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***TEIKOKU ELECTRIC MFG. CO., LTD.***

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

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of TEIKOKU ELECTRIC MFG. CO., LTD.:

### Opinion

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

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

### Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

### Basis for Opinion

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

### Key Audit Matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. The matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.

The reasonableness of the pump business sales of the products	
Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
<p>As described in Note 16. "SEGMENT INFORMATION" to the consolidated financial statements, sales from the pump business amount to ¥26,451,100 thousand (\$198,076 thousand), which is the main business of the Group accounting for 93.0% of the total sales for the year ended March 31, 2023, and the majority of this was generated from the sales of the products.</p> <p>As described in Note 2. "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (m.) Revenue Recognition" to the consolidated financial statements, the Group recognizes sales at the time the products are shipped, inspected, or based on incoterms. More specifically, domestic sales are principally recognized at shipping point or inspection point, and overseas sales are principally recognized at shipping point when control transfers from the Group to customers.</p> <p>The Group manufactures pumps for various uses and in various sizes and models as well as designs and operates controls for receiving orders, manufacturing products, shipping, recognizing sales, and collecting payment in order to appropriately handle and recognize a large number of sales transactions.</p> <p>As the Group handles sales transactions by IT systems and recognizes sales based on the sales data generated from IT systems as a result of orders reception, manufacturing, and shipments, the reliability of internal controls and IT systems is crucial.</p> <p>We identified the reasonableness of the sales of the products from the pump business as a key audit matter because sales amount is an important element to achieve the Group's business plan, which is announced externally, and is considered to be the most important performance indicator for the users of financial statements, and the majority of sales consists of the sales of the products from the pump business, which is the main business of the Group.</p>	<p>We performed the following audit procedures to assess the sales of the products from the pump business, among others:</p> <p>(1) Evaluation of internal controls</p> <p>Based on our understanding of the revenue recognition processes related to the sales of the products from the pump business, we evaluated the design and operating effectiveness of controls over the sequence of controls from receiving orders to collecting payments from sales.</p> <p>Additionally, with the assistance of our IT specialists, we evaluated the design and operating effectiveness of following IT controls.</p> <ul style="list-style-type: none"> <li>• IT application controls over the sales data generating process and data transfer to accounting system</li> <li>• General IT controls which ensure the reliability of the above IT application controls</li> </ul> <p>(2) Risk assessment and examination of sales transactions</p> <ul style="list-style-type: none"> <li>• We inquired of the sales department manager on sales and order position in order to obtain a comprehensive understanding of the business.</li> <li>• We analyzed sales by customers and regions as risk assessment procedures.</li> <li>• We analyzed the trends in daily sales as well as daily sales adjustments close to and subsequent to year-end.</li> <li>• For the selected sales transactions based on statistical methods, we tested the occurrence of the sales transactions by matching them with sales contracts as well as shipping documents from shipping companies for domestic sales transactions and bills of landing for overseas sales transactions.</li> </ul> <p>Furthermore, we instructed the auditors of Dalian Teikoku Canned Motor Pump Co., Ltd. and TEIKOKU USA INC., which are significant consolidated subsidiaries that conduct pump business, to perform audit procedures that included evaluating the design and operating effectiveness of controls over revenue recognition processes related to the sales of the products from the pump business, assessment of the risk of sales transactions, and testing for the selected sales transactions. As a result, we obtained reports on the results of the audit procedures performed by the auditors of consolidated subsidiaries and evaluated whether sufficient and appropriate audit evidence was obtained. These examinations included communications with the auditors of consolidated subsidiaries as well as inspections of the audit documentations prepared by the auditors of consolidated subsidiaries.</p>

## **Other Information**

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

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

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

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

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

The Audit and Supervisory Committee is responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with 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 relevant ethical requirements regarding independence, and communicate with it 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.

*Deloitte Touche Tohmatsu LLC*

July 28, 2023

**TEIKOKU ELECTRIC MFG. CO., LTD.**
**Consolidated Balance Sheet  
March 31, 2023**

ASSETS	Thousands of Yen		Thousands of U.S. Dollars (Note 1)	LIABILITIES AND EQUITY	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2023	2022	2023		2023	2022	2023
<b>CURRENT ASSETS:</b>				<b>CURRENT LIABILITIES:</b>			
Cash and cash equivalents (Note 12)	¥ 14,903,351	¥ 13,036,366	\$ 111,602	Short-term bank loans (Notes 6 and 12)	¥ 320,000	¥ 340,000	\$ 2,396
Short-term investments (Notes 4 and 12)	1,237,955	1,405,445	9,270	Current portion of long-term lease obligations (Note 3)	226,228	97,070	1,694
Receivables (Notes 10 and 12):				Payables (Notes 10 and 12):			
Trade notes	1,441,797	1,494,371	10,797	Trade notes	718,963	732,307	5,384
Trade accounts	7,350,164	6,266,920	55,041	Trade accounts	1,932,881	2,014,255	14,474
Other	246,945	378,478	1,849	Notes and accounts payable	626,476	646,365	4,691
Allowance for doubtful accounts	(727,878)	(613,723)	(5,451)	Income taxes payable (Note 12)	865,024	497,494	6,478
Inventories (Note 5)	6,024,204	5,210,823	45,112	Accrued expenses	1,149,025	1,250,086	8,605
Prepaid expenses and other current assets	464,161	920,980	3,476	Other current liabilities	2,383,191	1,790,581	17,846
<b>Total current assets</b>	<b>30,940,699</b>	<b>28,099,660</b>	<b>231,696</b>	<b>Total current liabilities</b>	<b>8,221,788</b>	<b>7,368,158</b>	<b>61,568</b>
<b>PROPERTY, PLANT AND EQUIPMENT:</b>				<b>LONG-TERM LIABILITIES:</b>			
Land	1,860,835	1,837,243	13,935	Long-term debt (Notes 3 and 6)	859,752	294,731	6,438
Buildings and structures	8,726,595	8,599,440	65,348	Liability for retirement benefits (Note 7)	608,110	533,545	4,554
Machinery and equipment	6,785,842	6,496,634	50,815	Deferred tax liabilities (Note 9)	383,570	204,111	2,872
Lease assets (Note 3)	2,369,833	1,635,113	17,746	Other long-term liabilities	17,484	309,512	131
Construction in progress	20,058	52,310	150	<b>Total long-term liabilities</b>	<b>1,868,916</b>	<b>1,341,899</b>	<b>13,995</b>
Other	1,720,980	1,655,399	12,888				
Total	21,484,143	20,276,139	160,882	<b>CONTINGENT LIABILITIES (Note 13)</b>			
Accumulated depreciation	(12,483,831)	(11,586,259)	(93,484)	<b>EQUITY (Notes 8 and 15):</b>			
<b>Net property, plant and equipment</b>	<b>9,000,312</b>	<b>8,689,880</b>	<b>67,398</b>	Common stock – authorized, 69,200,000 shares; issued, 18,990,038 shares in 2023 and 20,440,038 shares in 2022	3,143,675	3,143,675	23,541
<b>INVESTMENTS AND OTHER ASSETS:</b>				Capital surplus	2,931,466	3,331,905	21,952
Investment securities (Notes 4 and 12)	766,469	1,062,831	5,740	Retained earnings	24,353,092	23,882,435	182,366
Software	115,827	176,728	867	Treasury stock – at cost, 871,399 shares in 2023 and 1,435,876 shares in 2022	(1,476,256)	(1,864,954)	(11,056)
Software in progress	7,077	-	53	Accumulated other comprehensive income:			
Asset for retirement benefits (Note 7)	168,661	170,010	1,263	Unrealized gain on available-for-sale securities	357,202	419,568	2,675
Deferred tax assets (Note 9)	419,077	348,605	3,138	Foreign currency translation adjustments	1,827,048	1,110,077	13,682
Other assets	207,008	481,610	1,550	Defined retirement benefit plans	(42,856)	(3,692)	(321)
Allowance for doubtful accounts	(28,200)	(28,200)	(211)	Total	31,093,371	30,019,014	232,839
<b>Total investments and other assets</b>	<b>1,655,919</b>	<b>2,211,584</b>	<b>12,400</b>	Noncontrolling interests	412,855	272,053	3,092
				Total equity	31,506,226	30,291,067	235,931
<b>TOTAL</b>	<b>¥ 41,596,930</b>	<b>¥ 39,001,124</b>	<b>\$ 311,494</b>	<b>TOTAL</b>	<b>¥ 41,596,930</b>	<b>¥ 39,001,124</b>	<b>\$ 311,494</b>

See notes to consolidated financial statements.

# TEIKOKU ELECTRIC MFG. CO., LTD.

## Consolidated Statement of Income Year Ended March 31, 2023

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2023</u>	<u>2022</u>	<u>2023</u>
NET SALES (Note 2.m)	¥ 28,450,684	¥ 22,244,497	\$ 213,050
COST OF SALES	<u>16,377,558</u>	<u>13,192,206</u>	<u>122,642</u>
Gross profit	12,073,126	9,052,291	90,408
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 11)	<u>7,049,738</u>	<u>6,557,595</u>	<u>52,791</u>
Operating income	<u>5,023,388</u>	<u>2,494,696</u>	<u>37,617</u>
OTHER INCOME (EXPENSES):			
Interest and dividend income	149,147	95,176	1,117
Interest expense	(35,045)	(17,394)	(262)
Foreign exchange gain (loss) – net	170,526	154,650	1,277
Employment adjustment subsidy	8,955	52,725	67
Gain (loss) on sales of investment securities – net	194,188	1,360	1,454
Loss on valuation of investment securities	(2,141)	-	(16)
Other – net	<u>155,478</u>	<u>151,691</u>	<u>1,164</u>
Other income (expenses) – net	<u>641,108</u>	<u>438,208</u>	<u>4,801</u>
INCOME BEFORE INCOME TAXES	<u>5,664,496</u>	<u>2,932,904</u>	<u>42,418</u>
INCOME TAXES (Note 9):			
Current	1,351,768	818,411	10,122
Deferred	<u>171,828</u>	<u>39,575</u>	<u>1,287</u>
Total income taxes	<u>1,523,596</u>	<u>857,986</u>	<u>11,409</u>
NET INCOME	<u>4,140,900</u>	<u>2,074,918</u>	<u>31,009</u>
NET INCOME ATTRIBUTE TO NONCONTROLLING INTERESTS	<u>144,244</u>	<u>87,218</u>	<u>1,080</u>
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	<u>¥ 3,996,656</u>	<u>¥ 1,987,700</u>	<u>\$ 29,929</u>
	<u>Yen</u>		<u>U.S. Dollars</u>
PER SHARE OF COMMON STOCK (Note 2.q):			
Basic net income	¥214.95	¥103.29	\$0.01
Cash dividends applicable to the year	116.00	50.00	0.01

See notes to consolidated financial statements.

# TEIKOKU ELECTRIC MFG. CO., LTD.

## Consolidated Statement of Comprehensive Income Year Ended March 31, 2023

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2023</u>	<u>2022</u>	<u>2023</u>
NET INCOME	<u>¥ 4,140,900</u>	<u>¥ 2,074,918</u>	<u>\$ 31,009</u>
OTHER COMPREHENSIVE INCOME (LOSS) (Note 14):			
Unrealized loss on available-for-sale securities	(62,365)	(62,259)	(467)
Foreign currency translation adjustments	713,529	934,266	5,343
Defined retirement benefit plans	<u>(39,165)</u>	<u>12,597</u>	<u>(293)</u>
Total other comprehensive income	<u>611,999</u>	<u>884,604</u>	<u>4,583</u>
COMPREHENSIVE INCOME	<u>¥ 4,752,899</u>	<u>¥ 2,959,522</u>	<u>\$ 35,592</u>
TOTAL COMPREHENSIVE INCOME			
ATTRIBUTABLE TO:			
Owners of the parent	¥4,612,096	¥2,853,831	\$34,537
Noncontrolling interests	140,803	105,691	1,055

See notes to consolidated financial statements.

**TEIKOKU ELECTRIC MFG. CO., LTD.**
**Consolidated Statement of Changes in Equity  
Year Ended March 31, 2023**

	Number of Shares of Common Stock Outstanding	Thousands of Yen								
		Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income			Noncontrolling Interests	Total Equity
						Unrealized Gain on Available-for- Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans		
BALANCE, MARCH 31, 2021	19,638,784	¥ 3,132,976	¥ 3,321,206	¥ 22,555,472	¥ (1,000,920)	¥ 481,827	¥ 194,284	¥ (16,289)	¥ 166,362	¥ 28,834,918
Cumulative effect of accounting change				37,663						37,663
BALANCE, APRIL 1, 2021	19,638,784	3,132,976	3,321,206	22,593,135	(1,000,920)	481,827	194,284	(16,289)	166,362	28,872,581
Net income attributable to owners of the parent				1,987,700						1,987,700
Cash dividends, ¥36.00 per share				(698,400)						(698,400)
Purchase of treasury stock (Note 8)	(651,222)				(864,034)					(864,034)
Issuance of new shares	16,600	10,699	10,699							21,398
Net change in the year						(62,259)	915,793	12,597	105,691	971,822
BALANCE, MARCH 31, 2022	19,004,162	3,143,675	3,331,905	23,882,435	(1,864,954)	419,568	1,110,077	(3,692)	272,053	30,291,067
Net income attributable to owners of the parent				3,996,656						3,996,656
Cash dividends, ¥90.00 per share				(1,692,042)						(1,692,042)
Purchase of treasury stock (Note 8)	(896,323)				(1,862,977)					(1,862,977)
Disposal of treasury stock	10,800		2,803		14,476					17,279
Cancellation of treasury stock			(2,237,199)		2,237,199					
Transfer to capital surplus from retained earnings			1,833,957	(1,833,957)						
Net change in the year						(62,366)	716,971	(39,164)	140,802	756,243
BALANCE, MARCH 31, 2023	<u>18,118,639</u>	<u>¥ 3,143,675</u>	<u>¥ 2,931,466</u>	<u>¥ 24,353,092</u>	<u>¥ (1,476,256)</u>	<u>¥ 357,202</u>	<u>¥ 1,827,048</u>	<u>¥ (42,856)</u>	<u>¥ 412,855</u>	<u>¥ 31,506,226</u>
		Thousands of U.S. Dollars (Note 1)								
		Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income			Noncontrolling Interests	Total Equity
						Unrealized Gain on Available-for- Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans		
BALANCE, MARCH 31, 2022		\$ 23,541	\$ 24,951	\$ 178,842	\$ (13,967)	\$ 3,142	\$ 8,313	\$ (28)	\$ 2,038	\$ 226,832
Net income attributable to owners of the parent				29,929						29,929
Cash dividends, \$0.67 per share				(12,672)						(12,672)
Purchase of treasury stock (Note 8)					(13,951)					(13,951)
Disposal of treasury stock			21		109					130
Cancellation of treasury stock			(16,753)		16,753					
Transfer to capital surplus from retained earnings			13,733	(13,733)						
Net change in the year						(467)	5,369	(293)	1,054	5,663
BALANCE, MARCH 31, 2023		<u>\$ 23,541</u>	<u>\$ 21,952</u>	<u>\$ 182,366</u>	<u>\$ (11,056)</u>	<u>\$ 2,675</u>	<u>\$ 13,682</u>	<u>\$ (321)</u>	<u>\$ 3,092</u>	<u>\$ 235,931</u>

See notes to consolidated financial statements.

# TEIKOKU ELECTRIC MFG. CO., LTD.

## Consolidated Statement of Cash Flows Year Ended March 31, 2023

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2023</u>	<u>2022</u>	<u>2023</u>
<b>OPERATING ACTIVITIES:</b>			
Income before income taxes	¥ 5,664,496	¥ 2,932,904	\$ 42,418
Adjustments for:			
Income taxes – paid	(991,865)	(632,681)	(7,427)
Depreciation and amortization	992,986	922,175	7,436
Amortization of goodwill	-	160,129	-
Foreign exchange (gain) loss – net	(33,085)	(66,535)	(248)
Loss on disposal of property, plant and equipment	-	22,206	-
(Gain) loss on sales of investment securities – net	(194,188)	(1,360)	(1,454)
Loss on valuation of investment securities	2,141	-	16
Changes in assets and liabilities:			
Increase in notes and accounts receivable	(744,945)	(12,245)	(5,578)
Increase in inventories	(554,947)	(632,942)	(4,156)
(Decrease) increase in notes and accounts payable	(180,236)	737,615	(1,350)
Changes in asset or liability for retirement benefits	19,503	18,994	146
Other – net	873,339	318,364	6,540
Net cash provided by operating activities	<u>4,853,199</u>	<u>3,766,624</u>	<u>36,343</u>
<b>INVESTING ACTIVITIES:</b>			
Purchases of property, plant and equipment	(359,297)	(898,886)	(2,691)
Proceeds from sales of investment securities	401,694	5,109	3,008
Purchases of intangible assets	(14,987)	(38,863)	(112)
Purchases of investment securities	(2,811)	(2,783)	(21)
Payment into time deposits	(331,959)	(573,632)	(2,486)
Proceeds from withdrawal of time deposits	585,027	3,398	4,381
Other – net	4,254	30,732	32
Net cash provided by (used in) investing activities	<u>281,921</u>	<u>(1,474,925)</u>	<u>2,111</u>
<b>FINANCING ACTIVITIES:</b>			
(Decrease) increase in short-term bank loans – net	(20,000)	20,000	(150)
Payments of lease obligations	(138,604)	(109,446)	(1,038)
Purchases of treasury stock	(1,862,977)	(864,034)	(13,951)
Dividends paid	(1,692,042)	(698,399)	(12,670)
Net cash used in financing activities	<u>(3,713,623)</u>	<u>(1,651,879)</u>	<u>(27,809)</u>
<b>FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS</b>			
	445,488	586,195	3,336
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	1,866,985	1,226,015	13,981
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>13,036,366</u>	<u>11,810,351</u>	<u>97,621</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>¥ 14,903,351</u>	<u>¥ 13,036,366</u>	<u>\$ 111,602</u>

See notes to consolidated financial statements.

# TEIKOKU ELECTRIC MFG. CO., LTD.

## Notes to Consolidated Financial Statements Year Ended March 31, 2023

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### 1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

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

The consolidated financial statements are stated in Japanese yen, the currency of the country in which TEIKOKU ELECTRIC MFG. CO., LTD. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥133.54 to \$1, the approximate rate of exchange at March 31, 2023. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Consolidation** – The consolidated financial statements as of March 31, 2023, include the accounts of the Company and all of its 12 (12 in 2022) subsidiaries (together, the "Group").

Foreign subsidiaries (except for HYDRODYNE TEIKOKU (INDIA) PVT. LTD.) are consolidated using the financial statements as of December 31 because the difference between the closing date of the subsidiaries and that of the Company did not exceed three months. Significant transactions have been adjusted in consolidation.

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated.

The excess of the cost of acquisition over the fair value of the net assets of an acquired subsidiary at the date of acquisition is amortized on a straight-line basis over a period of five years.

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

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

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

Cash equivalents include time deposits, certificates of deposit, commercial paper and bond funds, all of which mature or become due within three months of the date of acquisition.

**d. Marketable and Investment Securities** – Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: (1) held-to-maturity debt securities, for which there is a positive intent and ability to hold to maturity, are reported at amortized cost; and (2) available-for-sale securities, which are not classified as held-to-maturity debt securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Nonmarketable available-for-sale equity securities are stated at cost determined by the moving-average method. For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

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

**f. Inventories** – Inventories are stated at the lower of cost, determined by the average cost method, or net selling value for the Company and its domestic subsidiaries and at the lower of cost, determined by the first-in, first-out method, or net selling value for foreign subsidiaries.

**g. Property, Plant and Equipment** – Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiaries other than buildings acquired on or after April 1, 1998, is computed using the declining-balance method, while depreciation of property, plant and equipment of its consolidated foreign subsidiaries is mainly computed using the straight-line method at rates based on estimated useful lives of the assets. Buildings of the Company and its consolidated domestic subsidiaries acquired on or after April 1, 1998, and building improvements and structures of the Company and its consolidated domestic subsidiaries acquired on or after April 1, 2016, are depreciated using the straight-line method. The range of useful lives is principally from 15 to 50 years for buildings and structures, and from 7 to 12 years for machinery and equipment. The useful lives for lease assets are the terms of the respective leases.

- h. Long-Lived Assets** – The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.
- i. Software** – Software for internal use is amortized using the straight-line method over the estimated usable life. The estimated usable life is 5 years.
- j. Retirement and Pension Plans** – The liabilities (assets) for retirement benefits of employees are accounted for based on projected benefit obligations and plan assets at the consolidated balance sheet date. The actuarial differences are mainly amortized from the next year using the declining-balance method over 10 years, which is within the average remaining service period. The prior service costs are mainly amortized using the declining-balance method over 10 years, which is within the average remaining service period.

Actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus is recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).

- k. Research and Development Costs** – Research and development costs are charged to income as incurred.
- l. Leases** – Finance lease transactions are capitalized by recognizing lease assets and lease obligations in the balance sheet.
- m. Revenue Recognition** – The Group recognizes revenue in an amount that reflects the consideration to which it expects to be entitled in exchange for satisfying performance obligations to transfer the goods or services promised in contracts with customers. The nature of performance obligations for each of the Group's major industry and when such obligations are satisfied are as follows:

In the pump business, the Group mainly manufactures and sells canned motor pump, and its performance obligation is primarily to deliver a finished product to the customer in accordance with the sales contract. In principle, it is deemed that control of the product is transferred to the customer and the performance obligation is satisfied at the time of delivery of the finished product to the customer; therefore, the Group recognizes sales at the time the products are shipped, inspected, or based on incoterms. However, since some products are manufactured based on the specifications that are unique to a customer, the Group determines that its performance obligations in such contracts are satisfied over time, and estimates the progress in satisfying the performance obligations and recognizes revenue based on the progress in satisfying the performance obligations.

In the electronic components business, the Group mainly manufactures and sells automotive electronic components, and its performance obligation is primarily to deliver a finished product to the customer in accordance with the sales contract. In principle, it is deemed that control of the product is transferred to the customer and the performance obligation is satisfied at the time of delivery of the finished product to the customer; therefore, the Group recognizes sales at the time the products are shipped.

Consideration for these performance obligations is generally received within one year after the performance obligation is satisfied, according to separately determined payment conditions, and does not include any significant financing components.

- n. Income Taxes** – The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.
- o. Foreign Currency Transactions** – All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.
- p. Foreign Currency Financial Statements** – The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.
- q. Per Share Information** – Basic net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period.

The weighted-average number of common shares outstanding used in the computation were 18,593,291 and 19,244,014 for the fiscal years ended March 31, 2023 and 2022, respectively.

Diluted net income per share is not presented because there are no potentially dilutive securities outstanding.

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

- r. Accounting Changes and Error Corrections** – Under ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections," and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections," accounting treatments are required as follows: (1) Changes in Accounting Policies—When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions. (2) Changes in Presentation—When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation. (3) Changes in Accounting Estimates—A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods. (4) Corrections of Prior-Period Errors—When an error in prior-period financial statements is discovered, those statements are restated.

### 3. ACCOUNTING CHANGE

The consolidated subsidiary outside Japan applying the U.S. GAAP has adopted the ASU 2016-02 "Leases" from the end of the fiscal year ended March 31, 2023. This requires lessees to recognize assets and liabilities for, in principle, all leases. The method adopted for the transition approach in the application of this standard, is one that recognizes the amount of the cumulative effect arising from the application of this standard on the date of initial application.

As a result, lease assets in property, plant and equipment increased by ¥401,798 thousand, lease obligations in current liabilities increased by ¥86,809 thousand, and lease obligations in long-term liabilities increased by ¥353,559 thousand in the consolidated balance sheet for the fiscal year ended March 31, 2023.

There is no impact of this change on profit or loss for the fiscal year under review.

### 4. SHORT-TERM INVESTMENTS AND INVESTMENT SECURITIES

Short-term investments and investment securities as of March 31, 2023 and 2022, consisted of the following:

	Thousands of Yen		Thousands of U.S. Dollars
	<u>2023</u>	<u>2022</u>	<u>2023</u>
Current:			
Time deposits other than cash equivalents	¥ 1,237,955	¥ 1,405,445	\$ 9,270
Total	<u>¥ 1,237,955</u>	<u>¥ 1,405,445</u>	<u>\$ 9,270</u>
Non-current:			
Marketable equity securities	¥ 762,742	¥ 1,059,104	\$ 5,712
Unquoted equity securities	<u>3,727</u>	<u>3,727</u>	<u>28</u>
Total	<u>¥ 766,469</u>	<u>¥ 1,062,831</u>	<u>\$ 5,740</u>

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

	Thousands of Yen			Fair Value
	Cost	Unrealized Gains	Unrealized Losses	
<u>March 31, 2023</u>				
Securities classified as:				
Available-for-sale:				
Equity securities	¥246,423	¥516,319	¥ -	¥762,742
<u>March 31, 2022</u>				
Securities classified as:				
Available-for-sale:				
Equity securities	¥453,259	¥617,553	¥(11,708)	¥1,059,104
<u>March 31, 2023</u>				
Securities classified as:				
Available-for-sale:				
Equity securities	\$1,846	\$3,866	\$ -	\$5,712

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

	<u>Thousands of Yen</u>		<u>Thousands of</u> <u>U.S. Dollars</u>
	<u>2023</u>	<u>2022</u>	<u>2023</u>
Proceeds from sales	¥ 401,694	¥ 5,109	\$ 3,008
Gain (loss) on sales	194,188	1,360	1,454

## 5. INVENTORIES

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

	<u>Thousands of Yen</u>		<u>Thousands of</u> <u>U.S. Dollars</u>
	<u>2023</u>	<u>2022</u>	<u>2023</u>
Finished products	¥ 2,111,223	¥ 1,805,281	\$ 15,810
Work in process	1,959,027	1,846,682	14,670
Raw materials and supplies	<u>1,953,954</u>	<u>1,558,860</u>	<u>14,632</u>
Total	<u>¥ 6,024,204</u>	<u>¥ 5,210,823</u>	<u>\$ 45,112</u>

## 6. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans at March 31, 2023 and 2022, consisted of notes to banks and bank overdrafts. The annual interest rates applicable to the short-term bank loans ranged from 0.34% to 0.56% and 0.34% to 0.59% at March 31, 2023 and 2022, respectively.

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

	<u>Thousands of Yen</u>		<u>Thousands of</u> <u>U.S. Dollars</u>
	<u>2023</u>	<u>2022</u>	<u>2023</u>
Long-term loans	¥ 79,870	¥ 79,380	\$ 598
Obligations under finance leases	<u>1,006,110</u>	<u>312,421</u>	<u>7,534</u>
Total	1,085,980	391,801	8,132
Less current portion	<u>(226,228)</u>	<u>(97,070)</u>	<u>(1,694)</u>
Long-term debt, less current portion	<u>¥ 859,752</u>	<u>¥ 294,731</u>	<u>\$ 6,438</u>

The annual average interest rate applicable to long-term loan was 8.92% at March 31, 2023 and 2022.

Annual maturities of long-term loan and lease obligations as of March 31, 2023, for the next five years and thereafter was as follows:

<u>Year Ending March 31</u>	<u>Thousands</u> <u>of Yen</u>	<u>Thousands of</u> <u>U.S. Dollars</u>
2024	¥ 226,228	\$ 1,694
2025	268,597	2,011
2026	195,882	1,467
2027	155,637	1,165
2028	145,383	1,089
2029 and thereafter	<u>94,253</u>	<u>706</u>
Total	<u>¥ 1,085,980</u>	<u>\$ 8,132</u>

## 7. RETIREMENT AND PENSION PLANS

The Company and certain consolidated subsidiaries have severance payment plans for employees. Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from certain consolidated subsidiaries and annuity payments from a trustee.

In addition, the Company have set an employee's retirement benefit trust to a lump-sum severance payment.

The Company has contributory funded defined benefit pension plans and unfunded retirement benefit plans for employees. The certain consolidated subsidiaries have unfunded retirement benefit plans.

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

	Thousands of Yen		Thousands of
	<u>2023</u>	<u>2022</u>	<u>U.S. Dollars</u>
			<u>2023</u>
Balance at beginning of year	¥ 1,716,709	¥ 1,691,148	\$ 12,856
Current service cost	120,956	128,104	906
Interest cost	14,204	11,425	106
Actuarial loss (gain)	2,296	(38,098)	17
Benefits paid	(84,966)	(76,961)	(636)
Others	(23)	1,091	(0)
Balance at end of year	<u>¥ 1,769,176</u>	<u>¥ 1,716,709</u>	<u>\$ 13,249</u>

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

	Thousands of Yen		Thousands of
	<u>2023</u>	<u>2022</u>	<u>U.S. Dollars</u>
			<u>2023</u>
Balance at beginning of year	¥ 1,353,174	¥ 1,329,546	\$ 10,133
Expected return on plan assets	27,063	26,591	203
Actuarial gains	(57,046)	(32,335)	(427)
Contributions from the employer	32,144	47,517	241
Benefits paid	(25,608)	(18,145)	(192)
Balance at end of year	<u>¥ 1,329,727</u>	<u>¥ 1,353,174</u>	<u>\$ 9,958</u>

- (3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets was as follows:

	Thousands of Yen		Thousands of
	<u>2023</u>	<u>2022</u>	<u>U.S. Dollars</u>
			<u>2023</u>
Funded defined benefit obligation	¥ 1,455,697	¥ 1,413,385	\$ 10,901
Plan assets	<u>(1,329,727)</u>	<u>(1,353,174)</u>	<u>(9,958)</u>
Total	125,970	60,211	943
Unfunded defined benefit obligation	<u>313,479</u>	<u>303,324</u>	<u>2,348</u>
Net liability arising from defined benefit obligation	<u>¥ 439,449</u>	<u>¥ 363,535</u>	<u>\$ 3,291</u>

	<u>Thousands of Yen</u>		<u>Thousands of</u>
	<u>2023</u>	<u>2022</u>	<u>U.S. Dollars</u>
Liability for retirement benefits	¥ 608,110	¥ 533,545	\$ 4,554
Asset for retirement benefits	<u>(168,661)</u>	<u>(170,010)</u>	<u>(1,263)</u>
Net liability arising from defined benefit obligation	<u>¥ 439,449</u>	<u>¥ 363,535</u>	<u>\$ 3,291</u>

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

	<u>Thousands of Yen</u>		<u>Thousands of</u>
	<u>2023</u>	<u>2022</u>	<u>U.S. Dollars</u>
Service cost	¥ 120,956	¥ 128,104	\$ 906
Interest cost	14,204	11,426	106
Expected return on plan assets	(27,063)	(26,591)	(203)
Recognized actuarial losses	<u>3,410</u>	<u>12,388</u>	<u>26</u>
Net periodic benefit costs	<u>¥ 111,507</u>	<u>¥ 125,327</u>	<u>\$ 835</u>

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

	<u>Thousands of Yen</u>		<u>Thousands of</u>
	<u>2023</u>	<u>2022</u>	<u>U.S. Dollars</u>
Actuarial (gain) loss	¥ (56,433)	¥ 18,152	\$ (423)
Total	<u>¥ (56,433)</u>	<u>¥ 18,152</u>	<u>\$ (423)</u>

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

	<u>Thousands of Yen</u>		<u>Thousands of</u>
	<u>2023</u>	<u>2022</u>	<u>U.S. Dollars</u>
Unrecognized actuarial gains	¥ (61,752)	¥ (5,319)	\$ (462)
Total	<u>¥ (61,752)</u>	<u>¥ (5,319)</u>	<u>\$ (462)</u>

(7) Plan assets

a. Components of plan assets

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

	<u>2023</u>	<u>2022</u>
Domestic debt investments	42%	41%
Domestic equity investments	14	10
Foreign debt investments	17	18
Foreign equity investments	16	14
General account assets of life insurance	7	7
Cash and cash equivalents	3	10
Others	<u>1</u>	<u>0</u>
Total	<u>100%</u>	<u>100%</u>

b. Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(8) Assumptions used for the years ended March 31, 2023 and 2022, are set forth as follows:

	<u>2023</u>	<u>2022</u>
Discount rate	1.28~1.35%	0.86~1.01%
Expected rate of return on plan assets	2.00%	2.00%

(9) Defined contribution plans

The amount of required contribution to the defined contribution plans of the Company were ¥20,347 thousand (\$152,368 thousand) and ¥20,733 thousand for the years ended March 31, 2023 and 2022, respectively.

## 8. EQUITY

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

a. *Dividends*

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally, for companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Company does not meet all the above criteria.

The Companies Act permits companies to distribute dividends-in-kind (noncash assets) to shareholders subject to a certain limitation and additional requirements.

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

**b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus**

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

**c. Treasury Stock and Treasury Stock Acquisition Rights**

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

**9. INCOME TAXES**

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

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2023 and 2022, are as follows:

	<u>Thousands of Yen</u>		<u>Thousands of</u> <u>U.S. Dollars</u>
	<u>2023</u>	<u>2022</u>	<u>2023</u>
Deferred tax assets:			
Accrued bonuses	¥ 197,194	¥ 157,031	\$ 1,477
Inventories	88,419	95,006	662
Accrued enterprise tax	30,797	25,511	231
Unrealized intercompany profits	135,931	112,366	1,018
Liability for retirement benefits	404,610	382,602	3,030
Loss on valuation of golf club membership	5,542	5,542	41
Impairment loss	39,998	39,998	299
Other	338,268	270,752	2,533
Less valuation allowance	<u>(60,078)</u>	<u>(60,708)</u>	<u>(450)</u>
Total	<u>1,180,681</u>	<u>1,028,100</u>	<u>8,841</u>
Deferred tax liabilities:			
Undistributed earnings of foreign subsidiaries	828,316	537,985	6,203
Reserve for advanced depreciation of non-current assets	66,304	68,865	496
Net unrealized gain on available-for-sale securities	159,117	186,277	1,192
Other	<u>91,437</u>	<u>90,479</u>	<u>685</u>
Total	<u>1,145,174</u>	<u>883,606</u>	<u>8,576</u>
Net deferred tax assets	<u>¥ 35,507</u>	<u>¥ 144,494</u>	<u>\$ 265</u>

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

	<u>2023</u>
Normal effective statutory tax rate	30.6%
Expenses not deductible for income tax purposes	0.2
Inhabitant tax on per capita basis	0.2
Lower income tax rates applicable to income in certain foreign countries	(3.2)
Other – net	<u>(0.9)</u>
Actual effective tax rate	<u>26.9%</u>

Since the actual effective tax rate at for the year ended March 31, 2022, differed from the normal effective statutory tax rate by less than 5.0%, disclosure of details is omitted.

## 10. REVENUE

### (1) *Disaggregation of Revenue*

Revenues from contracts with customers on a disaggregated basis are disclosed in Note 16, "SEGMENT INFORMATION."

### (2) *Basic Information to Understand Revenues from Contracts with Customers*

The information is disclosed in Note 2, "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES."

### (3) *Contract Balances*

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

	<u>Thousands of Yen</u>		<u>Thousands of</u>
	<u>2023</u>	<u>2022</u>	<u>U.S. Dollars</u>
			<u>2023</u>
Receivables from contracts with customers:			
Balance at beginning of year	¥ 7,761,291	¥ 7,386,696	\$ 58,120
Balance at end of year	8,791,961	7,761,291	65,838
Contract assets:			
Balance at beginning of year	122,124	164,152	915
Balance at end of year	129,408	122,124	969
Contract liabilities:			
Balance at beginning of year	1,487,325	1,353,700	11,138
Balance at end of year	1,714,538	1,487,325	12,839

### (4) *Transaction Prices Allocated to Remaining Performance Obligations*

As the Group does not have significant contracts with an expected term in excess of one year, the Group has applied the practical expedient and omitted the information on remaining performance obligations.

## 11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥710,093 thousand (\$5,317 thousand) and ¥642,301 thousand for the years ended March 31, 2023 and 2022, respectively.

## 12. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

### (1) Group Policy for Financial Instruments

The Group uses financial instruments, mainly long-term debt including bank loans, based on its capital financing plan. Cash surpluses, if any, are invested in low risk financial assets. Short-term bank loans are used to fund the Group's ongoing operations.

### (2) Nature and Extent of Risks Arising from Financial Instruments and Risk Management for Financial Instruments

Receivables, such as trade notes and trade accounts, are exposed to customer credit risk. The Group manages its credit risk from receivables on the basis of internal guidelines. Although receivables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, those risks are controlled by netting against the balance of payables in the same foreign currency and exchanging into yen timely monitoring market trends so as not to increase assets in foreign currencies excessively. Investment securities, mainly equity instruments of customers and suppliers of the Group, are exposed to the risk of market price fluctuations. Such investments are managed by monitoring market values and the financial position of issuers on a regular basis.

Payment terms of payables, such as trade notes and trade accounts, are less than one year. Although payables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, those risks are netted against the balance of receivables denominated in the same foreign currency as noted above.

### (3) Fair Values of Financial Instruments

#### (a) Fair value of financial instruments

Fair values of financial instruments are as follows: Investments in equity instruments that do not have a quoted market price in an active market are not included in the following table. The fair values of "cash and cash equivalents," "receivables," "payables," "short-term bank loans," and "income taxes payable" are not disclosed because their maturities are short and the carrying amounts approximate fair value.

	Thousands of Yen		
	Carrying Amount	Fair Value	Unrealized Gain (Loss)
<u>March 31, 2023</u>			
Investment securities	<u>¥ 762,742</u>	<u>¥ 762,742</u>	_____
Total	<u>¥ 762,742</u>	<u>¥ 762,742</u>	=====
	Thousands of Yen		
	Carrying Amount	Fair Value	Unrealized Gain (Loss)
<u>March 31, 2022</u>			
Investment securities	<u>¥ 1,059,104</u>	<u>¥ 1,059,104</u>	_____
Total	<u>¥ 1,059,104</u>	<u>¥ 1,059,104</u>	=====
	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Unrealized Gain (Loss)
<u>March 31, 2023</u>			
Investment securities	<u>\$5,712</u>	<u>\$5,712</u>	_____
Total	<u>\$5,712</u>	<u>\$5,712</u>	=====

(b) Carrying amount of investments in equity instruments that do not have a quoted market price in an active market

	Thousands of Yen		Thousands of U.S. Dollars
	<u>2023</u>	<u>2022</u>	<u>2023</u>
Unlisted equity instruments	¥3,727	¥3,727	\$28

**(4) Maturity Analysis for Financial Assets and Securities with Contractual Maturities**

	Thousands of Yen			
	<u>Due in 1 Year or Less</u>	<u>Due after 1 Year through 5 Years</u>	<u>Due after 5 Years through 10 Years</u>	<u>Due after 10 Years</u>
<u>March 31, 2023</u>				
Cash and cash equivalents	¥ 14,903,351			
Receivables:				
Trade notes	1,441,797			
Trade accounts	7,350,164			
Short-term investments and investment securities:				
Time deposits other than cash equivalents	<u>1,237,955</u>			
<b>Total</b>	<b><u>¥ 24,933,267</u></b>			

	Thousands of Yen			
	<u>Due in 1 Year or Less</u>	<u>Due after 1 Year through 5 Years</u>	<u>Due after 5 Years through 10 Years</u>	<u>Due after 10 Years</u>
<u>March 31, 2022</u>				
Cash and cash equivalents	¥ 13,036,366			
Receivables:				
Trade notes	1,494,371			
Trade accounts	6,266,920			
Short-term investments and investment securities:				
Time deposits other than cash equivalents	<u>1,405,445</u>			
<b>Total</b>	<b><u>¥ 22,203,102</u></b>			

	Thousands of U.S. Dollars			
	<u>Due in 1 Year or Less</u>	<u>Due after 1 Year through 5 Years</u>	<u>Due after 5 Years through 10 Years</u>	<u>Due after 10 Years</u>
<u>March 31, 2023</u>				
Cash and cash equivalents	\$ 111,602			
Receivables:				
Trade notes	10,797			
Trade accounts	55,041			
Short-term investments and investment securities:				
Time deposits other than cash equivalents	<u>9,270</u>			
<b>Total</b>	<b><u>\$ 186,710</u></b>			

### **Financial Instruments Categorized by Fair Value Hierarchy**

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

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

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

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

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

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

<u>March 31, 2023</u>	<u>Thousands of Yen</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment securities: Available-for-sale securities: Equity securities	<u>¥ 762,742</u>	<u>                    </u>	<u>                    </u>	<u>¥ 762,742</u>
Total assets	<u>¥ 762,742</u>	<u>                    </u>	<u>                    </u>	<u>¥ 762,742</u>

<u>March 31, 2023</u>	<u>Thousands of U.S. Dollars</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment securities: Available-for-sale securities: Equity securities	<u>\$5,712</u>	<u>                    </u>	<u>                    </u>	<u>\$5,712</u>
Total assets	<u>\$5,712</u>	<u>                    </u>	<u>                    </u>	<u>\$5,712</u>

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

#### Investment Securities

The fair values of listed equity securities are measured at the quoted market price. Since listed equity securities are traded in active markets, the fair values are categorized as Level 1.

### **13. CONTINGENT LIABILITIES**

#### Trade Notes Endorsed

At March 31, 2023, contingent liabilities for notes endorsed with recourse totaled ¥1,300,194 thousand (\$9,736 thousand).

#### 14. OTHER COMPREHENSIVE INCOME

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

	<u>Thousands of Yen</u>		<u>Thousands of</u>
	<u>2023</u>	<u>2022</u>	<u>U.S. Dollars</u>
			<u>2023</u>
Unrealized gain (loss) on available-for-sale securities:			
Gains (losses) arising during the year	¥ 102,521	¥ (88,895)	\$ 768
Reclassification adjustments to profit or loss	<u>(192,047)</u>	<u>(1,360)</u>	<u>(1,438)</u>
Amount before income tax effect	(89,526)	(90,255)	(670)
Income tax effect	<u>27,161</u>	<u>27,996</u>	<u>203</u>
Total	<u>¥ (62,365)</u>	<u>¥ (62,259)</u>	<u>\$ (467)</u>
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ 713,529	¥ 934,266	\$ 5,343
Amount before income tax effect	<u>713,529</u>	<u>934,266</u>	<u>5,343</u>
Total	<u>¥ 713,529</u>	<u>¥ 934,266</u>	<u>\$ 5,343</u>
Defined retirement benefit plans:			
Adjustments arising during the year	¥ (59,843)	¥ 5,764	\$ (448)
Reclassification adjustments to profit or loss	<u>3,410</u>	<u>12,388</u>	<u>25</u>
Amount before income tax effect	(56,433)	18,152	(423)
Income tax effect	<u>17,268</u>	<u>(5,555)</u>	<u>130</u>
Total	<u>¥ (39,165)</u>	<u>¥ 12,597</u>	<u>\$ (293)</u>
Total other comprehensive income	<u>¥ 611,999</u>	<u>¥ 884,604</u>	<u>\$ 4,583</u>

#### 15. SUBSEQUENT EVENT

##### ***Appropriation of Retained Earnings***

The following appropriation of retained earnings at March 31, 2023, was approved at the Company's shareholders' meeting held on June 28, 2023:

	<u>Thousands of Yen</u>	<u>Thousands of U.S. Dollars</u>
Year-end cash dividends, ¥58 (\$0.43) per share	¥1,050,881	\$7,869

## 16. SEGMENT INFORMATION

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

### **(1) Description of Reportable Segments**

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group. The Group mainly produces and sells pumps. Production headquarters and manufacturing subsidiaries are responsible for manufacturing and purchasing. The sales headquarter and sales subsidiaries are responsible for sales. In addition, a specific subsidiary produces and sells electronic components.

Therefore, the Group's reportable segments consist of "Pumps" and "Electronic components." "Pumps" consists of the manufacture and sale of motor pumps for chemical and other. "Electronic components" consists of the manufacture and sale of automotive electrical components and industrial equipment substrates.

### **(2) Methods of Measurement for the Amounts of Sales, Profit (Loss), Assets, Liabilities and Other Items for Each Reportable Segment**

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES." Income by reportable segment is operating income.

(3) Information about Sales, Profit (Loss), Assets, Liabilities and Other Items

Thousands of Yen					
2023					
Reportable Segment					
	Pumps	Electronic Components	Total	Other	Consolidated
Sales:					
Japan	¥ 7,372,678	¥ 1,757,076	¥ 9,129,754	¥ 242,507	¥ 9,372,261
Europe and America	6,914,157		6,914,157		6,914,157
Asia	12,164,266		12,164,266		12,164,266
Revenue from contracts with customers	<u>26,451,101</u>	<u>1,757,076</u>	<u>28,208,177</u>	<u>242,507</u>	<u>28,450,684</u>
Sales to external customers	<u>26,451,101</u>	<u>1,757,076</u>	<u>28,208,177</u>	<u>242,507</u>	<u>28,450,684</u>
Total	<u>¥ 26,451,101</u>	<u>¥ 1,757,076</u>	<u>¥ 28,208,177</u>	<u>¥ 242,507</u>	<u>¥ 28,450,684</u>
Segment profit	¥ 4,884,893	¥ 115,875	¥ 5,000,768	¥ 22,620	¥ 5,023,388
Segment assets	39,040,124	2,301,744	41,341,868	255,062	41,596,930
Other:					
Depreciation	874,561	114,002	988,563	4,423	992,986
Amortization of goodwill					
Increase in property, plant and equipment and intangible assets	369,632	247,417	617,049	3,551	620,600
Thousands of Yen					
2022					
Reportable Segment					
	Pumps	Electronic Components	Total	Other	Consolidated
Sales:					
Japan	¥ 6,679,173	¥ 1,528,317	¥ 8,207,490	¥ 350,386	¥ 8,557,876
Europe and America	4,901,355		4,901,355		4,901,355
Asia	8,785,266		8,785,266		8,785,266
Revenue from contracts with customers	<u>20,365,794</u>	<u>1,528,317</u>	<u>21,894,111</u>	<u>350,386</u>	<u>22,244,497</u>
Sales to external customers	<u>20,365,794</u>	<u>1,528,317</u>	<u>21,894,111</u>	<u>350,386</u>	<u>22,244,497</u>
Total	<u>¥ 20,365,794</u>	<u>¥ 1,528,317</u>	<u>¥ 21,894,111</u>	<u>¥ 350,386</u>	<u>¥ 22,244,497</u>
Segment profit	¥ 2,443,332	¥ 19,296	¥ 2,462,628	¥ 32,068	¥ 2,494,696
Segment assets	36,430,086	2,171,054	38,601,140	399,984	39,001,124
Other:					
Depreciation	827,771	87,600	915,371	6,804	922,175
Amortization of goodwill	160,129		160,129		160,129
Increase in property, plant and equipment and intangible assets	929,820	197,340	1,127,160	4,862	1,132,022
Thousands of U.S. Dollars					
2023					
Reportable Segment					
	Pumps	Electronic Components	Total	Other	Consolidated
Sales:					
Japan	\$ 55,209	\$ 13,158	\$ 68,367	\$ 1,816	\$ 70,183
Europe and Americas	51,776		51,776		51,776
Asia	91,091		91,091		91,091
Revenue from contracts with customers	<u>198,076</u>	<u>13,158</u>	<u>211,234</u>	<u>1,816</u>	<u>213,050</u>
Sales to external customers	<u>198,076</u>	<u>13,158</u>	<u>211,234</u>	<u>1,816</u>	<u>213,050</u>
Total	<u>\$ 198,076</u>	<u>\$ 13,158</u>	<u>\$ 211,234</u>	<u>\$ 1,816</u>	<u>\$ 213,050</u>
Segment profit	\$ 36,580	\$ 868	\$ 37,448	\$ 169	\$ 37,617
Segment assets	292,348	17,236	309,584	1,910	311,494
Other:					
Depreciation	6,549	854	7,403	33	7,436
Amortization of goodwill					
Increase in property, plant and equipment and intangible assets	2,768	1,853	4,621	26	4,647

Note: "Other" consists of operating segments that are not included in the reportable segments, such as special equipment.

Sales are classified by country or region based on the location of the Group.

**(4) Information about Products and Services**

	Thousands of Yen			
	2023			
	Pumps	Electronic Components	Other	Total
Sales to external customers	¥26,451,101	¥1,757,076	¥242,507	¥28,450,684

  

	Thousands of Yen			
	2022			
	Pumps	Electronic Components	Other	Total
Sales to external customers	¥20,365,794	¥1,528,317	¥350,386	¥22,244,497

  

	Thousands of U.S. Dollars			
	2023			
	Pumps	Electronic Components	Other	Total
Sales to external customers	\$198,076	\$13,158	\$1,816	\$213,050

**(5) Information about Geographical Areas**

a. Sales

	Thousands of Yen						
	2023						
	Asia and Oceania			Americas		Total	
Japan	China	Other	United States	Other	Other		
	¥8,107,424	¥9,592,795	¥3,763,336	¥5,833,942	¥337,946	¥815,241	¥28,450,684

  

	Thousands of Yen						
	2022						
	Asia and Oceania			Americas		Total	
Japan	China	Other	United States	Other	Other		
	¥7,477,482	¥7,435,996	¥2,555,063	¥3,947,953	¥248,309	¥579,694	¥22,244,497

  

	Thousands of U.S. Dollars						
	2023						
	Asia and Oceania			Americas		Total	
Japan	China	Other	United States	Other	Other		
	\$60,711	\$71,835	\$28,181	\$43,687	\$2,531	\$6,105	\$213,050

Note: Sales are classified by country or region based on the location of customers.

b. *Property, plant and equipment*

Thousands of Yen				
2023				
Japan	Asia and Oceania	Americas	Other	Total
¥7,318,829	¥944,411	¥708,529	¥28,543	¥9,000,312

  

Thousands of Yen				
2022				
Japan	Asia and Oceania	Americas	Other	Total
¥7,428,139	¥943,009	¥287,058	¥31,674	¥8,689,880

  

Thousands of U.S. Dollars				
2023				
Japan	Asia and Oceania	Americas	Other	Total
\$54,806	\$7,072	\$5,306	\$214	\$67,398

**(6) Information about Major Customers**

Name of Customers	2023	
	Thousands of Yen Sales	Related Segment Name
Mitsubishi Electric Corporation	¥1,887,827	Pumps, Electronic components

  

Name of Customers	2022	
	Thousands of Yen Sales	Related Segment Name
Mitsubishi Electric Corporation	¥1,659,250	Pumps, Electronic components

  

Name of Customers	2023	
	Thousands of U.S. Dollars Sales	Related Segment Name
Mitsubishi Electric Corporation	\$14,137	Pumps, Electronic components

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