracts with customers	3,629,766	263,417	3,893,183	88,396	3,981,579		3,981,579
Other revenues							
Sales to external customers	3,629,766	263,417	3,893,183	88,396	3,981,579		3,981,579
Intersegment sales	2,157	21,530	23,687	1,604	25,291	¥ (25,291)	
Total	3,631,923	284,947	3,916,870	90,000	4,006,870	(25,291)	3,981,579
Segment profit	324,452	45,411	369,863	7,183	377,046	(13)	377,033
Segment assets	3,669,677	402,215	4,071,892	90,169	4,162,061	141,622	4,303,683
Other:							
Depreciation	¥118,916	¥21,050	¥139,966	¥2,756	¥142,722		¥142,722
Amortization of goodwill	38,329	216	38,545	951	39,496		39,496
Investment balance in unconsolidated subsidiaries and associated companies accounted for using the equity method	19,109	7,649	26,758	42	26,800		26,800
Investment in property, plant and equipment and intangible assets	205,594	41,487	247,081	3,206	250,287		250,287

	Millions of Yen						
	March 31, 2022						
	Reportable Segment						
	Air Conditioning	Chemicals	Total	Other	Total	Reconciliations	Consolidated
Sales:							
Japan	¥ 523,927	¥ 58,440	¥ 582,367	¥56,080	¥ 638,447		¥ 638,447
USA	792,957	39,912	832,869	7,587	840,456		840,456
Europe	518,741	33,530	552,271	944	553,215		553,215
Asia and Oceania	397,956	27,068	425,024	1,083	426,107		426,107
China	424,745	51,187	475,932	2,190	478,122		478,122
Other	170,173	2,287	172,460	299	172,759		172,759
Revenues from contracts with customers	2,828,499	212,424	3,040,923	68,183	3,109,106		3,109,106
Other revenues							
Sales to external customers	2,828,499	212,424	3,040,923	68,183	3,109,106		3,109,106
Intersegment sales	2,167	12,223	14,390	1,177	15,567	¥ (15,567)	
Total	2,830,666	224,647	3,055,313	69,360	3,124,673	(15,567)	3,109,106
Segment profit	282,404	27,302	309,706	6,648	316,354	(3)	316,351
Segment assets	2,999,036	343,554	3,342,590	44,269	3,386,859	436,179	3,823,038
Other:							
Depreciation	¥ 96,734	¥16,475	¥113,209	¥2,163	¥115,372		¥115,372
Amortization of goodwill	32,485	200	32,685		32,685		32,685
Investment balance in unconsolidated subsidiaries and associated companies accounted for using the equity method	17,179	7,092	24,271		24,271		24,271
Investment in property, plant and equipment and intangible assets	119,824	34,517	154,341	2,031	156,372		156,372

Notes: 1. The Other segment is the aggregation of other operating segments which are not included in the reportable segments and consists of the Oil Hydraulics segment, the Defense segment and the Electronics segment.

2. "Reconciliations" include unallocated items and intersegment eliminations. The unallocated corporate assets included in "Reconciliations" amounted to ¥196,263 million and ¥482,469 million at March 31, 2023 and 2022, respectively, which consisted mainly of the Company's Cash and cash equivalents, Short-term investments and Investment securities.

3. The aggregated amount of segment profit equals operating income in the consolidated statement of income.

4. Intersegment sales are recorded at values that approximate market prices.

4. Supplemental information

(1) Information about geographical areas

(a) Sales

The sales information about geographical areas are generally consistent with those disclosed in "3. Information about sales, profit, assets and other items."

(b) Property, plant and equipment

Millions of Yen						
March 31, 2023						
Japan	USA	China	Asia and Oceania	Europe	Other	Consolidated
¥193,851	¥272,526	¥150,295	¥138,608	¥107,934	¥37,731	¥900,945

Millions of Yen						
March 31, 2022						
Japan	USA	China	Asia and Oceania	Europe	Other	Consolidated
¥177,139	¥225,149	¥132,496	¥105,006	¥81,000	¥22,574	¥743,364

(2) Significant impairment losses on long-lived assets by reportable segment

	Millions of Yen				
	March 31, 2023				
	Air Conditioning	Chemicals	Other	Eliminations and Corporate	Consolidated
Impairment losses on long-lived assets	¥8,583				¥8,583

	Millions of Yen				
	March 31, 2022				
	Air Conditioning	Chemicals	Other	Eliminations and Corporate	Consolidated
Impairment losses on long-lived assets	¥3,668				¥3,668

(3) Information about goodwill

(a) Balance of goodwill by reportable segment

Goodwill for each reportable segment at March 31, 2023 and 2022 was as follows:

	Millions of Yen				
	2023				
	Air Conditioning	Chemicals	Other	Eliminations and Corporate	Consolidated
Goodwill	¥287,405	¥354	¥16,573		¥304,332

	Millions of Yen				
	2022				
	Air Conditioning	Chemicals	Other	Eliminations and Corporate	Consolidated
Goodwill	¥269,874	¥594			¥270,468

25. SUBSEQUENT EVENT

Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2023, was approved at the Company's shareholders' meeting held on June 29, 2023:

	Millions of Yen
Year-end cash dividends, ¥140 per share	¥40,982

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