

Consolidated Financial Statements

Year ended 31 March 2023 and 2022

NIPPON CORPORATION

Independent Auditor's Report

The Board of Directors
NIPPN CORPORATION

Opinion

We have audited the accompanying consolidated financial statements of NIPPN CORPORATION and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheets as at March 31, 2023 and 2022, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the years then ended, and notes to the consolidated financial statements.

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

Basis for Opinion

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

Key Audit Matters

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

Assessment of non-current assets belonging to the Food segment	
Description of Key Audit Matter	Auditor's Response
<p>NIPPN CORPORATION (the Company) recorded property, plant and equipment of 113,467 million yen and intangible assets of 2,175 million yen under non-current assets on its consolidated balance sheet as of March 31, 2023.</p> <p>As described in (Significant accounting estimates) under Notes to consolidated financial statements, with regard to the asset group, which include non-current assets of 7,550 million yen, that belong to the Food</p>	<p>We mainly performed the following audit procedures with respect to the estimate of undiscounted future cash flows used in determining whether to recognize an impairment loss on non-current assets in the Food segment, among others.</p> <ul style="list-style-type: none">• We considered the consistency of future cash flows with budgets for the following fiscal year, and with the business plans approved by the boards of directors.

<p>segment, the Company determined that there were indications of impairment due to decreased profitability accompanying changes in the operating environment, but did not recognize an impairment loss as undiscounted future cash flows generated from each of these asset group exceeded their respective carrying amounts. Estimates of future cash flows generated from continuing use of the asset group are based on the business plans approved by the boards of directors of consolidated subsidiaries to which the asset group belong.</p> <p>As described in (Significant accounting estimates) under Notes to consolidated financial statements, the significant assumptions underlying estimates of future cash flows are (1) sales prices and market growth rates, among others for net sales, (2) changes in raw material costs, cost reduction effects resulting from management remediation measures, among others for cost of sales, and selling, general and administrative expenses, and (3) net selling prices at future points in time.</p> <p>The significant assumptions above underlying estimates of future cash flows involve uncertainty and require management judgment, and, accordingly, we determined that the assessment of non-current assets belonging to the Food segment is a key audit matter.</p>	<ul style="list-style-type: none"> • We compared the prior year business plans with subsequent actual figures to evaluate the effectiveness of management’s estimation process. • We performed the following audit procedures for the significant assumptions that were the basis of the business plans. <ol style="list-style-type: none"> (1) For net sales, we considered the reasonableness and feasibility of estimates made by management for changes in future sales prices. We also compared market growth rates, which were the basis of changes in future net sales, to industry information obtained from external information sources. (2) For cost of sales, and selling, general and administrative expenses, we compared estimates made by management for changes in raw material costs to historical data and available external information. In addition, to evaluate the feasibility of cost reduction effects resulting from management remediation measures, we evaluated whether these effects were consistent with the operating environment, which is the basis for estimates, by making inquiries of management on the specific details of the remediation measures, analyzing trends based on historical data, and inspecting related materials. (3) When considering the mark-to-market valuations of significant real estate among net selling prices at future points in time, we involved specialists from our network firm and considered the adequacy of real estate appraisals obtained from external specialists used by the Company.
--	--

Other Information

The other information comprises the information included in the disclosure document that contains audited consolidated financial statements but does not include the consolidated financial statements and our auditor’s report thereon

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

Responsibilities of Management, the Audit and Supervisory Committee for the Consolidated Financial Statements

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

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

The Audit and Supervisory Committee is responsible for overseeing the Group's financial reporting process.

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

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

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

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

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

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

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

From the matters communicated with the Audit and Supervisory Committee, 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.

Ernst & Young ShinNihon LLC
Tokyo, Japan

September 29, 2023

Kiyonobu Takeuchi
Designated Engagement Partner
Certified Public Accountant

Shigeyoshi Sato
Designated Engagement Partner
Certified Public Accountant

1. Consolidated financial statements

(1) Consolidated financial statements

(i) Consolidated balance sheets

(Millions of yen)

	FY2023 (As of March 31, 2023)	FY2022 (As of March 31, 2022)
Assets		
Current assets		
Cash and deposits	36,815	34,063
Notes and accounts receivable - trade and contract assets *2	54,119	50,466
Merchandise and finished goods	20,918	18,484
Work in process	222	57
Raw materials and supplies	26,400	21,348
Other current assets	4,607	6,407
Allowance for doubtful accounts	(61)	(59)
Total current assets	143,021	130,768
Non-current assets		
Property, plant and equipment		
Buildings and structures	109,932	109,650
Accumulated depreciation	(63,187)	(61,067)
Buildings and structures, net *3, *4	46,745	48,582
Machinery, equipment and vehicles	128,309	125,592
Accumulated depreciation	(107,139)	(103,100)
Machinery, equipment and vehicles, net *3, *4	21,170	22,492
Land *4	41,027	41,453
Construction in progress	1,741	471
Other	14,497	13,850
Accumulated depreciation	(11,715)	(11,238)
Other, net *3, *4	2,782	2,611
Total property, plant and equipment	113,467	115,611
Intangible assets	2,175	2,529
Investments and other assets		
Investment securities *1, *4	77,254	69,001
Long-term loans receivable	40	35
Deferred tax assets	2,075	1,628
Net defined benefit asset	2,370	2,015
Other assets	4,492	4,628
Allowance for doubtful accounts	(320)	(385)
Total investments and other assets	85,914	76,922
Total non-current assets	201,557	195,063
Deferred assets	26	37
Total assets	344,606	325,869

(Millions of yen)

	FY2023 (As of March 31, 2023)	FY2022 (As of March 31, 2022)
Liabilities		
Current liabilities		
Notes and accounts payable - trade *4	36,669	33,910
Short-term loans payable *4	17,572	19,530
Current portion of bonds	221	91
Income taxes payable	2,645	1,926
Accrued expenses	8,132	7,578
Refund liabilities	7,445	7,029
Provision for bonuses	764	705
Other current liabilities *5	5,161	4,070
Total current liabilities	78,613	74,842
Non-current liabilities		
Bonds payable	128	349
Convertible bond-type bonds with share acquisition rights	25,038	25,056
Long-term loans payable *4	21,175	23,684
Deferred tax liabilities	17,673	14,742
Net defined benefit liability	3,881	3,810
Accrued retirement benefits for directors	406	462
Other non-current liabilities	5,075	4,224
Total non-current liabilities	73,378	72,328
Total liabilities	151,992	147,171
Net assets		
Shareholders' equity		
Common stock	12,240	12,240
Capital surplus	9,693	11,307
Retained earnings	128,965	121,817
Treasury shares	(1,287)	(3,198)
Total shareholders' equity	149,612	142,166
Accumulated other comprehensive income		
Unrealized holding gain (loss) on securities	36,462	30,409
Deferred gain (loss) on hedges	(23)	88
Foreign currency translation adjustment	2,161	981
Retirement benefits liability adjustments	473	475
Total accumulated other comprehensive income	39,074	31,954
Subscription rights to shares	226	195
Non-controlling interests	3,699	4,381
Total net assets	192,613	178,697
Total liabilities and net assets	344,606	325,869

(ii) Consolidated statements of income and comprehensive income
(Consolidated statements of income)

(Millions of yen)

	FY2023 (From April 1, 2022 to March 31, 2023)	FY2022 (From April 1, 2021 to March 31, 2022)
Net sales *1	365,525	321,317
Cost of sales	285,452	246,390
Gross profit	80,073	74,926
Selling, general and administrative expenses		
Freight, sales commission and other expenses	23,707	21,183
Salaries and wages	22,935	22,263
Retirement benefit expenses	549	687
Depreciation	1,491	1,462
Other	19,101	18,047
Total selling, general and administrative expenses *2	67,785	63,644
Operating income	12,288	11,282
Non-operating income (expenses)		
Interest income	77	76
Dividend income	1,923	1,569
Rent income on fixed assets	227	230
Equity in earnings (losses) of unconsolidated subsidiaries and affiliates	309	237
Foreign exchange gains	95	248
Interest expenses	(202)	(208)
Rent cost on fixed assets	(18)	13
Share exchange related expenses	(222)	(10)
Gain on sales of fixed assets *3	12	247
Gain on sales of investment securities	743	1,079
Loss on sales and disposal of fixed assets *4	(228)	(137)
Impairment loss *5	(514)	(104)
Loss on valuation of investment securities	(82)	(26)
System failure response costs *6	-	(1,602)
Other non-operating income (expenses), net	301	674
Total non-operating income (expenses), net	2,422	2,287
Profit before income taxes	14,710	13,568
Income taxes - current	4,494	4,186
Income taxes - deferred	(132)	209
Total income taxes	4,362	4,396
Profit	10,347	9,172
Profit (loss) attributable to non-controlling interests	87	(154)
Profit attributable to owners of parent	10,260	9,327

(Consolidated statements of comprehensive income)

(Millions of yen)

	FY2023 (From April 1, 2022 to March 31, 2023)	FY2022 (From April 1, 2021 to March 31, 2022)
Profit	10,347	9,172
Other comprehensive income (loss)		
Unrealized holding gain (loss) on securities	6,059	2,622
Deferred gain (loss) on hedges	(113)	51
Foreign currency translation adjustment	1,176	477
Retirement benefits liability adjustments	4	169
Share of other comprehensive income of entities accounted for using equity method	5	21
Total other comprehensive income (loss) *1	7,133	3,341
Comprehensive income	17,481	12,514
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	17,376	12,670
Comprehensive income attributable to non- controlling interests	105	(156)

(iii) Consolidated statements of changes in net assets
FY2023 (From April 1, 2022 to March 31, 2023)

(Millions of yen)

	Shareholders' equity				Total shareholders' equity
	Common stock	Capital surplus	Retained earnings	Treasury shares	
Balance at beginning of current period	12,240	11,307	121,817	(3,198)	142,166
Changes during period					
Dividends of surplus			(3,023)		(3,023)
Profit attributable to owners of parent			10,260		10,260
Change in scope of consolidation			(69)		(69)
Purchase of treasury shares				(2)	(2)
Disposal of treasury shares			(0)	34	34
Change due to share exchanges			(18)	1,878	1,860
Change due to business combination					–
Change in ownership interest of parent due to transactions with non-controlling interests		(1,613)			(1,613)
Net changes of items other than shareholders' equity					
Total changes during period	–	(1,613)	7,148	1,911	7,446
Balance at end of current period	12,240	9,693	128,965	(1,287)	149,612

	Accumulated other comprehensive income					Subscription rights to shares	Non-controlling interests	Total net assets
	Unrealized holding gain (loss) on securities	Deferred gain (loss) on hedges	Foreign currency translation adjustment	Retirement benefits liability adjustments	Total accumulated other comprehensive income			
Balance at beginning of current period	30,409	88	981	475	31,954	195	4,381	178,697
Changes during period								
Dividends of surplus								(3,023)
Profit attributable to owners of parent								10,260
Change in scope of consolidation								(69)
Purchase of treasury shares								(2)
Disposal of treasury shares								34
Change due to share exchanges								1,860
Change due to business combination								–
Change in ownership interest of parent due to transactions with non-controlling interests								(1,613)
Net changes of items other than shareholders' equity	6,052	(111)	1,180	(1)	7,120	31	(682)	6,468
Total changes during period	6,052	(111)	1,180	(1)	7,120	31	(682)	13,915
Balance at end of current period	36,462	(23)	2,161	473	39,074	226	3,699	192,613

FY2022 (From April 1, 2021 to March 31, 2022)

(Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	12,240	11,308	115,366	(3,317)	135,598
Changes during period					
Dividends of surplus			(2,844)		(2,844)
Profit attributable to owners of parent			9,327		9,327
Change in scope of consolidation					-
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares			(9)	118	109
Change due to share exchanges					-
Change due to business combination			(22)		(22)
Change in ownership interest of parent due to transactions with non-controlling interests		(1)	(1)		(2)
Net changes of items other than shareholders' equity					
Total changes during period	-	(1)	6,450	118	6,567
Balance at end of current period	12,240	11,307	121,817	(3,198)	142,166

	Accumulated other comprehensive income							
	Unrealized holding gain (loss) on securities	Deferred gain (loss) on hedges	Foreign currency translation adjustment	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
Balance at beginning of current period	27,770	37	493	308	28,610	234	4,620	169,063
Changes during period								
Dividends of surplus								(2,844)
Profit attributable to owners of parent								9,327
Change in scope of consolidation								-
Purchase of treasury shares								(0)
Disposal of treasury shares								109
Change due to share exchanges								-
Change due to business combination								(22)
Change in ownership interest of parent due to transactions with non-controlling interests								(2)
Net changes of items other than shareholders' equity	2,639	50	487	166	3,343	(38)	(238)	3,066
Total changes during period	2,639	50	487	166	3,343	(38)	(238)	9,634
Balance at end of current period	30,409	88	981	475	31,954	195	4,381	178,697

(iv) Consolidated statements of cash flows

(Millions of yen)

	FY2023 (From April 1, 2022 to March 31, 2023)	FY2022 (From April 1, 2021 to March 31, 2022)
Operating activities		
Profit before income taxes	14,710	13,568
Depreciation	9,966	10,232
Changes in net defined benefit asset and net defined benefit liability	(132)	(475)
Increase (decrease) in accrued retirement benefits for directors	(50)	(323)
Increase (decrease) in allowance for doubtful accounts	(65)	(74)
Impairment loss	514	104
Interest and dividend income	(2,001)	(1,645)
Interest expenses	202	208
Loss (gain) on sales of investment securities	(804)	(1,104)
Loss (gain) on valuation of investment securities	82	26
Foreign exchange losses (gains)	(93)	(184)
Equity in (earnings) losses of unconsolidated subsidiaries and affiliates	(309)	(237)
Loss (gain) on sales of fixed assets	46	(244)
Loss on disposal of fixed assets	181	141
System failure response costs	-	1,602
Loss (gain) on sale of shares of subsidiaries and associates	-	24
Decrease (increase) in notes and accounts receivable - trade	(3,468)	(8,609)
Decrease (increase) in inventories	(7,524)	(5,563)
Increase (decrease) in notes and accounts payable - trade	2,555	7,708
Increase (decrease) in accrued consumption taxes	2,385	(244)
Decrease (increase) in other receivables	(598)	(81)
Increase (decrease) in other payables	1,290	37
Other, net	143	327
Subtotal	17,031	15,194
Interest and dividend income received	2,022	1,640
Interest expenses paid	(202)	(196)
Income taxes paid	(3,796)	(4,661)
Net cash provided by (used in) operating activities	15,055	11,975

(Millions of yen)

	FY2023 (From April 1, 2022 to March 31, 2023)	FY2022 (From April 1, 2021 to March 31, 2022)
Investing activities		
Decrease (increase) in time deposits	(546)	(677)
Purchase of fixed assets	(7,835)	(10,657)
Proceeds from sales of fixed assets	1,205	357
Purchase of securities	(1,000)	-
Proceeds from sale and redemption of securities	2,114	-
Purchase of investment securities	(176)	(1,154)
Proceeds from sales and redemption of investment securities	1,593	2,043
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(295)	-
Payments for sale of shares of subsidiaries resulting in change in scope of consolidation	-	(45)
Payments of loans receivable	(17)	(7)
Collection of loans receivable	13	11
Decrease (increase) in other investments	(81)	24
Net cash provided by (used in) investing activities	<u>(5,026)</u>	<u>(10,103)</u>
Financing activities		
Net increase (decrease) in short-term loans payable	(2,713)	(2,695)
Proceeds from long-term loans payable	660	4,078
Repayments of long-term loans payable	(2,402)	(2,307)
Redemption of bonds	(91)	(96)
Purchase of treasury shares	(2)	(0)
Cash dividends paid	(3,023)	(2,844)
Dividends paid to non-controlling interests	(19)	(32)
Repayments of finance lease obligations	(299)	(330)
Other, net	(511)	(50)
Net cash provided by (used in) financing activities	<u>(8,402)</u>	<u>(4,278)</u>
Effect of exchange rate changes on cash and cash equivalents	394	209
Net increase (decrease) in cash and cash equivalents	<u>2,021</u>	<u>(2,196)</u>
Cash and cash equivalents at beginning of period	31,215	35,320
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	(78)	(1,908)
Cash and cash equivalents at end of period *1	<u>33,157</u>	<u>31,215</u>

Notes to consolidated financial statements

(Basis of preparation of the consolidated financial statements)

1. Basis of preparation

The accompanying consolidated financial statements of NIPPON CORPORATION (the “Company”) and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards (“IFRS”), and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically within Japan so as to present them in a format which is more familiar to readers outside Japan. In addition, certain reclassifications have been made to the consolidated financial statements for the year ended March 31, 2022 to conform to the classifications used for the year ended March 31, 2023.

Japanese yen figures less than one million yen are rounded down to the nearest million yen, except for per share data.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and mainly operates.

2. Scope of consolidation

- (1) Number and names of consolidated subsidiaries
42 (45 in 2022) companies

Names of major consolidated subsidiaries

NIPPON Donut Co., Ltd., Nippon Rich Co., Ltd., NIPPON ENGINEERING CO., Ltd., NPF Japan Co., Ltd., OHMY Co., Ltd., Matsuya Flour Mills Co., Ltd., NIPPON SHOJI Co., Ltd., Fast Foods Co., Ltd., OK Food Industry Co., Ltd., NAGANO TOMATO Co., Ltd., and Yamato Foods Co., Ltd.

In the current fiscal year, NIPPON International Co., Ltd. and two other companies were excluded from the scope of consolidation due to liquidation and other reasons.

- (2) Name of major unconsolidated subsidiaries
NIPPON Logistics Co., Ltd.

(Reasons for exclusion of unconsolidated subsidiaries from the scope of consolidation)

Each of the 18 unconsolidated subsidiaries is small in scale and their total assets, sales and net profit or loss (amount corresponding to the equity interest) and retained earnings (amount corresponding to the equity interest) and others do not have a material effect on the consolidated financial statements.

3. Application of equity method

- (1) Number of unconsolidated subsidiaries and affiliates accounted for using equity method
14 (14 in 2022) companies (of which six (six in 2022) unconsolidated subsidiaries and eight (eight in 2022) affiliates)

Names of major equity method companies

NIPPON Logistics Co., Ltd.

- (2) There are 12 (10 in 2022) unconsolidated subsidiaries and 16 (16 in 2022) affiliates not accounted for using the equity method. They are not accounted for using the equity method because they have only a minor effect on the consolidated financial statements and have no significance as a whole in terms of net profit or loss (amount corresponding to the equity interest), retained earnings (amount corresponding to the equity interest) and others.

4. Fiscal year end of consolidated subsidiaries

The consolidated subsidiaries whose balance sheet date is different from the consolidated balance sheet date are as follows:

<u>Company name</u>	<u>Balance sheet date</u>
Pasta Montana, L.L.C. and eight (eight in 2022) other companies	December 31*

* Financial statements as of the balance sheet date of each consolidated subsidiary have been used. However, necessary adjustments are made on consolidation for significant transactions that occurred between the balance sheet date of these subsidiaries and the consolidated financial statements date.

5. Significant accounting policies

- (1) Valuation bases and methods for significant assets
 - (i) Securities
 - Other securities
 - Securities other than shares, etc. that do not have a market price
Stated at fair value (unrealized gain or loss is included as a separate component of net assets, and cost of securities sold is determined based on the moving-average method).
 - Shares, etc. that do not have a market price
Stated at cost using the moving-average method.
 - (ii) Derivatives
Derivatives financial instruments are stated at fair value.
 - (iii) Inventories
 - Merchandise and finished goods
The Company and domestic consolidated subsidiaries mainly adopt the cost method based on the (monthly) gross average method (carrying amounts on the balance sheet are subject to the lower of cost or market value method), and foreign consolidated subsidiaries mainly adopt the lower of cost or market value method, with cost determined by the first-in first-out method.
 - Raw materials and supplies
For raw materials on an immediate sale basis, the Company and domestic consolidated subsidiaries mainly adopt the first-in first-out cost method (carrying amounts on the balance sheet are subject to the lower of cost or market value method). For other raw materials and supplies, they mainly adopt the (monthly) gross average method (carrying amounts on the balance sheet are subject to the lower of cost or market value method). Foreign consolidated subsidiaries mainly adopt the lower of cost or market value method, with cost determined by the first-in first-out method.
 - (ii) Intangible assets (excluding leased assets)
The straight-line method is applied.
Software for internal use is amortized based on the estimated useful life as internally determined (five years).
 - (iii) Leased assets
The straight-line method is applied on the assumptions that the useful life equals the lease term and the residual value is zero.
- (2) Depreciation and amortization methods for major depreciable and amortizable assets
 - (i) Property, plant and equipment (excluding leased assets)
The Company and domestic consolidated subsidiaries mainly adopt the declining-balance method. However, they adopt the straight-line method for buildings (excluding facilities attached to buildings) acquired on or after April 1, 1998 and facilities attached to buildings and structures acquired on or after April 1, 2016. Foreign consolidated subsidiaries mainly adopt the straight-line method.
The estimated useful lives of major items are as follows:

Buildings and structures	3 to 50 years
Machinery, equipment and vehicles	4 to 12 years
 - (ii) Intangible assets (excluding leased assets)
The straight-line method is applied.
Software for internal use is amortized based on the estimated useful life as internally determined (five years).
 - (iii) Leased assets
The straight-line method is applied on the assumptions that the useful life equals the lease term and the residual value is zero.
- (3) Accounting policy for significant provisions
 - (i) Allowance for doubtful accounts
For the Company and domestic consolidated subsidiaries, allowance for doubtful accounts is provided based on past experience for normal receivables and using a specific estimate of the

- collectability of individual receivables from companies in financial difficulty in order to prepare for losses from bad debt.
- (ii) Accrued retirement benefits for directors
To provide for the payment of directors' retirement benefits, the Company and domestic consolidated subsidiaries reserve the amount required as of the end of the current fiscal year based on their internal regulations.
 - (iii) Provision for bonuses
To prepare for the payment of bonuses to employees, the amount is provided based on the expected amount to be paid.
- (4) Accounting methods for retirement benefits
- (i) Method of attributing expected retirement benefits to periods
In calculating retirement benefit obligations, the benefit formula basis is used as the method for attributing the expected retirement benefits to the periods.
 - (ii) Actuarial differences
Unrecognized actuarial gains and losses are amortized by the straight-line method over a fixed period (ten years) which is within the average remaining service period of employees, starting from the respective fiscal years following the fiscal year in which they arose.
- (5) Accounting policy for significant revenue and expense
The Group's core businesses are Flour Milling business and Food business. The Group sells to customers finished goods and merchandise (wheat flour and premixes, etc.) manufactured by the Group. Revenue from sale of these finished goods and merchandise is recognized when they are delivered to customers.
In addition, revenue is measured at the amount of consideration promised in contracts with customers less sales incentives, etc.
- (6) Significant hedge accounting method
- (i) Hedge accounting method
Deferred hedge accounting is applied. Interest rate swaps that satisfy certain requirements are accounted for by the special treatment.
 - (ii) Hedging instruments and hedged items

· Hedging instruments	Interest rate swaps and forward exchange contracts
· Hedged items	Loans payable, receivables and payables denominated in foreign currencies or expected transactions denominated in foreign currencies
 - (iii) Hedging policy
For interest rate-related transactions, hedges are entered into solely for avoiding risks arising from possible interest rate changes in the future. For currency-related transactions, forward exchange contracts are used to hedge risks arising from possible fluctuations of foreign exchange rates on transactions denominated in foreign currencies.
 - (iv) Assessment of hedge effectiveness
The hedge effectiveness of interest rate swaps is assessed by comparing the accumulated cash flow changes of the hedged items and the accumulated cash flow changes of the hedging instruments. However, the assessment of hedge effectiveness has been omitted for interest rate swaps by which the risk of changes in interest rate would be entirely eliminated. For forward foreign exchange contracts, the evaluation of hedge effectiveness has been omitted as significant conditions are identical for the exchange contracts and the hedged items or scheduled transactions and it is assumed that market fluctuations or cash flow changes are offset at the time of commencement of hedging and thereafter.
- (7) Method and period for amortization of goodwill
Goodwill is amortized by the straight-line method over a period of five to ten years.
- (8) Scope of cash and cash equivalents in consolidated statements of cash flows
Cash and cash equivalents in the consolidated statements of cash flows consist of cash on hand, demand deposits, and short-term investments with a maturity of three months or less when purchased which can easily be converted to cash and are subject to little risk of change in value.

- (9) Method for processing deferred assets
Bond issuance cost is amortized by the straight-line method across the period from the date of issuance until the date of redemption.

(Significant accounting estimates)

FY2023 (From April 1, 2022 to March 31, 2023)

(Impairment of non-current assets)

1. Amounts recorded on the consolidated financial statements for the current fiscal year

The Group owns various non-current assets which are used for business purposes. When the Group assesses the possibility of impairment, these assets are categorized into business assets that are grouped by branches and factories and based on certain regions, etc. according to mutual complementarity in cash flows, an asset group for common use, leased assets, and idle assets. Of the non-current asset groups identified as having indications of impairment, the significant ones were the non-current assets of ¥7,550 million included in the following asset group belonging to the Food segment. However, impairment loss has not been recognized as undiscounted future cash flows arising from each asset group exceed the book value of each asset group.

Asset group	Location	Intended use	Type of assets	Book value
Manufacturing factory for deep-fried bean curd	Asakura city, Fukuoka	Business assets	Land, buildings, etc.	¥7,550 million

2. Other information that contributes to the understanding of the users of the financial statements

The asset group of the manufacturing factory for deep-fried bean curd in Asakura city, Fukuoka is deemed as indicating impairment, as a result of decrease in profitability due to changes in the business environment such as sporadic increases in the price of raw materials.

- (1) Calculation method of undiscounted future cash flows

Undiscounted future cash flows have been calculated based on the business plan approved by the Board of Directors of a consolidated subsidiary to which the asset group belongs.

- (2) Significant assumptions

The estimation of future cash flows has been calculated based on the business plan approved by the Board of Directors. Significant assumptions included sales unit price and market growth rate in the estimation of net sales, and trends in raw material prices and the effect of cost reduction through management improvement plans in the estimation of cost of sales and selling and administrative expenses.

In addition, net selling prices at a future point in time has been calculated based on appraisals obtained from real estate appraisers.

- (3) Impact on the consolidated financial statements for the next fiscal year

Changes in those significant assumptions may result in a decrease in the total amount of undiscounted future cash flows arising from the asset group. If the undiscounted future cash flows fall below the book value, impairment loss may be recorded.

FY2022 (From April 1, 2021 to March 31, 2022)

(Impairment of non-current assets)

1. Amounts recorded on the consolidated financial statements for the current fiscal year

The Group owns various non-current assets which are used for business purposes. When the Group assesses the possibility of impairment, these assets are categorized into business assets that are grouped by branches and factories and based on certain regions, etc. according to mutual complementarity in cash flows, an asset group for common use, leased assets, and idle assets. Of the non-current asset groups identified as having indications of impairment, the significant ones were the non-current assets of ¥8,413 million included in the following asset group belonging to the Food segment. However, impairment loss has not been recognized as undiscounted future cash flows arising from the asset group exceed its book value.

Asset group	Location	Intended use	Type of assets	Book value
Manufacturing factory for deep-fried bean curd	Asakura city, Fukuoka	Business assets	Land, buildings, etc.	¥8,413 million

2. Other information that contributes to the understanding of the users of the financial statements

The asset group of the manufacturing factory for deep-fried bean curd in Asakura city, Fukuoka is deemed as indicating impairment, as a result of decrease in profitability due to changes in the business environment.

(1) Calculation method of undiscounted future cash flows

Undiscounted future cash flows have been calculated based on the business plan approved by the Board of Directors of a consolidated subsidiary to which the asset group belongs.

(2) Significant assumptions

The estimation of future cash flows has been calculated based on the business plan approved by the Board of Directors. Significant assumptions included sales unit price and market growth rate in the estimation of net sales, and trends in raw material prices and the effect of cost reduction through management improvement plans in the estimation of cost of sales and selling and administrative expenses.

In addition, net selling prices at a future point in time has been calculated based on appraisals obtained from real estate appraisers.

(3) Impact on the consolidated financial statements for the next fiscal year

Changes in those significant assumptions may result in a decrease in the total amount of undiscounted future cash flows arising from the asset group. If the undiscounted future cash flows fall below the book value, impairment loss may be recorded.

(Changes in accounting policies)

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

The Company has applied the “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, June 17, 2021; hereinafter, “Fair Value Measurement Guidance”) from the beginning of the current fiscal year, and will prospectively apply the new accounting policies stipulated by the Fair Value Measurement Guidance in accordance with the transitional treatment provided in Paragraph 27-2 of the Fair Value Measurement Guidance. This does not affect the consolidated financial statements.

(Accounting standards issued but not yet effective, etc.)

- “Accounting Standard for Current Income Taxes” (ASBJ Statement No. 27, October 28, 2022, Accounting Standards Board of Japan)
- “Accounting Standard for Presentation of Comprehensive Income” (ASBJ Statement No. 25, October 28, 2022, Accounting Standards Board of Japan)
- “Guidance on Accounting Standard for Tax Effect Accounting” (ASBJ Guidance No. 28, October 28, 2022, Accounting Standards Board of Japan)

(1) Summary

The “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, Accounting Standards Board of Japan), etc. was released in February 2018, completing the transfer of management of practical guidance on tax effect accounting from the Japanese Institute of Certified Public Accountants to the Accounting Standards Board of Japan. In the related deliberation process, the following two points were scheduled for reconsideration after the release of ASBJ Statement No. 28. These accounting standards represent the announcement of deliberation on these points.

- The accounting classification for tax expenses (tax on other comprehensive income)
- The tax effect associated with the sale of shares of subsidiaries, etc. (subsidiaries and affiliates) in cases where the group tax sharing system is applied

(2) Scheduled date of application

It is scheduled to be applied from the beginning of the fiscal year ending March 31, 2025.

(3) Effect of application of the aforementioned accounting standards, etc.

The effect of application of the “Accounting Standard for Current Income Taxes,” etc. on the consolidated financial statements is currently under review.

(Changes in presentation)

(Consolidated statements of income)

“Share exchange related expenses,” which was included in “Other non-operating income (expenses), net” in the previous fiscal year, were presented separately in the current fiscal year due to an increase in quantitative materiality. To reflect this change in presentation method, in the consolidated statements of income for the previous fiscal year, ¥664 million that had been presented as “Other non-operating income (expenses), net” was reclassified as ¥674 million in “Other non-operating income (expenses), net” and ¥(10) million in “Share exchange related expenses.”

(Additional information)
(Transfer of non-current assets)

At the meeting of the Board of Directors held on March 28, 2023, the Company resolved to transfer non-current assets owned by the Company, and proceeded to conclude a contract for the sale of real estate on March 31, 2023.

- Reason for the transfer
To increase asset efficiency through the effective use of management resources.

- Details of the transferred assets

Asset	Location	Area	Current condition
Land	2 Takaidonishi, Suginami City, Tokyo	5,219.73m ²	Unused land

- Relationship with the purchaser
The Company has no notable capital, human, trading, or related party relationship with the purchaser.

- Transfer schedule
Date of Board of Directors resolution: March 28, 2023
Date of conclusion of sale contract: March 31, 2023
Date of delivery of property: May 30, 2024 (planned)

- Future outlook
In the fiscal year ending March 31, 2025, the Company plans to record a gain on sales of fixed assets associated with this transfer of approximately ¥6,800 million as non-operating income.

(Consolidated balance sheets)

- *1 Investment securities in unconsolidated subsidiaries and affiliates are as follows:

	(Millions of yen)	
	FY2023 (As of March 31, 2023)	FY2022 (As of March 31, 2022)
Investment securities	5,777	5,540

- *2 Amounts of receivables from contracts with customers and contract assets included in notes and accounts receivable - trade and contract assets are as follows:

	(Millions of yen)	
	FY2023 (As of March 31, 2023)	FY2022 (As of March 31, 2022)
Notes receivable - trade	881	954
Accounts receivable - trade	53,237	49,511
Contract assets	—	—
Total	54,119	50,466

- *3 Accumulated reduction entry amount deducted from the acquisition cost of property, plant and equipment due to acceptance of government subsidies and others are as follows:

	(Millions of yen)	
	FY2023 (As of March 31, 2023)	FY2022 (As of March 31, 2022)
	812	655

*4 Assets pledged as collateral

(1) Assets pledged as collateral

(Millions of yen)

	FY2023 (As of March 31, 2023)	FY2022 (As of March 31, 2022)
Buildings and structures	810	899
Machinery and equipment	79	119
Land	947	947
Property, plant and equipment (other)	0	0
Investment securities	173	183
Total	2,011	2,150

(2) Liabilities corresponding to assets pledged as collateral

(Millions of yen)

	FY2023 (As of March 31, 2023)	FY2022 (As of March 31, 2022)
Short-term loans payable	1,300	1,200
Long-term loans payable (including current portion)	362	422
Notes and accounts payable - trade	748	642
Total	2,410	2,264

*5 Amounts of contract liabilities included in other current liabilities are as follows:

(Millions of yen)

	FY2023 (As of March 31, 2023)	FY2022 (As of March 31, 2022)
Contract liabilities	396	299

6 The Company has provided guarantees for borrowings of its employees and others as follows:

(Millions of yen)

	FY2023 (As of March 31, 2023)	FY2022 (As of March 31, 2022)
Employees	4	5
Subsidiaries and associates	47	50
Total	52	55

(Consolidated statements of income)

*1 Amounts of revenue from contracts with customers and revenue from other sources are provided in notes on "Segment information, etc." in the consolidated financial statements.

*2 Research and development expenses included in general and administrative expenses are as follows:

(Millions of yen)

	FY2023 (From April 1, 2022 to March 31, 2023)	FY2022 (From April 1, 2021 to March 31, 2022)
	3,444	3,352

- *3 Gain on sales of fixed assets represents gain on sales of land and others.
- *4 Loss on sales and disposal of fixed assets represents loss on retirement and sales of machinery and equipment, and others.
- *5 Impairment loss

Impairment loss has been recorded for the following assets.

FY2023 (From April 1, 2022 to March 31, 2023)

Location	Intended use	Type of assets
China	Business assets	Buildings, etc.

In assessing the possibility of impairment, the Group categorizes its assets into business assets that are grouped by branches and factories and based on certain regions, etc. according to mutual complementarity in cash flows, an asset group for common use, leased assets, and idle assets. The book value of the abovementioned assets has been reduced to a recoverable amount. The amount recorded as impairment loss is ¥429 million.

The recoverable amount is measured by net selling prices, which is calculated based on appraisal reports obtained from independent real estate appraisers and other information.

Location	Intended use	Type of assets
Asakura City, Fukuoka	Business assets	Buildings, etc.

The book value of some of the abovementioned asset group has been reduced to a recoverable amount. The amount recorded as impairment loss is ¥85 million.

Although the recoverable amount is measured by value in use, it is stated as zero, as no future cash flow is expected.

FY2022 (From April 1, 2021 to March 31, 2022)

Location	Intended use	Type of assets
Honjo city, Saitama, etc.	Business assets	Buildings, etc.

In assessing the possibility of impairment, the Group categorizes its assets into business assets that are grouped by branches and factories and based on certain regions, etc. according to mutual complementarity in cash flows, an asset group for common use, leased assets, and idle assets. The book value of the abovementioned assets has been reduced to a recoverable amount. The amount recorded as impairment loss is ¥73 million.

Although the recoverable amount is measured by value in use, it is stated as zero, as no future cash flow is expected.

Location	Intended use	Type of assets
Hiratsuka city, Kanagawa	Idle assets	Land

The book value of the abovementioned assets has been reduced to a recoverable amount. The amount recorded as impairment loss is ¥31 million.

The recoverable amount is measured by net selling prices, which is calculated based on reasonable estimates taking into account market value.

- *6 System failure response costs

FY2022 (From April 1, 2021 to March 31, 2022)

These are expenses related to the system failure caused by a cyberattack occurred on July 7, 2021.

Major components were consultant fees for outside experts commissioned to investigate the incident and emergency delivery fees incurred for shipping to accommodate orders received immediately after the system shutdown.

(Consolidated statements of comprehensive income)

*1 Reclassification adjustments and tax effects relating to other comprehensive income

(Millions of yen)

	FY2023 (From April 1, 2022 to March 31, 2023)	FY2022 (From April 1, 2021 to March 31, 2022)
Unrealized holding gain (loss) on securities:		
Amount arising during the year	9,414	4,869
Reclassification adjustments	(682)	(1,087)
Before tax effect adjustments	8,731	3,781
Tax effects	(2,671)	(1,158)
Unrealized holding gain (loss) on securities	6,059	2,622
Deferred gain (loss) on hedges:		
Amount arising during the year	174	202
Reclassification adjustments	(337)	(128)
Before tax effect adjustments	(162)	74
Tax effects	49	(22)
Deferred gain (loss) on hedges	(113)	51
Foreign currency translation adjustment:		
Amount arising during the year	1,176	477
Retirement benefits liability adjustments:		
Amount arising during the year	156	230
Reclassification adjustments	(157)	5
Before tax effect adjustments	(1)	235
Tax effects	5	(65)
Retirement benefits liability adjustments	4	169
Share of other comprehensive income of entities accounted for using equity method:		
Amount arising during the year	5	21
Total other comprehensive income (loss)	7,133	3,341

(Consolidated statements of changes in net assets)

The Companies Act of Japan provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

FY2023 (From April 1, 2022 to March 31, 2023)

1. Class and total number of issued shares and treasury shares

(Thousands of shares)

	Number of shares as of April 1, 2022	Increase in number of shares during fiscal year	Decrease in number of shares during fiscal year	Number of shares as of March 31, 2023
Issued shares				
Common stock	78,824	–	–	78,824
Treasury shares				
Common stock (Note 1, 2)	2,021	1	1,161	860

- Notes:
1. The increase in the number of treasury shares of common stock was mainly due to the purchase of shares less than one unit.
 2. The decrease in the number of treasury shares of common stock was due to the disposal of 21 thousand shares through the exercise of stock options and the exchange of 1,140 thousand shares.

2. Subscription rights to shares and treasury subscription rights to shares

Category	Breakdown of subscription rights to shares	Class of shares to be issued upon exercise of subscription rights to shares	Number of shares to be issued upon exercise of subscription rights to shares (Shares)				Balance as of March 31, 2023 (Millions of yen)
			As of April 1, 2022	Increase	Decrease	As of March 31, 2023	
Reporting company (Parent company)	Euro-yen denominated convertible bond-type bonds with share acquisition rights due 2025	Common stock	10,968,279	53,676	–	11,021,955	(Note) –
	Subscription rights to shares as stock options	–	–	–	–	–	226
Total		–	–	–	–	–	226

Note: The lump-sum method is used for the convertible bond-type bonds with share acquisition rights.

3. Dividends

(1) Cash dividends paid

Resolution	Class of shares	Total amount of dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Annual Shareholders Meeting held on June 29, 2022	Common stock	1,539	20.0	March 31, 2022	June 30, 2022
Board of Directors meeting held on November 4, 2022	Common stock	1,484	19.0	September 30, 2022	December 5, 2022

- (2) Dividends for which record date is in the fiscal year but whose effective date is in the following fiscal year

Resolution	Class of shares	Total amount of dividends (Millions of yen)	Source of dividends	Dividends per share (Yen)	Record date	Effective date
Annual Shareholders Meeting held on June 29, 2023	Common stock	1,640	Retained earnings	21.0	March 31, 2023	June 30, 2023

FY2022 (From April 1, 2021 to March 31, 2022)

1. Class and total number of issued shares and treasury shares

(Thousands of shares)

	Number of shares as of April 1, 2021	Increase in number of shares during fiscal year	Decrease in number of shares during fiscal year	Number of shares as of March 31, 2022
Issued shares				
Common stock	78,824	–	–	78,824
Treasury shares				
Common stock (Note 1, 2)	2,093	0	72	2,021

- Notes:
- The increase in the number of treasury shares of common stock was due to the purchase of 0 thousand shares less than one unit.
 - The decrease in the number of treasury shares of common stock was due to the disposal of 72 thousand shares through the exercise of stock options and the request for purchasing 0 thousand additional shares less than one unit.

2. Subscription rights to shares and treasury subscription rights to shares

Category	Breakdown of subscription rights to shares	Class of shares to be issued upon exercise of subscription rights to shares	Number of shares to be issued upon exercise of subscription rights to shares (Shares)			Balance as of March 31, 2022 (Millions of yen)	
			As of April 1, 2021	Increase	Decrease		As of March 31, 2022
Reporting company (Parent company)	Euro-yen denominated convertible bond-type bonds with share acquisition rights due 2025	Common stock	10,927,051	41,228	–	10,968,279	(Note) –
	Subscription rights to shares as stock options	–	–	–	–	–	195
Total		–	–	–	–	–	195

Note: The lump-sum method is used for the convertible bond-type bonds with share acquisition rights.

3. Dividends

(1) Cash dividends paid

Resolution	Class of shares	Total amount of dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Annual Shareholders Meeting held on June 29, 2021	Common stock	1,460	19.0	March 31, 2021	June 30, 2021
Board of Directors meeting held on November 12, 2021	Common stock	1,383	18.0	September 30, 2021	December 6, 2021

(2) Dividends for which record date is in the fiscal year but whose effective date is in the following fiscal year

Resolution	Class of shares	Total amount of dividends (Millions of yen)	Source of dividends	Dividends per share (Yen)	Record date	Effective date
Annual Shareholders Meeting held on June 29, 2022	Common stock	1,539	Retained earnings	20.0	March 31, 2022	June 30, 2022

(Consolidated statements of cash flows)

*1 Cash and cash equivalents as of the year end are reconciled to the accounts reported in the consolidated balance sheets as follows:

(Millions of yen)

	FY2023 (From April 1, 2022 to March 31, 2023)	FY2022 (From April 1, 2021 to March 31, 2022)
Cash and deposits	36,815	34,063
Time deposits with maturity over three months	(3,658)	(2,848)
Cash and cash equivalents	33,157	31,215

(Lease transactions)

(Lessee)

1. Finance leases transactions

Finance lease transactions in which ownership is not transferred

(1) Details of leased assets

Property, plant and equipment

Principally production facilities (machinery, equipment and vehicles) and others in the Food segment.

(2) Depreciation method of leased assets

Depreciation method of leased assets is described in “5. Significant accounting policies

(2) Depreciation and amortization methods for major depreciable and amortizable assets” above.

2. Operating lease transactions

Future lease payments for non-cancelable operating lease transactions

(Millions of yen)

	FY2023 (As of March 31, 2023)	FY2022 (As of March 31, 2022)
Due within one year	200	35
Due after one year	1,038	46
Total	1,238	82

(Lessor)

1. Operating lease transactions

Future lease payments for non-cancelable operating lease transactions

(Millions of yen)

	FY2023 (As of March 31, 2023)	FY2022 (As of March 31, 2022)
Due within one year	624	819
Due after one year	3,246	2,375
Total	3,871	3,195

(Financial instruments)

1. Conditions of financial instruments

(1) Policy for financial instruments

The Group limits its fund management activities to short-term deposits and others, and procures funds through bank loans and issuances of corporate bonds. It conducts derivative transactions only for the purpose of hedging risks as described below within the scope of actual demand, and no speculative or high risk transactions are allowed in principle.

(2) Details and risks of financial instruments and risk management system

Notes and accounts receivable - trade and contract assets, which are operating receivables, are exposed to customer credit risk. The Group reduces the risk by performing credit research into primary trading partners and controlling maturity dates of receivables of each customer and preparing reports on the balance for each customer.

Investment securities are primarily shares in companies with which the Group has business relationships, of which listed shares are exposed to market price fluctuation risk. Consequently, the market values of the listed shares are monitored on a quarterly basis.

Most of notes and accounts payable - trade, which are operating debts, are due within one year.

Among loans payable, short-term loans are mainly operating funds, and long-term loans are mainly for procuring funds relating to capital investments. Though some long-term loans are exposed to interest rate fluctuation risk, the Group hedges that risk by entering into derivative transactions (interest rate swap transactions).

Bonds payable are issued for the purpose of procuring funds for repayment of loans and operating funds.

Convertible bond-type bonds with share acquisition rights are issued for the purpose of procuring funds for business investments and the acquisition of treasury shares.

Derivative transactions are comprised of forward exchange contracts with the purpose to hedge exchange rate fluctuation risk in respect of foreign currency denominated operating receivables and operating payables, as well as interest rate swaps transactions with the purpose to hedge fluctuation risk in interest rates on loans payable. As to hedging instruments, hedged items, hedging policy, assessment of hedge effectiveness and others relating to hedge accounting, please refer to “5. Significant accounting policies (6) Significant hedge accounting method” above.

Derivative transactions are executed and controlled by internal rules for transaction authorization. In order to reduce credit risk, the counterparties to these derivative transactions are limited to major financial institutions with high credit ratings.

Operating payables and loans payable are exposed to liquidity risk. The Group manages the risk by each member company’s preparing a monthly plan for raising funds and other methods.

(3) Supplementary explanation on the fair values of financial instruments

The notional amounts of derivatives in “2. Fair values of financial instruments,” in themselves, do not reflect the market risk relating to the derivative transactions.

2. Fair values of financial instruments

Carrying amounts, fair values and their differences are shown in the following table. The amounts shown in the following tables do not include shares, etc. that do not have a market price (see Note 2 below).

FY2023 (As of March 31, 2023)

(Millions of yen)

	Carrying amount (*)	Fair value (*)	Difference
(1) Investment securities	67,249	67,249	–
(2) Bonds payable (including current portion of bonds payable)	(349)	(348)	0
(3) Convertible bond-type bonds with share acquisition rights	(25,038)	(25,362)	(324)
(4) Long-term loans payable (including current portion of long-term loans payable)	(24,230)	(23,996)	233
(5) Derivatives	(35)	(35)	–

(*) Liabilities are presented in parentheses.

FY2022 (As of March 31, 2022)

(Millions of yen)

	Carrying amount (*)	Fair value (*)	Difference
(1) Investment securities	59,259	59,259	–
(2) Bonds payable (including current portion of bonds payable)	(440)	(440)	(0)
(3) Convertible bond-type bonds with share acquisition rights	(25,056)	(25,362)	(306)
(4) Long-term loans payable (including current portion of long-term loans payable)	(25,982)	(25,878)	103
(5) Derivatives	120	120	–

(*) Liabilities are presented in parentheses.

Note 1: The description of “Cash and deposits,” “Notes and accounts receivable - trade and contract assets,” “Notes and accounts payable - trade,” and “Short-term loans payable (excluding current portion of long-term loans payable)” has been omitted because they are settled in a short time and their carrying amounts approximate their fair values.

Note 2: Unlisted stocks

FY2023 (As of March 31, 2023)

Shares, etc. that do not have a market price are not included in “(1) Investment securities.”

FY2022 (As of March 31, 2022)

They are not included in “(1) Investment securities” because they are deemed as shares, etc. that do not have a market price.

Carrying amounts of those financial instruments are as follows:

(Millions of yen)

Category	FY2023 (As of March 31, 2023)	FY2022 (As of March 31, 2022)
Unlisted stocks and others	9,942	9,741

Note 3: Investments in partnerships and equivalent business structures for which the equity interest is recorded on a net basis on the consolidated balance sheets are not included. These investments are carried at ¥62 million on the consolidated balance sheets.

Note 4: Redemption schedule for monetary receivables and securities with maturities after the consolidated balance sheet date

FY2023 (As of March 31, 2023)

(Millions of yen)

	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Deposits	36,588	–	–	–
Notes and accounts receivable - trade and contract assets	54,119	–	–	–
Securities and investment securities				
Other securities with maturities				
(1) Bonds (Corporate bonds)	35	200	103	60
(2) Other	30	254	115	–
Total	90,774	454	218	60

FY2022 (As of March 31, 2022)

(Millions of yen)

	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Deposits	33,841	–	–	–
Notes and accounts receivable - trade and contract assets	50,466	–	–	–
Securities and investment securities				
Other securities with maturities				
(1) Bonds (Corporate bonds)	113	229	269	60
(2) Other	1,000	252	120	–
Total	85,421	481	389	60

Note 5: Repayment schedule for short-term loans payable, bonds payable, convertible bond-type bonds with share acquisition rights and long-term loans payable after the consolidated balance sheet date

FY2023 (As of March 31, 2023)

(Millions of yen)

	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years
Short-term loans payable	14,517	–	–	–	–	–
Bonds payable	221	128	–	–	–	–
Convertible bond-type bonds with share acquisition rights	–	–	25,000	–	–	–
Long-term loans payable	3,054	4,245	2,666	892	10,739	2,631
Total	17,793	4,373	27,666	892	10,739	2,631

FY2022 (As of March 31, 2022)

(Millions of yen)

	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years
Short-term loans payable	17,231	–	–	–	–	–
Bonds payable	91	221	28	100	–	–
Convertible bond-type bonds with share acquisition rights	–	–	–	25,000	–	–
Long-term loans payable	2,298	2,117	3,257	2,994	2,261	13,052
Total	19,621	2,338	3,285	28,094	2,261	13,052

3. Fair value information by level within the fair value hierarchy

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

Level 1 fair value: Fair value measured using observable inputs, i.e. quoted prices in active markets for assets or liabilities that are the subject of the measurement.

Level 2 fair value: Fair value measured using observable inputs other than Level 1 inputs.

Level 3 fair value: Fair value measured using unobservable inputs.

If multiple inputs are used that are significant to the fair value measurement, the fair value measurement is categorized in its entirety in the level of the lowest level input that is significant to the entire measurement.

(1) Financial instruments measured at fair value

FY2023 (As of March 31, 2023)

Classification	Fair value (Millions of yen)			
	Level 1	Level 2	Level 3	Total
Investment securities				
Other securities				
Stocks	66,313	–	–	66,313
Bonds	–	332	–	332
Other	–	603	–	603
Total assets	66,313	936	–	67,249
Derivatives				
Currency-related transactions	–	(35)	–	(35)
Total liabilities	–	(35)	–	(35)

FY2022 (As of March 31, 2022)

Classification	Fair value (Millions of yen)			
	Level 1	Level 2	Level 3	Total
Investment securities				
Other securities				
Stocks	58,049	–	–	58,049
Bonds	–	596	–	596
Other	–	612	–	612
Total assets	58,049	1,209	–	59,259
Derivatives				
Currency-related transactions	–	120	–	120
Total liabilities	–	120	–	120

(2) Financial instruments other than those measured at fair value
FY2023 (As of March 31, 2023)

Classification	Fair value (Millions of yen)			
	Level 1	Level 2	Level 3	Total
Bonds payable (including current portion of bonds payable)	–	348	–	348
Convertible bond-type bonds with share acquisition rights	25,362	–	–	25,362
Long-term loans payable (including current portion of long-term loans payable)	–	23,996	–	23,996
Total liabilities	25,362	24,345	–	49,707

FY2022 (As of March 31, 2022)

Classification	Fair value (Millions of yen)			
	Level 1	Level 2	Level 3	Total
Bonds payable (including current portion of bonds payable)	–	440	–	440
Convertible bond-type bonds with share acquisition rights	25,362	–	–	25,362
Long-term loans payable (including current portion of long-term loans payable)	–	25,878	–	25,878
Total liabilities	25,362	26,318	–	51,681

Note: A description of the valuation techniques and inputs used in the fair value measurements

Investment securities

As the fair value of stocks is calculated on the basis of prices on stock exchanges, their fair value is classified as Level 1.

As the fair value of investment securities other than stocks is calculated on the basis of prices obtained from financial institutions, their fair value is classified as Level 2.

Derivatives

As the fair value of derivatives is calculated on the basis of prices obtained from financial institutions, their fair value is classified as Level 2.

Bonds payable

As the fair value of bonds payable is calculated by discounting the total amount of principal and interest at a rate that reflects the remaining periods of the bonds and the credit risk, their fair value is classified as Level 2.

Convertible bond-type bonds with share acquisition rights

As the fair value of convertible bond-type bonds with share acquisition rights is valued at market prices, their fair value is classified as Level 1.

Long-term loans payable

The fair value of long-term loans payable is calculated by discounting the total amount of principal and interest using an interest rate that would apply if the full amount of the principal were newly borrowed at the year-end date. In addition, most of long-term loans payable with variable interest rates qualify for special treatment for interest rate swaps and the fair value is calculated by discounting the total amount of principal and interest with the interest rate swaps, using an

interest rate that would apply if it were newly borrowed at the year-end date. Therefore, their fair value is classified as Level 2.

(Securities)

1. Other securities

FY2023 (As of March 31, 2023)

(Millions of yen)

	Type	Carrying amount	Acquisition cost	Difference
Securities whose carrying amount exceeds their acquisition cost	(1) Stocks	65,645	12,771	52,874
	(2) Bonds			
	(i) Government bonds and local government bonds	—	—	—
	(ii) Corporate bonds	103	74	28
	(iii) Other	—	—	—
	(3) Other	253	215	38
	Subtotal	66,003	13,060	52,942
Securities whose carrying amount does not exceed their acquisition cost	(1) Stocks	667	944	(277)
	(2) Bonds			
	(i) Government bonds and local government bonds	—	—	—
	(ii) Corporate bonds	262	272	(9)
	(iii) Other	—	—	—
	(3) Other	380	410	(29)
	Subtotal	1,310	1,627	(316)
Total		67,313	14,688	52,625

Note: Shares, etc. that do not have a market price (carrying amount: ¥4,165 million) and investments in partnerships, etc. for which the equity interest is recorded on a net basis on the consolidated balance sheets (carrying amount: ¥62 million) are not included in “Other securities” in the above table.

FY2022 (As of March 31, 2022)

(Millions of yen)

	Type	Carrying amount	Acquisition cost	Difference
Securities whose carrying amount exceeds their acquisition cost	(1) Stocks	57,347	13,135	44,212
	(2) Bonds			
	(i) Government bonds and local government bonds	–	–	–
	(ii) Corporate bonds	146	129	17
	(iii) Other	–	–	–
	(3) Other	219	183	36
	Subtotal	57,714	13,447	44,266
Securities whose carrying amount does not exceed their acquisition cost	(1) Stocks	702	1,035	(332)
	(2) Bonds			
	(i) Government bonds and local government bonds	–	–	–
	(ii) Corporate bonds	562	580	(18)
	(iii) Other	–	–	–
	(3) Other	1,393	1,412	(19)
	Subtotal	2,658	3,028	(370)
Total		60,372	16,476	43,896

Note: Unlisted stocks (carrying amount: ¥4,201 million) are not included in “Other securities” in the above table because they are shares, etc. that do not have a market price.

2. Other securities sold

FY2023 (From April 1, 2022 to March 31, 2023)

(Millions of yen)

Type	Proceeds from sales	Total gain on sales	Total loss on sales
(1) Stocks	1,159	737	–
(2) Bonds			
(i) Government bonds and local government bonds	–	–	–
(ii) Corporate bonds	–	–	–
(iii) Other	306	25	–
(3) Other	31	1	–
Total	1,497	764	–

FY2022 (From April 1, 2021 to March 31, 2022)

(Millions of yen)

Type	Proceeds from sales	Total gain on sales	Total loss on sales
(1) Stocks	1,533	1,079	(1)
(2) Bonds			
(i) Government bonds and local government bonds	–	–	–
(ii) Corporate bonds	–	–	–
(iii) Other	60	–	(11)
(3) Other	160	27	–
Total	1,754	1,107	(12)

3. Securities subject to impairment

In the previous fiscal year, the Company recognized ¥26 million as impairment loss for securities.

In the current fiscal year, the Company recognized ¥82 million as impairment loss for securities.

When the fair value of securities as of the end of the fiscal year declines by greater than or equal to 50% compared to their cost, the Company recognizes impairment losses, and when such decline is between 30% and 50%, the Company recognizes impairment losses for the amount deemed necessary taking into consideration the possibility of a recovery in value. For shares, etc. that do not have a market price, the Company recognizes impairment losses of securities for which actual value at the consolidated balance sheet date declines by greater than or equal to 50 % compared to the cost, in principle, except in cases where there is a possibility of recovery in value.

(Derivatives)

1. Derivatives for which hedge accounting is not applied

FY2023 (From April 1, 2022 to March 31, 2023)

Not applicable

FY2022 (From April 1, 2021 to March 31, 2022)

Not applicable

2. Derivatives for which hedge accounting is applied

(1) Currency-related transactions

FY2023 (As of March 31, 2023)

Hedge accounting	Type of transaction	Major hedged items	Contract amount, etc. (Millions of yen)	Contract amount, etc. over one year (Millions of yen)	Fair value (Millions of yen)
Deferred hedge accounting	Forward exchange contracts				
	Buy				
	USD	Accounts payable - trade	1,696	–	(37)
	EUR		92	–	2
	Sell				
	USD	Accounts receivable - trade	141	–	(0)
Total			1,930	–	(35)

Note: Calculation methods of fair value This information is described in the relevant section.

FY2022 (As of March 31, 2022)

Hedge accounting	Type of transaction	Major hedged items	Contract amount, etc. (Millions of yen)	Contract amount, etc. over one year (Millions of yen)	Fair value (Millions of yen)
Deferred hedge accounting	Forward exchange contracts				
	Buy				
	USD	Accounts payable - trade	2,228	–	112
	EUR		178	–	11
	Sell				
	USD	Accounts receivable - trade	112	–	(3)
Total			2,518	–	120

Note: Calculation methods of fair value This information is described in the relevant section.

(2) Interest rate-related transactions

FY2023 (As of March 31, 2023)

Not applicable

FY2022 (As of March 31, 2022)

Not applicable

(Retirement benefits)

1. Overview of retirement benefit plan adopted by the Company

The Company and certain domestic consolidated subsidiaries have a defined benefit pension plan which includes a defined benefit corporate pension plan and a defined contribution plan, and the Company has established a retirement benefit trust. Certain other domestic consolidated subsidiaries have a retirement lump-sum plan as a defined benefit plan.

In the retirement lump-sum plan partially adopted by the domestic consolidated subsidiaries, liabilities for retirement benefits and retirement benefit cost are calculated using the simplified method.

Certain domestic consolidated subsidiaries are members of multi-employer corporate pension plans.

For such multi-employer plans whereby the amount of plan assets corresponding to the member companies' contributions cannot be calculated reasonably, the same accounting treatment as that for the defined contribution plan is applied.

2. Defined benefit plan

(1) Reconciliation of beginning and ending balances of retirement benefit obligations (excluding plans to which the simplified method is applied)

	FY2023 (From April 1, 2022 to March 31, 2023)	FY2022 (From April 1, 2021 to March 31, 2022)
Balance of retirement benefit obligations at beginning of period	17,069	16,749
Service cost	896	890
Interest cost	120	118
Actuarial gain or loss	(22)	(56)
Retirement benefit paid	(938)	(896)
Other	0	264
Balance of retirement benefit obligations at end of period	17,125	17,069

(2) Reconciliation of beginning and ending balances of plan assets (excluding plans to which simplified method is applied)

	FY2023 (From April 1, 2022 to March 31, 2023)	FY2022 (From April 1, 2021 to March 31, 2022)
Balance of plan assets at beginning of period	17,193	16,026
Expected return	339	307
Actuarial gain or loss	134	173
Employer's contribution	712	1,230
Retirement benefit payments	(796)	(803)
Other	–	258
Balance of plan assets at end of period	17,583	17,193

(3) Reconciliation of beginning and ending balances of net defined benefit liability and net defined benefit asset relating to retirement benefit plans to which the simplified method is applied

(Millions of yen)

	FY2023 (From April 1, 2022 to March 31, 2023)	FY2022 (From April 1, 2021 to March 31, 2022)
Net defined benefit liability and net defined benefit asset at beginning of period	1,918	1,821
Retirement benefit expenses	322	264
Retirement benefit paid	(178)	(133)
Contributions to plans	(61)	(54)
Other	(32)	20
Net defined benefit liability and net defined benefit asset at end of period	1,968	1,918

(4) Reconciliation of ending balances of retirement benefit obligations and plan assets and retirement benefit liabilities and assets in the consolidated balance sheets

(Millions of yen)

	FY2023 (From April 1, 2022 to March 31, 2023)	FY2022 (From April 1, 2021 to March 31, 2022)
Retirement benefit obligation for funded plans	17,697	17,634
Plan assets	(18,159)	(17,760)
	(461)	(126)
Retirement benefit obligation for non-funded plans	1,972	1,921
Net liabilities and assets recorded on the consolidated balance sheets	1,510	1,795
Net defined benefit liability	3,881	3,810
Net defined benefit asset	(2,370)	(2,015)
Net liabilities and assets recorded on the consolidated balance sheets	1,510	1,795

Note: Figures include those for plans to which the simplified method is applied.

(5) Retirement benefit expenses and the breakdown

(Millions of yen)

	FY2023 (From April 1, 2022 to March 31, 2023)	FY2022 (From April 1, 2021 to March 31, 2022)
Service cost	896	890
Interest cost	120	118
Expected return	(339)	(307)
Amortization of actuarial gain or loss	(157)	5
Retirement benefit expenses based on simplified method	322	264
Other	—	86
Retirement benefit expenses relating to defined benefit plan	841	1,057

(6) Retirement benefits liability adjustments

Components of retirement benefits liability adjustments (before tax effect) are as follows:

	FY2023 (From April 1, 2022 to March 31, 2023)	FY2022 (From April 1, 2021 to March 31, 2022)
Actuarial gain or loss	(1)	235

(7) Accumulated retirement benefits liability adjustments

Components of accumulated retirement benefits liability adjustments (before tax effect) are as follows:

	FY2023 (As of March 31, 2023)	FY2022 (As of March 31, 2022)
Unrecognized actuarial gains and losses	(730)	(731)

(8) Matters relating to plan assets

(i) Major breakdown of plan assets

The ratio of major classes in the plan assets are as follows:

	FY2023 (As of March 31, 2023) (%)	FY2022 (As of March 31, 2022) (%)
Bonds	36	37
Stocks	42	39
General account	1	2
Other	21	21
Total	100	100

Note: The total plan assets include a retirement benefit trust established for the corporate pension plan, accounting for 22% of the total plan assets as of the end of the current fiscal year (19% as of the end of the previous fiscal year).

(ii) Method for determining long-term expected rate of return on plan assets

To determine a long-term expected rate of return on plan assets, the Company considers the allocations of current and expected plan assets and the current and expected long-term rates of return from various assets that constitute the plan assets.

(9) Matters relating to calculation basis for actuarial assumptions

Calculation basis for major actuarial assumptions

	FY2023 (As of March 31, 2023) (%)	FY2022 (As of March 31, 2022) (%)
Discount rate	Mainly 0.8	Mainly 0.8
Long-term expected rate of return on plan assets	0.0 - 2.5	0.0 - 2.5
Expected rate of salary increase	0.0 - 3.7	0.0 - 3.8

3. Defined contribution plan

(Millions of yen)

	FY2023 (From April 1, 2022 to March 31, 2023)	FY2022 (From April 1, 2021 to March 31, 2022)
Required contributions to defined contribution plan for consolidated subsidiaries	31	31

4. Multi-employer plans

FY2023 (From April 1, 2022 to March 31, 2023)

Not applicable

FY2022 (From April 1, 2021 to March 31, 2022)

Not applicable

(Stock options)

1. Corresponding account and amount of stock options charged as expenses

(Millions of yen)

	FY2023 (From April 1, 2022 to March 31, 2023)	FY2022 (From April 1, 2021 to March 31, 2022)
Selling, general and administrative expenses	65	70

2. Details, size and changes in stock options

(1) Details of stock options

	2022 Stock Options	2021 Stock Options
Category and number of grantees	Directors of the Company; 9	Directors of the Company; 9
Number of stock options by type of shares (Note)	44,050 shares of common stock	48,900 shares of common stock
Grant date	July 27, 2022	July 28, 2021
Vesting conditions	In principle, the eligible person may exercise his/her share subscription rights on a lump sum basis between the subsequent day of the expiration of position as Director of the Company and the 10th day from such day.	In principle, the eligible person may exercise his/her share subscription rights on a lump sum basis between the subsequent day of the expiration of position as Director of the Company and the 10th day from such day.
Vesting period	From July 1, 2022 to June 30, 2023	From July 1, 2021 to June 30, 2022
Exercise period	From July 28, 2022 to July 27, 2052	From July 29, 2021 to July 28, 2051

	2020 Stock Options	2019 Stock Options
Category and number of grantees	Directors of the Company; 9	Directors of the Company; 12
Number of stock options by type of shares (Note)	48,500 shares of common stock	45,700 shares of common stock
Grant date	July 28, 2020	July 29, 2019
Vesting conditions	In principle, the eligible person may exercise his/her share subscription rights on a lump sum basis between the subsequent day of the expiration of position as Director of the Company and the 10th day from such day.	In principle, the eligible person may exercise his/her share subscription rights on a lump sum basis between the subsequent day of the expiration of position as Director of the Company and the 10th day from such day.
Vesting period	From July 1, 2020 to June 30, 2021	From July 1, 2019 to June 30, 2020
Exercise period	From July 29, 2020 to July 28, 2050	From July 30, 2019 to July 29, 2049

	2018 Stock Options	2017 Stock Options
Category and number of grantees	Directors of the Company; 13	Directors of the Company; 13
Number of stock options by type of shares (Note)	46,900 shares of common stock	47,950 shares of common stock
Grant date	July 25, 2018	July 26, 2017
Vesting conditions	In principle, the eligible person may exercise his/her share subscription rights on a lump sum basis between the subsequent day of the expiration of position as Director of the Company and the 10th day from such day.	In principle, the eligible person may exercise his/her share subscription rights on a lump sum basis between the subsequent day of the expiration of position as Director of the Company and the 10th day from such day.
Vesting period	From July 1, 2018 to June 30, 2019	From July 1, 2017 to June 30, 2018
Exercise period	From July 26, 2018 to July 25, 2048	From July 27, 2017 to July 26, 2047

	2016 Stock Options	2015 Stock Options
Category and number of grantees	Directors of the Company; 12	Directors of the Company; 11
Number of stock options by type of shares (Note)	51,700 shares of common stock	51,100 shares of common stock
Grant date	July 27, 2016	July 23, 2015
Vesting conditions	In principle, the eligible person may exercise his/her share subscription rights on a lump sum basis between the subsequent day of the expiration of position as Director of the Company and the 10th day from such day.	In principle, the eligible person may exercise his/her share subscription rights on a lump sum basis between the subsequent day of the expiration of position as Director of the Company and the 10th day from such day.
Vesting period	From July 1, 2016 to June 30, 2017	From July 1, 2015 to June 30, 2016
Exercise period	From July 28, 2016 to July 27, 2046	From July 24, 2015 to July 23, 2045

Note: The number of stock options represents the number of shares. As the Company conducted a 1-for-2 share consolidation on October 1, 2016, the number of shares reflects the amount after the share consolidation.

(2) Size and changes in stock options

The following describes the number of stock options that existed during FY2023 (fiscal year ended March 31, 2023). The number of stock options represents the number of shares.

(i) Number of stock options

	2022 Stock Options	2021 Stock Options	2020 Stock Options	2019 Stock Options	2018 Stock Options	2017 Stock Options	2016 Stock Options
Before vesting (Shares)							
As of March 31, 2022	–	40,000	35,950	18,300	11,400	11,900	8,100
Granted	44,050	–	–	–	–	–	–
Forfeited	–	–	–	–	–	–	–
Vested	–	4,450	4,400	3,350	3,050	3,200	2,700
Unvested	44,050	35,550	31,550	14,950	8,350	8,700	5,400
After vesting (Shares)							
As of March 31, 2022	–	–	–	–	–	–	–
Vested	–	4,450	4,400	3,350	3,050	3,200	2,700
Exercised	–	4,450	4,400	3,350	3,050	3,200	2,700
Forfeited	–	–	–	–	–	–	–
Exercisable	–	–	–	–	–	–	–

	2015 Stock Options
Before vesting (Shares)	
As of March 31, 2022	5,800
Granted	–
Forfeited	–
Vested	–
Unvested	5,800
After vesting (Shares)	
As of March 31, 2022	–
Vested	–
Exercised	–
Forfeited	–
Exercisable	–

Note: As the Company conducted a 1-for-2 share consolidation on October 1, 2016, the number of shares reflects the amount after the share consolidation.

(ii) Unit price information

	2022 Stock Options	2021 Stock Options	2020 Stock Options	2019 Stock Options	2018 Stock Options	2017 Stock Options	2016 Stock Options
Exercise price (Yen)	1	1	1	1	1	1	1
Average price per share upon exercise (Yen)	–	1,622	1,622	1,622	1,622	1,622	1,622
Fair value per share at grant date (Yen)	1,514	1,516	1,612	1,658	1,798	1,667	1,512

	2015 Stock Options
Exercise price (Yen)	1
Average price per share upon exercise (Yen)	–
Fair value per share at grant date (Yen)	1,590

Note: As the Company conducted a 1-for-2 share consolidation on October 1, 2016, per share price reflects the amount after the share consolidation.

3. Method for estimating the fair value of stock options

The method for estimating the fair value of the 2022 stock options granted in the current fiscal year is as follows:

(i) Valuation method: Black-Scholes Model

(ii) Main assumptions and estimation method:

	2022 Stock Options
Volatility of share price (Note 1)	15.4%
Estimated remaining outstanding period (Note 2)	Two years and eight months
Estimated dividend (Note 3)	¥38 per share
Risk-free interest rate (Note 4)	(0.08)%

Notes: 1. Calculated based on the stock market performance for the two years and eleven months (from September 2019 to July 2022).

2. Estimated based on the average remaining service period for Directors at the allotment date of the stock options, which is based on the average service period of past Directors and the current service periods of incumbent Directors between their inauguration dates and the allotment date of stock options.

3. Dividend was estimated based on the actual dividends for the fiscal year ended March 31, 2022.

4. The yield on government bonds for the period corresponding to the estimated remaining outstanding period.

4. Method for estimating the number of stock options vested

Because it is difficult to reasonably estimate the number of stock options that will expire in the future, the number here reflects only stock options that have actually been forfeited.

(Tax effect accounting)

1. Significant components of deferred tax assets and liabilities

(Millions of yen)

	FY2023 (As of March 31, 2023)	FY2022 (As of March 31, 2022)
Deferred tax assets		
Tax loss carried forward (Note 1)	2,425	2,427
Non-deductible accrued enterprise tax	228	218
Accrued bonuses	625	573
Net defined benefit liability	2,138	2,225
Loss on valuation of securities	46	93
Unrealized gain on sales of fixed assets	968	940
Loss on valuation of non-current assets	392	328
Other	2,683	1,802
Subtotal deferred tax assets	9,507	8,609
Valuation allowance for tax loss carried forward (Note 1)	(2,180)	(2,304)
Valuation allowance for total future deductible temporary differences, etc.	(1,331)	(1,234)
Subtotal valuation allowance	(3,512)	(3,539)
Total deferred tax assets	5,994	5,069
Amount offset by deferred tax liabilities	3,918	3,441
Net deferred tax assets	2,075	1,628
Deferred tax liabilities		
Reserve for reduction entry	2,890	2,899
Unrealized holding gain (loss) on securities	16,077	13,408
Gain on contribution of securities to retirement benefit trust	408	408
Other	2,215	1,466
Total deferred tax liabilities	21,592	18,183
Amount offset by deferred tax assets	3,918	3,441
Net deferred tax liabilities	17,673	14,742

Notes: 1. Tax loss carried forward and amount of said deferred tax assets by deferred deadline
FY2023 (As of March 31, 2023)

(Millions of yen)

	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years	Total
Tax loss carried forward (*1)	180	45	93	150	87	1,867	2,425
Valuation allowance	(180)	(45)	(84)	(145)	(87)	(1,637)	(2,180)
Deferred tax assets	-	-	9	4	-	229	244

(*1) Tax loss carried forward is the amount derived from multiplying by the effective statutory tax rate.

FY2022 (As of March 31, 2022)

(Millions of yen)

	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years	Total
Tax loss carried forward (*1)	78	202	44	93	210	1,796	2,427
Valuation allowance	(78)	(202)	(44)	(93)	(210)	(1,673)	(2,304)
Deferred tax assets	–	–	–	–	–	122	122

(*1) Tax loss carried forward is the amount derived from multiplying by the effective statutory tax rate.

2. Significant components in the reconciliation of difference between the effective statutory tax rate and effective tax rate reflected in the consolidated financial statements

	FY2023 (As of March 31, 2023) (%)	FY2022 (As of March 31, 2022) (%)
Effective statutory tax rate (Adjustments)	Presentation is omitted as the difference between the effective statutory tax rate and the actual effective tax rate after tax effect accounting does not exceed 5% of the effective statutory tax rate.	30.6
Entertainment expenses and other non-deductible permanent differences		0.5
Non-taxable permanent differences such as dividend income		(0.9)
Per capita inhabitant taxes		0.7
Special deductions from income tax		(1.3)
Differences of tax rates at foreign subsidiaries		(0.3)
Other		3.1
Actual effective tax rate after tax effect accounting		32.4

(Business combination)

Common control transaction, etc.

(Making a subsidiary into a wholly owned subsidiary by way of simplified share exchange)

The Company and OK Food Industry Co., Ltd. (hereinafter, “OK Food Industry”) resolved at their respective meetings of the Board of Directors held on March 28, 2022 to conduct a share exchange with the Company becoming a wholly owning parent company resulting from a share exchange and with OK Food Industry becoming a wholly owned subsidiary company resulting from a share exchange (hereinafter, the “Share Exchange”), and a share exchange agreement (hereinafter, the “Share Exchange Agreement”) was executed on the same date. As the Share Exchange Agreement was approved by resolution of the Annual Shareholders Meeting of OK Food Industry held on June 23, 2022, the Share Exchange was conducted pursuant to the Share Exchange Agreement.

Pursuant to the procedure for a simplified share exchange as provided for by Article 796 (2) of the Companies Act (Act No. 86 of 2005, including later revisions; hereinafter the same), the Company conducted the Share Exchange without obtaining approval for the Share Exchange Agreement by its Shareholders Meeting.

The common stock of OK Food Industry was delisted by Tokyo Stock Exchange, Inc. on July 21, 2022 with July 20, 2022 as the final trading date.

1. Overview of the Share Exchange

(1) Name and business contents of the wholly owned subsidiary company resulting from share exchange

Name of the wholly owned subsidiary company
resulting from a share exchange: OK Food Industry Co., Ltd.

Business contents: Manufacture and sale of fried tofu and fried
tofu processed products

(2) Purpose of the Share Exchange

Once the Share Exchange is conducted, the Company and OK Food Industry will share information and human resources more than ever before, consolidate respective business resources, and utilize them in an expeditious and efficient manner. Specifically, OK Food Industry will take advantage of or receive referral to the Company’s business partners on the sales front, reduce purchasing costs through joint purchasing on the procuring front, and on the manufacturing front, increase productivity through shared skills and know-how in plant management and operations, reduce production costs and develop products jointly with the Company. In this way, OK Food Industry will benefit from synergies of the collaboration with the Company.

(3) Effective date of the Share Exchange

July 25, 2022

(4) Legal form of the Share Exchange

A share exchange with the Company becoming a wholly owning parent company resulting from a share exchange and with OK Food Industry becoming a wholly owned subsidiary company resulting from a share exchange. Pursuant to the provisions in Article 796 (2) of the Companies Act, the Company completed procedures for a simplified share exchange that does not require approval of the Shareholders Meeting.

The Share Exchange Agreement was approved by the Annual Shareholders Meeting of OK Food Industry held on June 23, 2022.

(5) Corporate name after the business combination

OK Food Industry Co., Ltd.

2. Matters relating to the calculation of acquisition cost

(1) Cost of the acquisition of the acquired company and the breakdown thereof

(Millions of yen)

Consideration for acquisition: treasury shares of common stock	1,860
Cost of acquisition	1,860

(2) Details of allotment in connection with the share exchange

Company name	The Company (Wholly owning parent company resulting from a share exchange)	OK Food Industry (Wholly owned subsidiary company resulting from a share exchange)
Allotment ratio for share exchange	1	0.63
Number of shares allotted and delivered under the Share Exchange	Common stock of the Company: 1,140,834 shares	

Note 1: To ensure the fair and appropriate calculation of the share exchange ratio for the Share Exchange, the Company requested a third party valuation institution independent from both the Company and OK Food Industry to calculate the share exchange ratio.

Note 2: All shares delivered by the Company were allotted from treasury shares held by the Company.

3. Overview of the accounting treatment

The Share Exchange was treated as a common control transaction, etc. under the Accounting Standard for Business Combinations.

4. Matters relating to the change in ownership interest of parent due to transactions with non-controlling interests

(1) Main reasons for the change in capital surplus

Additional acquisition of shares in a subsidiary

(2) Amount of the decrease in capital surplus due to transactions with non-controlling interests

¥1,472 million

(Asset retirement obligations)

As of March 31, 2023

The Group recognizes liabilities relating to the restoration of real estate to its original state upon withdrawal from real estate based on real estate lease contracts for factories and others as asset retirement obligations. However, the description of this information has been omitted as the total amount of the obligations is immaterial.

As of March 31, 2022

The Group recognizes liabilities relating to the restoration of real estate to its original state upon withdrawal from real estate based on real estate lease contracts for factories and others as asset retirement obligations. However, the description of this information has been omitted as the total amount of the obligations is immaterial.

(Rental property and other real estate)

FY2023 (From April 1, 2022 to March 31, 2023)

The Group owns office buildings and other properties for rent (including land) in Tokyo and other areas. Income from the rental properties in the current fiscal year was ¥657 million (primary rental revenue is booked as net sales and primary rental expenses as cost of sales), and gain on sales of rental properties was ¥10 million (booked as non-operating income).

The carrying amount of the rental properties and its changes and fair value are as follows:

(Millions of yen)

Carrying amount on the consolidated balance sheets			Fair value at end of current period
Balance at beginning of current period	Changes during current period	Balance at end of current period	
8,263	(1)	8,261	31,617

- Notes: 1. The changes in the carrying amount during the current fiscal year mainly consists of a decrease of ¥220 million due to depreciation and an increase for other reasons of ¥224 million.
2. The fair value of key properties at the end of the fiscal year is determined based on appraisal reports obtained from independent real estate appraisers and other information. For other less important properties, the fair value is determined based on certain appraisal values or relevant indexes that are deemed to properly reflect the market prices.

FY2022 (From April 1, 2021 to March 31, 2022)

The Group owns office buildings and other properties for rent (including land) in Tokyo and other areas. Income from the rental properties in the current fiscal year was ¥654 million (primary rental revenue is booked as net sales and primary rental expenses as cost of sales), and gain on sales of rental properties was ¥246 million (booked as non-operating income).

The carrying amount of the rental properties and its changes and fair value are as follows:

(Millions of yen)

Carrying amount on the consolidated balance sheets			Fair value at end of current period
Balance at beginning of current period	Changes during current period	Balance at end of current period	
7,727	535	8,263	25,273

- Notes: 1. The increase in the carrying amount during the current fiscal year mainly consists of an increase of ¥211 million due to a change in use of properties from business use to rental use, and an increase for other reasons of ¥616 million, and the decrease mainly consists of ¥228 million of depreciation.
2. The fair value of key properties at the end of the fiscal year is determined based on appraisal reports obtained from independent real estate appraisers and other information. For other less important properties, the fair value is determined based on certain appraisal values or relevant indexes that are deemed to properly reflect the market prices.

(Revenue recognition)

1. Disaggregation of revenue from contracts with customers

This information is described in notes on “Segment information, etc.”

2. Useful information in understanding revenue from contracts with customers

The Company recognizes revenue from contracts with customers based on the following five steps.

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to each performance obligation.

Step 5: Recognize revenue when (as) a performance obligation is satisfied.

The Group’s core businesses are Flour Milling business and Food business. The Group sells to customers finished goods and merchandise (such as wheat flour and premixes) manufactured by the Group. For these finished goods and merchandise, sales prices are measured at the amount based on the consideration promised in contracts with customers less sales incentives, etc. An amount expected to be refunded to customers, such as sales incentives, is calculated using the probability-weighted amount estimated for each of finished goods and merchandise. As a result, the Group recognizes refund liabilities.

In both of Flour Milling and Food businesses, sales contracts identify the delivery of the Group’s finished goods and merchandise to customers as the performance obligations. These performance obligations are satisfied when the Company’s finished goods and merchandise are delivered to customers and control of these finished goods and merchandise is transferred to customers. Therefore, revenue from sale of these finished goods and merchandise is recognized when they are delivered to customers.

For transactions of providing finished goods and merchandise to customers, in which the Company acts as an agent, revenue is recognized at the net amount of the amount received from customers less the amount to be paid to the supplier of finished goods and merchandise.

3. Balance of contract assets and contract liabilities and the transaction price allocated to the remaining performance obligations

(1) Balance of contract assets and contract liabilities

FY2023 (From April 1, 2022 to March 31, 2023)

(Millions of yen)

Receivables from contracts with customers (beginning balance)	50,466
Receivables from contracts with customers (ending balance)	54,119
Contract assets (beginning balance)	—
Contract assets (ending balance)	—
Contract liabilities (beginning balance)	299
Contract liabilities (ending balance)	396

Revenue recognized in the current fiscal year that was included in the contract liability balance at the beginning of the current fiscal year was ¥142 million.

FY2022 (From April 1, 2021 to March 31, 2022)

(Millions of yen)

Receivables from contracts with customers (beginning balance)	41,848
Receivables from contracts with customers (ending balance)	50,466
Contract assets (beginning balance)	—
Contract assets (ending balance)	—
Contract liabilities (beginning balance)	376
Contract liabilities (ending balance)	299

Revenue recognized in the current fiscal year that was included in the contract liability balance at the beginning of the current fiscal year was ¥259 million.

(2) Transaction price allocated to the remaining performance obligations

The Company and its consolidated subsidiaries have applied the practical expedient to the notes on transaction prices allocated to the remaining performance obligations, and do not disclose contracts with an original expected duration of one year or less. The total transaction price allocated to the remaining performance obligations and the time frame the Company and its consolidated subsidiaries expect to recognize the amount as revenue are as follows.

FY2023 (From April 1, 2022 to March 31, 2023)

(Millions of yen)

Within one year	10
Over one year within two years	8
Over two years within three years	8
Over three years	81
Total	108

FY2022 (From April 1, 2021 to March 31, 2022)

(Millions of yen)

Within one year	10
Over one year within two years	10
Over two years within three years	10
Over three years	84
Total	114

(Segment information, etc.)

[Segment information]

1. Overview of reportable segments

The Group's reportable segments are group components which are regularly reviewed by the Board of Directors using the discrete financial information available to determine the allocation of management resources and evaluate business results.

The Group consists of three main business units classified by product types—Flour Milling, Food and Other. Each business unit formulates business strategies and promotes business activities.

The Group has classified its operations into two reportable segments: Flour Milling and Food.

The Flour Milling segment covers wheat flour, wheat bran, and buckwheat flour, while the Food segment covers wheat flour for home use, premixes, pasta, frozen foods, delicatessen foods, and rice flour.

2. Calculation methods of sales, income (loss), assets, liabilities and other items by reportable segment

The accounting methods used for reportable segments are the same as those described under “Basis of preparation of the consolidated financial statements.”

Profit figures of reportable segments are based on operating income. Inter-segment sales and transfers are based on prevailing market prices.

3. Information on sales, income (loss), assets, liabilities and other items, and information on disaggregation of revenue, by reportable segment

FY2023 (From April 1, 2022 to March 31, 2023)

(Millions of yen)

	Reportable segments			Other	Total	Adjustments	Amounts recorded on consolidated financial statements
	Flour Milling	Food	Total				
Net sales							
Revenue from contracts with customers	117,604	204,750	322,355	42,166	364,521	–	364,521
Revenue from other sources	–	46	46	957	1,003	–	1,003
Net sales to external customers	117,604	204,796	322,401	43,123	365,525	–	365,525
Internal sales or transfers between segments	2,607	674	3,281	2,201	5,483	(5,483)	–
Total	120,212	205,471	325,683	45,325	371,009	(5,483)	365,525
Segment income	7,528	3,449	10,978	1,263	12,242	45	12,288
Segment assets	117,802	132,403	250,206	24,488	274,694	69,911	344,606
Other items							
Depreciation	2,792	5,553	8,346	1,190	9,536	430	9,966
Increase in property, plant and equipment and intangible assets	2,837	4,109	6,947	1,483	8,431	(75)	8,355

- Notes:
1. The “Other” column indicates businesses not included in the reportable segments, including pet food, health food, engineering, restaurant and real estate leasing.
 2. Segment income adjustment of ¥45 million includes elimination of inter-segment transactions and corporate expenses.
 3. Corporate assets included in adjustments of segment assets amounted to ¥70,028 million and mainly comprise the Company's surplus funds (cash and deposits, and securities) and property, plant and equipment concerning administrative departments.
 4. Adjustments amounting to ¥(75) million for the increase in property, plant and equipment and intangible assets

- mainly relate to capital investment by the administrative departments and elimination of inter-segment transactions.
5. Segment income is adjusted to reconcile total segment income to operating income on the consolidated financial statements.
 6. Depreciation expenses and an increase in property, plant and equipment and intangible assets include an increase in long-term prepaid expenses and amortization thereof.
 7. Different criteria are applied for allocation of non-current assets to each segment and for allocation of relevant depreciation expenses to each segment, respectively.

FY2022 (From April 1, 2021 to March 31, 2022)

(Millions of yen)

	Reportable segments			Other	Total	Adjustments	Amounts recorded on consolidated financial statements
	Flour Milling	Food	Total				
Net sales							
Revenue from contracts with customers	96,934	185,865	282,800	37,516	320,316	–	320,316
Revenue from other sources	–	46	46	954	1,000	–	1,000
Net sales to external customers	96,934	185,911	282,846	38,471	321,317	–	321,317
Internal sales or transfers between segments	2,060	606	2,667	2,391	5,058	(5,058)	–
Total	98,995	186,518	285,513	40,862	326,376	(5,058)	321,317
Segment income	6,211	4,068	10,280	996	11,277	4	11,282
Segment assets	109,620	125,667	235,287	23,713	259,001	66,867	325,869
Other items							
Depreciation	3,193	5,449	8,643	1,199	9,842	390	10,232
Increase in property, plant and equipment and intangible assets	2,109	8,095	10,205	1,193	11,398	210	11,608

- Notes:
1. The “Other” column indicates businesses not included in the reportable segments, including pet food, health food, engineering, restaurant and real estate leasing.
 2. Segment income adjustment of ¥4 million includes elimination of inter-segment transactions and corporate expenses.
 3. Corporate assets included in adjustments of segment assets amounted to ¥66,402 million and mainly comprise the Company’s surplus funds (cash and deposits, and securities) and property, plant and equipment concerning administrative departments.
 4. Adjustments amounting to ¥210 million for the increase in property, plant and equipment and intangible assets mainly relate to capital investment by the administrative departments and elimination of inter-segment transactions.
 5. Segment income is adjusted to reconcile total segment income to operating income on the consolidated financial statements.
 6. Depreciation expenses and an increase in property, plant and equipment and intangible assets include an increase in long-term prepaid expenses and amortization thereof.
 7. Different criteria are applied for allocation of non-current assets to each segment and for allocation of relevant depreciation expenses to each segment, respectively.

[Related information]

FY2023 (From April 1, 2022 to March 31, 2023)

1. Information by product and service

This information has been omitted as the same information is disclosed in Segment information.

2. Information by geographical area

(1) Net sales

This information has been omitted as net sales to external customers in Japan account for more than 90% of net sales recorded on the consolidated statement of income.

(2) Property, plant and equipment

This information has been omitted because the amount of property, plant and equipment located in Japan exceeds 90% of the amount of property, plant and equipment in the consolidated balance sheet.

3. Information by major customer

Name of customer	Net sales (Millions of yen)	Name of related segment
ITOCHU Corporation	54,481	Flour Milling and Food
FamilyMart Co., Ltd.	47,893	Food

FY2022 (From April 1, 2021 to March 31, 2022)

1. Information by product and service

This information has been omitted as the same information is disclosed in Segment information.

2. Information by geographical area

(1) Net sales

This information has been omitted as net sales to external customers in Japan account for more than 90% of net sales recorded on the consolidated statement of income.

(2) Property, plant and equipment

This information has been omitted because the amount of property, plant and equipment located in Japan exceeds 90% of the amount of property, plant and equipment in the consolidated balance sheet.

3. Information by major customer

Name of customer	Net sales (Millions of yen)	Name of related segment
FamilyMart Co., Ltd.	46,465	Food
ITOCHU Corporation	45,972	Flour Milling and Food

[Information on impairment loss on non-current assets by reportable segment]

FY2023 (From April 1, 2022 to March 31, 2023)

(Millions of yen)

	Flour Milling	Food	Other	Adjustments and elimination	Total
Impairment loss	–	514	–	–	514

FY2022 (From April 1, 2021 to March 31, 2022)

(Millions of yen)

	Flour Milling	Food	Other (Note)	Adjustments and elimination	Total
Impairment loss	–	–	104	–	104

Note: The amounts in “Other” are those relating to the restaurant business and others.

[Information on amortization and balance of goodwill by reportable segment]

FY2023 (From April 1, 2022 to March 31, 2023)

(Millions of yen)

	Flour Milling	Food	Other (Note)	Adjustments and elimination	Total
Amortization during current period	–	162	61	–	224
Balance at end of current period	–	990	189	–	1,179

Note: The amounts in “Other” are those relating to the restaurant business and others.

FY2022 (From April 1, 2021 to March 31, 2022)

(Millions of yen)

	Flour Milling	Food	Other (Note)	Adjustments and elimination	Total
Amortization during current period	–	176	62	–	239
Balance at end of current period	–	1,153	251	–	1,405

Note: The amounts in “Other” are those relating to the restaurant business and others.

[Information on gain on bargain purchase by reportable segment]

FY2023 (From April 1, 2022 to March 31, 2023)

Not applicable

FY2022 (From April 1, 2021 to March 31, 2022)

Not applicable

[Related parties]

FY2023 (From April 1, 2022 to March 31, 2023)

Not applicable

FY2022 (From April 1, 2021 to March 31, 2022)

Not applicable

(Per share information)

(Yen)

	FY2023 (From April 1, 2022 to March 31, 2023)	FY2022 (From April 1, 2021 to March 31, 2022)
Net assets per share	2,421.48	2,268.30
Basic profit per share	132.16	121.59
Fully diluted profit per share	115.39	106.02

Note: Basis for the calculation of basic profit per share and fully diluted profit per share is as follows:

	FY2023 (From April 1, 2022 to March 31, 2023)	FY2022 (From April 1, 2021 to March 31, 2022)
Basic profit per share		
Profit attributable to owners of parent (Millions of yen)	10,260	9,327
Amount not attributable to common shareholders (Millions of yen)	—	—
Amount pertaining to common stock (Millions of yen)	10,260	9,327
Average number of shares of common stock in the fiscal year (Thousands of shares)	77,633	76,712
Fully diluted profit per share		
Adjustments on profit attributable to owners of parent (Millions of yen)	(12)	(12)
<of which interest income (after deducting the amount equivalent to tax) (Millions of yen)>	[(12)]	[(12)]
Increase in common stock (Thousands of shares)	11,172	11,149
Summary of residual securities not included in calculation of fully diluted profit per share due to non dilutive effect	—	—

(Significant subsequent events)

(Making a company into an equity method affiliate by way of investment)

On May 15, 2023, the Company decided to make an equity investment in Utah Flour Milling, LLC (hereinafter, “Utah Flour”), a US flour milling company, and signed an investment agreement with Utah Flour.

With this investment, the Group will increase its US business sites to three and enter the US flour milling business for the first time.

1. Background and purpose of the investment

Utah Flour is a flour milling company invested by PHM Brands, LLC (hereinafter, “PHM”), which operates mainly wheat flour business in the US. As Utah Flour newly opens a flour mill in Utah, NIPPON will invest in Utah Flour and participate in the operation of the mill as a business and strategic partner. Utah Flour will be a state-of-the-art flour mill with leading-edge technology and will also utilize the pathogen-reduction biotechnology patented by Energis Solutions™*.

NIPPON is committed to realizing its Group’s long-term vision of “Business expansion in North America and business development including inorganic growth strategy” through this investment, then enhancing the Group’s overall strength as a flour miller through direct engagement in the flour milling business in the US.

The investment in Utah Flour will accelerate the speed of business growth in the US by leveraging synergies among Group’s existing companies; NIPPON California Inc., a California-based premix sales company, and Pasta Montana, L.L.C., a Montana-based pasta production and sales company, and will strengthen its Group’s global network with a view to further expand its global business.

*About Energis Solutions™

Energis Solutions™, a subsidiary of PHM Brands, LLC, is a Colorado-based biotechnology company with patented technology which has been customized to provide environmentally green method to reduce microorganisms for both food and non-food applications.

2. Overview of the investment

Amount invested:	USD 25 million (approx. ¥3,402 million)
Effective date of investment:	May 18, 2023
Equity interest:	25% (making Utah Flour an equity method company)

3. Overview of the companies

(1) Overview of Utah Flour Milling, LLC

Established	February 2023
Representatives	Mr. John Mason, Mr. Bryan Ledgerwood (Co-founders of PHM Brands, LLC)
Factory location	Utah, United States
Business	Production and sales of wheat flour
Start of construction	Around July 2023
Start of operation	Around October 2024
Production capacity	7,500 cwt (approx. 340 tons)/day (flour-based)
Site area	Approx. 21,000m ²
Fiscal year end	December

(2) Overview of PHM Brands, LLC

Established	January 2016
Representatives	Mr. John Mason, Mr. Bryan Ledgerwood
Factory location	Denver, Colorado, United States
Business	Production and development of wheat flour and grain related products, etc.
Fiscal year end	December

(Introduction of a performance-linked stock compensation plan for Directors)

At its 199th Annual Shareholders Meeting held on June 29, 2023, the Company resolved to introduce a new performance-linked stock compensation plan known as the Board Benefit Trust (BBT) (hereinafter referred to as the “Plan”) for Directors (excluding Directors who are Audit and Supervisory Committee Members and Outside Directors; the same applies hereinafter in this item) of the Company.

1. Background and purposes of introducing the Plan

The Plan was introduced for the purposes of clarifying the relationship between Directors’ compensation and the Company’s business performance and stock value and enabling Directors to share with shareholders not only the benefits of an increase in stock price but also the risks of a decline in stock price, thus raising the Directors’ awareness of the need to contribute to improving the Company’s business performance and corporate value over the medium to long term.

2. Specific calculation method and details of the amount of compensation, etc. related to the Plan

(1) Overview of the Plan

The Plan is a performance-linked stock compensation plan. Company shares are acquired through a trust (the trust established under the Plan will hereinafter be referred to as the “Trust”) with money contributed by the Company as a source of funds, and Company shares and money equivalent to Company shares converted at market value (hereinafter referred to as “Company Shares, etc.”) are delivered to Directors through the trust in accordance with the Regulations on Directors’ Stock Benefits established by the Company. In principle, Directors will receive Company Shares, etc. at the time of their retirement.

(2) Persons eligible for the Plan

Directors of the Company (Directors who are Audit and Supervisory Committee Members and Outside Directors are excluded from the Plan.)

(3) Trust period

From August 2023 until the termination of the Trust

(No specific termination date has been set for the trust period of the Trust, and the Trust will continue as long as the Plan continues. The Plan will end with the delisting of the Company’s shares, the abolishment of the Regulations on Directors’ Stock Benefits, etc.)

(4) Trust amount

The Company will implement this Plan for the four fiscal years from the fiscal year ending March 31, 2024 to the fiscal year ending March 31, 2027 (hereinafter, this period of four fiscal years shall be referred to as the “Initial Target Period,” and the Initial Target Period and the period separately determined by the Board of Directors as a period that coincides with the target period of each medium-term business plan that begins after the Initial Target Period (minimum of two fiscal years and maximum of six fiscal years) are respectively referred to as the “Target Period”) and each Target Period thereafter. In order to deliver Company Shares, etc. to Directors, the following money will be contributed to the Trust as the funds for the acquisition of Company shares by the Trust.

First, at the time of establishment of the Trust (August 2023), the Company will establish the Trust by contributing the amount of money that it expects to meet the amount of funds necessary for the Initial Target Period. As stated in (6) below, the maximum number of points granted to Directors under the Plan is 80,000 per fiscal year. Therefore, at the time of establishment of the Trust, we will contribute to the Trust the funds reasonably expected to be necessary to acquire a maximum of 320,000 shares, taking into account the closing price of ordinary trading of the Company’s common stock on the Tokyo Stock Exchange immediately prior to establishment.

After the Initial Target Period, until the termination of the Plan, in principle for each Target Period, the Company will reasonably estimate the number of shares necessary for delivery to Directors under the Plan, and contribute additional funds deemed necessary for acquisition in advance by the Trust.

However, in the case of making such additional contributions, if there are any remaining Company shares (excluding Company shares equivalent to the number of points granted to Directors for each

Target Period up to the time immediately before making such additional contributions for which payment to Directors has not yet been completed) or money (these Company shares and money are hereinafter referred to as “Remaining Shares, etc.”) in the trust property, Remaining Shares, etc. will be used as funds for delivery under the Plan in the subsequent Target Periods, and the additional contribution amount will be calculated after considering the Remaining Shares, etc. When the Company decides to make additional contributions, we will disclose it in a timely and appropriate manner.

(Note) The amount of money that the Company will actually contribute to the Trust will be the sum of the above-mentioned stock acquisition funds and the estimated amount of necessary expenses such as trust fees.

(5) Acquisition method and number of shares acquired by the Trust

Acquisition of Company shares by the Trust will be conducted through the stock market or by underwriting the disposal of the Company’s treasury stock, using the funds contributed in (4) above as the source of funds, and new shares will not be issued.

As stated in (6) below, the maximum number of points granted to Directors is 80,000 points per fiscal year, so the maximum number of Company shares that may be acquired by the Trust during the Initial Target Period is 320,000. The maximum number of Company shares that the Trust may acquire in each subsequent Target Period will be 80,000 multiplied by the number of fiscal years corresponding to each Target Period. We will disclose details of the acquisition of Company shares by the Trust in a timely and appropriate manner.

(6) Maximum number of Company Shares, etc. to be delivered to Directors

Directors are granted a number of points each fiscal year based on the Regulations on Directors’ Stock Benefits, taking into account the Director’s position, degree of performance achievement, etc. The total number of points granted to Directors per fiscal year shall be up to 80,000 points. This was determined by comprehensively taking into consideration the current level of compensation for officers, trends in the number of Directors, and future prospects, and the Company has judged it to be appropriate.

The points granted to Directors are converted into one common share of the Company per point when the Company Shares, etc. are delivered as described in (7) below (however, if, in regard to Company shares, a stock split, allotment of shares without contribution, or reverse stock split, etc. is carried out, the Company will reasonably adjust, in accordance with relevant ratios, etc., the maximum number of points and the number of points already granted or their conversion ratio).

The ratio of 80,000 shares, which corresponds to the maximum number of points granted to Directors per fiscal year, to the total number of issued shares of 78,113,401 (as of March 31, 2023; after deducting treasury stock) is approximately 0.1%.

In principle, a Director’s number of points that is the basis for the delivery of Company Shares, etc. in (7) below, will be the number of points granted to the relevant Director by the time of their retirement (hereinafter, points calculated in this way shall be referred to as “Fixed Number of Points”).

(7) Delivery of Company Shares, etc. and specific calculation method for amount of compensation, etc.

When a Director retires and satisfies the beneficiary requirements stipulated in the Regulations on Directors’ Stock Benefits, said Director will, by completing the prescribed beneficiary confirmation procedures, receive benefits from the Trust after retirement in principle for the number of Company shares corresponding to the Fixed Number of Points determined in accordance with (6) above. However, if the requirements stipulated in the Regulations on Directors’ Stock Benefits are met, a certain percentage will be paid as money equivalent to the market value of Company shares instead of as Company shares. Moreover, the Trust may sell Company shares in order to deliver cash benefits. Furthermore, even if a Director has been granted points, if the Annual Shareholders Meeting passes a resolution to dismiss them, if they resign due to certain misconduct during their term of office, or if they commit an inappropriate act that causes damage to the Company during their term of office, the relevant Director shall not be able to acquire the right to receive benefits.

The amount of compensation, etc. received by Directors is based on the amount obtained by multiplying the total number of points granted to Directors by the book value per share of Company shares held by the Trust at the time points are granted (however, if, in regard to Company shares, a stock split,

allotment of shares without contribution, or reverse stock split, etc. is carried out, the Company will make reasonable adjustments in accordance with relevant ratios, etc.). In addition, if a Director is to receive money under exceptional circumstances in accordance with the Regulations on Directors' Stock Benefits, the amount of money shall also be added to the amount of compensation, etc. when deemed appropriate.

(8) Exercise of voting rights

In accordance with instructions from the trust administrator, voting rights in connection with Company shares in the Trust's account will not be exercised without exception. This approach intends to ensure neutrality to the management of the Company in exercising voting rights for Company shares in the Trust's account.

(9) Dividends

The Trust will receive dividends from Company shares held in the Trust's account and allocate them to the payment of the costs of acquiring Company shares or to trust fees for the trustee of the Trust and other purposes. If the Trust is terminated, remaining funds in the Trust, including dividends, will be delivered to Directors incumbent at that time in proportion to the number of points each of them holds, in accordance with the provisions of the Regulations on Directors' Stock Benefits.

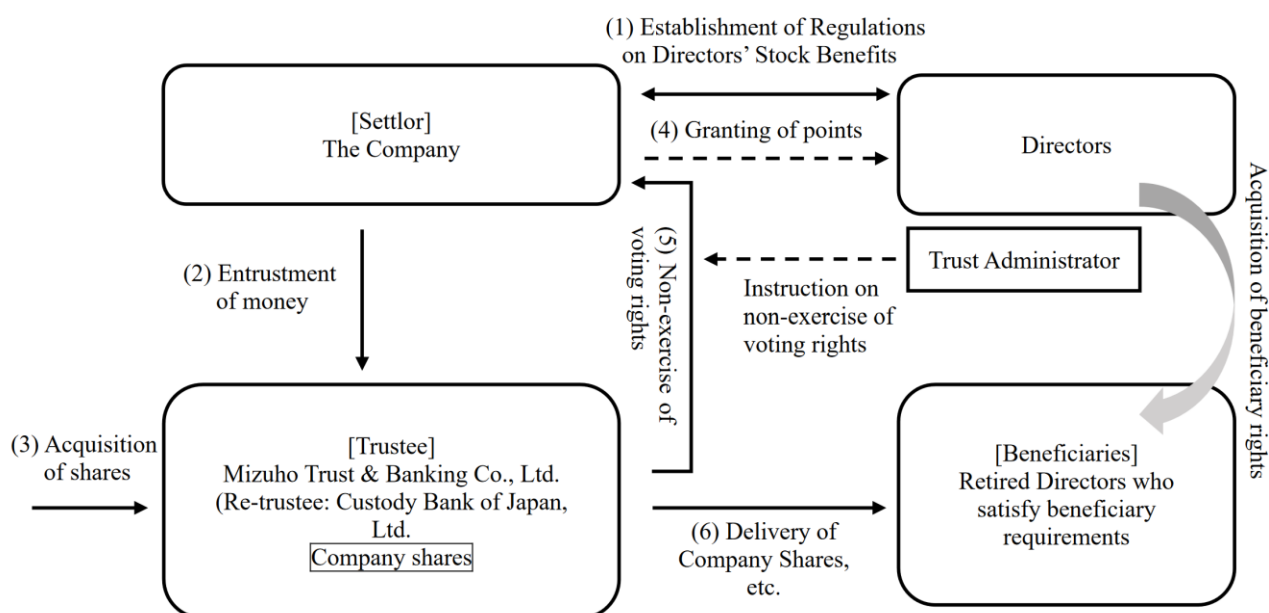
(10) Termination of the Trust

The Trust will terminate upon the occurrence of events such as the delisting of the Company's shares or abolishment of the Regulations on Directors' Stock Benefits. Company shares among the Trust's remaining assets at the termination of the Trust shall be acquired by the Company in whole without consideration and be cancelled by a resolution of the Board of Directors. Of the remaining assets of the Trust at the termination of the Trust, money shall be delivered to the Company, excluding the amount to be delivered to the Directors in accordance with (9) above.

Overview of the Trust

1) Name	Board Benefit Trust (BBT)
2) Settlor	The Company
3) Trustee	Mizuho Trust & Banking Co., Ltd. (Re-trustee: Custody Bank of Japan, Ltd.)
4) Beneficiaries	Retired Directors who satisfy beneficiary requirements stipulated in the Regulations on Directors' Stock Benefits
5) Trust administrator	The Company has appointed a third party with no relationship of interest with the Company
6) Type of trust	Trust of money that is not a money trust (third-party benefit trust)
7) Date of conclusion of Trust contract	August 25, 2023
8) Date of entrustment of money	August 25, 2023
9) Trust period	From August 25, 2023 until the termination of the trust

<Reference: Structure of the Plan>



- (i) The Company shall establish the Regulations on Directors' Stock Benefits by the resolution of the Annual Shareholders Meeting regarding Directors' compensation within the limit of the framework approved in this Plan.
- (ii) The Company shall entrust money within the range (i).
- (iii) The Trust shall acquire Company shares using the funds entrusted in accordance with (ii) through the stock market or by underwriting the disposal of the Company's treasury stock.
- (iv) The Company shall grant points to Directors under the Regulations on Directors' Stock Benefits.
- (v) In accordance with instructions from a trust administrator, who is independent from the Company, the Trust shall not exercise voting rights in connection with Company shares in the Trust's account.
- (vi) The Trust shall provide Company shares to retired Directors who meet the beneficiary requirements provided in the Regulations on Directors' Stock Benefits (hereinafter referred to as the "Beneficiaries") corresponding to the number of points granted to the said Beneficiaries. However, Directors who meet the requirements provided in the Regulations on Directors' Stock Benefits shall receive an amount of money equivalent to the market value of Company shares in respect of a certain portion of the points.

(Disposal of treasury shares through a third-party allotment)

At the meeting of the Board of Directors held on August 4, 2023, the Company resolved to dispose of treasury shares through a third-party allotment (hereinafter referred to as the “Treasury Shares Disposal”), as described below.

1. Overview of the Treasury Shares Disposal

Date of disposal	August 25, 2023
Number of shares disposed of	240,000 shares of the Company’s common stock
Disposal price	¥1,860 per share
Total amount of disposal	¥446,400,000
Method of disposal	Disposal through third-party allotment
Planned recipient of disposal	Mizuho Trust & Banking Co., Ltd. (Re-trustee: Custody Bank of Japan, Ltd.)
Other matters	The Treasury Shares Disposal is subject to the effectiveness of notification under the Financial Instruments and Exchange Act

2. Purpose and reason for the disposal

At its 199th Annual Shareholders Meeting held on June 29, 2023, the Company resolved to introduce a new performance-linked stock compensation plan known as the Board Benefit Trust (BBT) (hereinafter referred to as the “Plan”) for Directors (excluding Directors who are Audit and Supervisory Committee Members and Outside Directors; the same applies hereinafter in this item) of the Company.

The Company implemented the Treasury Shares Disposal for the purpose of introducing the Plan through the disposal of treasury shares by third-party allotment to the Custody Bank of Japan, Ltd., which is the re-trustee of the Mizuho Trust & Banking Co., Ltd., the trustee under the Plan.

(v) Consolidated supplemental schedules
(Schedule of bonds payable)

Company name	Security titles	Issue date	Balance at beginning of current period (Millions of yen)	Balance at end of current period (Millions of yen)	Interest rate (%)	Collateral	Maturity
NIPPON CORPORATION	Euro-yen denominated convertible bond-type bonds with share acquisition rights due 2025 (Note 1)	June 22, 2018	25,056	25,038	–	None	June 20, 2025
G&L mart Co., Ltd.	17th Series of Unsecured Straight Bonds	September 29, 2017	5	–	0.230	None	September 29, 2022
Same as above	18th Series of Bank-guaranteed Private Placement Bonds (Note 2)	September 10, 2018	30	10 [10]	0.490	None	September 8, 2023
Same as above	19th Series of Unsecured Straight Bonds (Note 2)	September 28, 2018	15	5 [5]	0.290	None	September 29, 2023
Same as above	20th Series of Credit Guarantee Association-guaranteed Private Placement Bonds (Note 2)	February 25, 2019	150	150 [150]	0.400	None	February 22, 2024
Same as above	21st Series of Bank-guaranteed Private Placement Bonds (Note 2)	September 25, 2019	140	84 [56]	0.300	None	September 25, 2024
Same as above	22nd Series of Unsecured Straight Bonds	September 25, 2019	100	100	0.100	None	September 25, 2024
Total	–	–	25,496	25,387 [221]	–	–	–

Notes: 1. Information regarding bonds with share acquisition rights are as follows:

Security titles	Euro-yen denominated convertible bond-type bonds with share acquisition rights due 2025
Shares to be issued	Common stock
Issue price of stock acquisition rights (Yen)	Free of charge
Issue price of shares (Yen)	2,268.2
Aggregate amount of issue price (Millions of yen)	25,000

Aggregate amount of issue price of shares issued through the exercise of stock acquisition rights (Millions of yen)	–
Ratio of stock acquisition rights granted (%)	100
Exercise period of stock acquisition rights	July 6, 2018 to June 6, 2025

Note: When exercising each stock acquisition right, the bond regarding the stock acquisition right shall be funded.
The price of the bond shall be equal to the face value of the bond.

2. Figures in square brackets represent the amounts planned for redemption within one year.
3. Repayment schedule for five years after the consolidated balance sheet date is as follows:

(Millions of yen)

Due within one year	Due after one year within two years	Due after two years within three years	Due after three years within four years	Due after four years within five years
221	128	25,000	–	–

(Schedule of borrowings)

Category	Balance at beginning of current period (Millions of yen)	Balance at end of current period (Millions of yen)	Average interest rate (%)	Repayment date
Short-term loans payable	17,231	14,517	0.36	–
Current portion of long-term loans payable	2,298	3,054	0.32	–
Current portion of lease obligations	255	281	–	–
Long-term loans payable (excluding current portion)	23,684	21,175	0.27	2024 – 2033
Lease obligations (excluding current portion)	696	903	–	2024 – 2032
Other interest-bearing debt	–	–	–	–
Total	44,165	39,933	–	–

Notes: 1. Repayment schedule for long-term loans payable and lease obligations (excluding current portion) for five years after the consolidated balance sheet date is as follows:

	(Millions of yen)			
	Due after one year within two years	Due after two years within three years	Due after three years within four years	Due after four years within five years
Long-term loans payable	4,245	2,666	892	10,739
Lease obligations	230	206	177	123

- Average interest rates are computed using interest rates at the end of the fiscal year.
- Average interest rates on lease obligations are not provided because the lease obligations stated in the consolidated balance sheet represent the amounts with interest equivalents not deducted from the total lease payments.

(Schedule of asset retirement obligations)

The amount of asset retirement obligations at the beginning and at the end of the current fiscal year was not more than 1/100 of the amount of total liabilities and net assets at the beginning and at the end of the current fiscal year. Consequently, pursuant to Article 92-2 of the Regulations for Consolidated Financial Statements, this information has been omitted.

(2) (Other matters)

Quarterly results for the current fiscal year

From April 1, 2022 to	June 30, 2022	September 30, 2022	December 31, 2022	March 31, 2023
Net sales (Millions of yen)	86,205	176,488	274,681	365,525
Profit before income taxes (Millions of yen)	3,839	7,200	11,753	14,710
Profit attributable to owners of parent (Millions of yen)	2,726	4,963	8,084	10,260
Basic profit per share (Yen)	35.52	64.17	104.27	132.16

Three months ended	June 30, 2022	September 30, 2022	December 31, 2022	March 31, 2023
Basic profit per share (Yen)	35.52	28.70	40.06	27.92