

NOF CORPORATION

Consolidated Financial Statements

For the years ended March 31, 2021 and 2020

Independent Auditor's Report

The Board of Directors
NOF CORPORATION

Opinion

We have audited the accompanying consolidated financial statements of NOF CORPORATION and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2021, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year 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, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the 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.

Revenue recognition in the Life Science business	
Description of Key Audit Matter	Auditor's Response
<p>As stated in Note 35 (Segment Information, etc.), the Company has recorded sales to customers amounting to ¥31,232 million in the Life Science business for the year ended March 31, 2021.</p> <p>The Life Science business manufactures and sells MPC-related products, raw materials for DDS drug formulation, edible oils, functional foods. Some sales transactions in the Life Science business have relatively high margin of profit and are made primarily with overseas customers. The Company recognizes these revenues based on the terms of transaction specified in contract or purchase order.</p> <p>For these transactions, it is necessary to determine the point in time of revenue recognition based on the terms of the transactions. The impact on the consolidated financial statements of these transactions are large because of the relatively high margin of profit.</p> <p>Based on the above, we have determined that appropriateness of revenue recognition in the Life Science business as a key audit matter.</p>	<p>We conducted the following audit procedures in order to examine the appropriateness of the revenue recognition in the Life Science business, among others:</p> <ul style="list-style-type: none"> • We understood the sales process, and evaluated the design of the related internal controls and tested their operating effectiveness. • In order to understand the outline of sales transactions and the their terms and conditions, we conducted discussed with managers of business divisions and the management. • In order to evaluate whether the point in time of revenue recognition is in line with the terms of transaction, we inspected the contract or the purchase order, the shipping documents, the delivery record of the delivery company and the exporter. • We performed an external confirmation procedure with regard to the balances as of March 31, 2021 of accounts receivables, which were selected on the basis of risk and significance of the balance.

Responsibilities of Management, the Corporate Auditor and the Board of Corporate Auditors 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 Corporate Auditor and the Board of Corporate Auditors are 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 Corporate Auditor and the Board of Corporate Auditors 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 Corporate Auditor and the Board of Corporate Auditors with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the 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 Corporate Auditor and the Board of Corporate Auditors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2021 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 7 to the consolidated financial statements.

Ernst & Young ShinNihon LLC
Tokyo, Japan

June 29, 2021

/s/ Noriaki Kenmochi
Designated Engagement Partner
Certified Public Accountant

/s/ Tetsuya Kawawaki
Designated Engagement Partner
Certified Public Accountant

NOF CORPORATION and Subsidiaries

Consolidated Balance Sheet

As of March 31,

Thousands of
U.S. dollars
(Note 7)

	Millions of yen		2021
	2021	2020	2021
ASSETS			
Current assets:			
Cash and time deposits(Notes 25 and 27)	¥ 78,669	¥ 51,849	\$710,590
Notes and accounts receivable (Notes 11 and 27).....	39,529	38,625	357,050
Electronically recorded monetary claims-operating (Note 27)	2,441	2,467	22,049
Merchandise and finished goods.....	18,860	21,261	170,355
Work in process.....	2,898	3,299	26,180
Raw materials and supplies.....	10,568	10,353	95,462
Other current assets	2,415	2,446	21,816
Allowance for doubtful accounts	(205)	(188)	(1,860)
Total current assets	155,176	130,115	1,401,645
Fixed assets:			
Property, plant and equipment (Notes 8 and 9):			
Buildings and structures.....	73,842	72,238	666,992
Accumulated depreciation.....	(49,891)	(48,349)	(450,650)
Buildings and structures, net.....	23,951	23,888	216,341
Machinery, equipment and vehicles.....	103,485	101,477	934,744
Accumulated depreciation.....	(91,163)	(89,727)	(823,441)
Machinery, equipment and vehicles, net.....	12,322	11,750	111,303
Land.....	20,327	20,332	183,607
Leased assets	426	425	3,848
Accumulated depreciation.....	(186)	(146)	(1,687)
Leased asset, net.....	239	279	2,161
Construction in progress.....	3,291	1,117	29,732
Others	15,759	15,316	142,353
Accumulated depreciation.....	(13,679)	(13,426)	(123,558)
Others, net.....	2,080	1,889	18,794
Total property, plant and equipment	62,212	59,258	561,940
Intangible assets:			
Others, net	989	1,050	8,937
Total Intangible assets	989	1,050	8,937
Investments and other assets:			
Investments securities (Notes 8 ,10 ,27 and 29)	47,744	40,868	431,258
Long term loans.....	5	2	49
Deferred tax assets (Note 32).....	918	1,012	8,296
Assets for retirement benefits (Note 30)	2,856	1,153	25,798
Other assets	1,688	1,846	15,247
Allowance for doubtful accounts	(54)	(59)	(492)
Total investments and other assets	53,158	44,823	480,158
Total fix assets	116,360	105,132	1,051,036
Total assets	¥ 271,536	¥ 235,248	\$ 2,452,681

The accompanying notes are an integral part of the statements.

NOF CORPORATION and Subsidiaries

Consolidated Balance Sheet (continued)

As of March 31,

Thousands of
U.S. dollars
(Note 7)

	Millions of yen		2021
	2021	2020	2021
LIABILITIES AND NET ASSETS			
Current liabilities:			
Notes and accounts payable (Note 27).....	¥ 17,129	¥ 14,998	\$154,725
Electronically recorded obligations-operating	798	852	7,216
Short-term bank loans (Notes 27 and 28).....	1,570	1,353	14,189
Current portion of long-term debt (Notes 27 and 28)	5,000	0	45,164
Lease obligations.....	157	161	1,425
Accrued expenses.....	1,487	1,696	13,431
Income taxes payable	6,311	4,067	57,012
Deposits received	3,801	4,045	34,341
Accrued bonuses for employees.....	3,391	3,227	30,636
Asset retirement obligations (Note 34)	156	156	1,414
Other current liabilities.....	8,553	5,555	77,261
Total current liabilities	48,360	36,114	436,820
Long-term liabilities:			
Long-term debt (Notes 27 and 28)	3,053	8,059	27,581
Lease obligations.....	164	289	1,481
Deferred tax liabilities (Note 32)	10,625	6,629	95,973
Accrued retirement benefits for officers	83	106	751
Accrued retirement benefits for directors.....	0	0	2
Liabilities for retirement benefits (Note 30).....	4,923	4,841	44,468
Asset retirement obligations (Note 34)	399	34	3,604
Other long-term liabilities	411	454	3,717
Total long-term liabilities	19,659	20,417	177,580
Total liabilities	68,020	56,532	614,401
Commitments and contingencies (Note 11)			
Net assets:			
Shareholders' equity			
Common stock	17,742	17,742	160,256
Authorized: 347,000,000 shares at March 31, 2021 and 2020			
Issued: 84,841,376 shares at March 31, 2021 and 2020			
Capital surplus.....	15,115	15,115	136,534
Retained earnings	154,793	136,643	1,398,191
Treasury stock, at cost.....	(7,984)	(6,333)	(72,121)
Total shareholders' equity.....	179,666	163,167	1,622,861
Accumulated other comprehensive income			
Unrealized holding gain on securities.....	24,039	16,933	217,138
Translation adjustments	(967)	(883)	(8,742)
Retirement benefits liability adjustments	49	(1,280)	447
Total accumulated other comprehensive income	23,121	14,768	208,844
Non-controlling interests	727	780	6,574
Total net assets	203,516	178,716	1,838,280
Total liabilities and net assets	¥271,536	¥235,248	\$2,452,681

The accompanying notes are an integral part of the statements.

NOF CORPORATION and Subsidiaries

Consolidated Statement of Income

For the Year Ended March 31,

Thousands of
U.S. dollars
(Note 7)

	Millions of yen		2021
	2021	2020	2021
Net sales	¥172,645	¥180,917	\$1,559,438
Cost of sales (Notes 12 and 14)	115,259	122,313	1,041,096
Gross profit	57,385	58,604	518,342
Selling, general and administrative expenses (Notes 13 and 14)	30,783	31,730	278,054
Operating income	26,602	26,874	240,288
Other income (expenses):			
Interest income	83	96	750
Dividend income	1,108	1,561	10,014
Rent income on real estate.....	267	253	2,416
Foreign exchange gain (loss), net.....	237	(221)	2,147
Interest expenses	(61)	(69)	(556)
Liquidation cost of accounts receivables.....	(28)	(31)	(254)
Rent expenses on real estate.....	(80)	(78)	(731)
Removal cost on fixed assets	(183)	(133)	(1,655)
Gain on sale of fixed assets (Notes 15 and 16)	6	52	60
Loss on retirement of fixed assets (Note 18).....	(37)	(123)	(339)
Gain on sale of investments in securities (Note 29)	5,376	1,972	48,566
Impairment loss on investments in securities.....	(12)	—	(115)
Impairment loss on fixed assets (Note 17)	(45)	(449)	(409)
Loss on disaster (Note 19).....	—	(216)	—
Insurance income (Note 20)	—	371	—
Loss on business withdrawal (Note 22)	—	(87)	—
Office relocation expenses	—	(108)	—
Settlement package (Note 21)	(48)	—	(442)
Others, net	925	576	8,359
Other income total	7,507	3,364	67,810
Income before income taxes.....	34,109	30,238	308,098
Income taxes (Note 32)			
Current.....	10,598	8,949	95,734
Deferred.....	195	116	1,764
	10,794	9,065	97,498
Net income	23,315	21,172	210,600
Net income attributable to:			
Non-controlling interests	13	32	118
Owners of parent (Note 37)	¥ 23,302	¥ 21,140	\$ 210,481

NOF CORPORATION and Subsidiaries

Consolidated Statement of Income (continued)

The accompanying notes are an integral part of the statements.

NOF CORPORATION and Subsidiaries

Consolidated Statement of Comprehensive Income

For the Year Ended March 31,

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2021	2020	2021
Net income	¥23,315	¥21,172	\$210,600
Other comprehensive income (Note 23)			
Unrealized holding gain (loss) on securities	7,112	(8,294)	64,244
Translation adjustments.....	(150)	(463)	(1,357)
Retirement benefits liability adjustments	1,329	(604)	12,005
Total other comprehensive income	8,291	(9,362)	74,892
Comprehensive income	31,606	11,810	285,492
Total comprehensive income attributable to:			
Owners of parent	31,655	11,783	285,929
Non-controlling interests	(48)	27	(436)

The accompanying notes are an integral part of the statements.

NOF CORPORATION and Subsidiaries

Consolidated Statement of Changes in Net Assets

For the Year Ended March 31, 2021 and 2020

	Number of shares of common stock (thousands)	Millions of yen										
		Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized holding gain on securities	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at March 31, 2019	84,841	¥17,742	¥15,115	¥122,657	¥(2,145)	¥153,369	¥25,224	¥ (423)	¥(675)	¥24,125	¥790	¥178,285
Cash dividends.....	–	–	–	(7,154)	–	(7,154)	–	–	–	–	–	(7,154)
Net income attributable to owners of parent for the period.....	–	–	–	21,140	–	21,140	–	–	–	–	–	21,140
Purchase of treasury stock.....	–	–	–	–	(4,188)	(4,188)	–	–	–	–	–	(4,188)
Disposal of treasury stock.....	–	–	–	–	–	–	–	–	–	–	–	–
Increase in consolidated subsidiaries.....	–	–	–	–	–	–	–	–	–	–	–	–
Change in stock of parent arising from transactions with non-controlling interest shareholders	–	–	0	–	–	0	–	–	–	–	–	0
Other.....	–	–	–	–	–	–	–	–	–	–	–	–
Net changes in items other than shareholders' equity ...	–	–	–	–	–	–	(8,291)	(460)	(604)	(9,357)	(10)	(9,367)
Balance at March 31, 2020	84,841	¥17,742	¥15,115	¥136,643	¥(6,333)	¥163,167	¥16,933	¥ (883)	¥(1,280)	¥14,768	¥780	¥178,716
Cash dividends.....	–	–	–	(6,486)	–	(6,486)	–	–	–	–	–	(6,486)
Net income attributable to owners of parent for the period.....	–	–	–	23,302	–	23,302	–	–	–	–	–	23,302
Purchase of treasury stock.....	–	–	–	–	(1,655)	(1,655)	–	–	–	–	–	(1,655)
Disposal of treasury stock.....	–	–	–	–	4	4	–	–	–	–	–	4
Increase in consolidated subsidiaries.....	–	–	–	1,334	–	1,334	–	–	–	–	–	1,334
Change in stock of parent arising from transactions with non-controlling interest shareholders	–	–	0	–	–	0	–	–	–	–	–	0
Other.....	–	–	–	–	–	–	–	–	–	–	–	–
Net changes in items other than shareholders' equity ...	–	–	–	–	–	–	7,106	(83)	1,330	8,352	(52)	8,300
Balance at March 31, 2021.....	84,841	¥17,742	¥15,115	¥154,793	¥(7,984)	¥179,666	¥24,039	¥ (967)	¥49	¥23,121	¥727	¥203,516

For the Year Ended March 31, 2020

	Number of shares of common stock (thousands)	Thousands of U.S. dollars (Note 7)										
		Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized holding gain on securities	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at March 31, 2020.....	84,841	\$160,256	\$136,533	\$1,234,245	\$(57,209)	\$1,473,826	\$152,949	\$ (7,984)	\$(11,568)	\$133,396	\$7,050	\$1,614,273
Cash dividends.....	–	–	–	(58,590)	–	(58,590)	–	–	–	–	–	(58,590)
Net income attributable to owners of parent for the period.....	–	–	–	210,481	–	210,481	–	–	–	–	–	210,481
Purchase of treasury stock.....	–	–	–	–	(14,951)	(14,951)	–	–	–	–	–	(14,951)
Disposal of treasury stock.....	–	–	–	–	40	40	–	–	–	–	–	40
Increase in consolidated subsidiaries	–	–	–	12,054	–	12,054	–	–	–	–	–	12,054
Change in stock of parent arising from transactions with non-controlling interest shareholders	–	–	0	–	–	0	–	–	–	–	–	0
Other.....	–	–	–	–	–	–	–	–	–	–	–	–
Net changes in items other than shareholders' equity ...	–	–	–	–	–	–	64,189	(758)	12,016	75,448	(475)	74,972
Balance at March 31, 2021.....	84,841	\$160,256	\$136,534	\$1,398,191	\$(72,121)	\$1,622,861	\$217,138	\$ (8,742)	\$447	\$208,844	\$6,574	\$1,838,280

The accompanying notes are an integral part of the statements.

NOF CORPORATION and Subsidiaries

Consolidated Statement of Cash Flows

For the Year Ended March 31,

Thousands of
U.S. dollars
(Note 7)

	Millions of yen		2021
	2021	2020	2021
Cash flows from operating activities:			
Income before income taxes	¥34,109	¥30,238	\$308,098
Adjustments for:			
Depreciation	5,553	5,304	50,163
Impairment loss on fixed assets	45	449	409
Net changes in retirement benefit liability	(0)	93	(5)
Interest and dividend income	(1,191)	(1,657)	(10,764)
Interest expenses	61	69	556
Gain on sale of fixed assets	(6)	(52)	(60)
Impairment loss on investments in securities	12	—	115
Gain on sale of investments in securities	(5,376)	(1,972)	(48,566)
Insurance income	—	(371)	—
Loss on disaster	—	216	—
Loss on withdrawal from business	—	87	—
Relocation expenses	—	108	—
Decrease (increase) in notes and accounts receivable	(561)	6,767	(5,075)
Decrease in inventories	2,742	1,114	24,771
Increase (decrease) in notes and accounts payable	1,656	(4,818)	14,962
Others, net	832	132	7,515
Sub total	37,876	35,709	342,120
Interest and dividends received	1,192	1,658	10,771
Interest paid	(61)	(69)	(555)
Payment of relocation expenses	—	(65)	—
Income taxes paid	(8,335)	(9,584)	(75,287)
Proceeds from insurance income	54	371	488
Payments for loss on disaster	—	(182)	—
Net cash provided by operating activities	30,726	27,837	277,538
Cash flows from investing activities:			
Payments for purchase of investments in securities	(27)	(32)	(248)
Proceeds from sale of investments in securities	8,837	2,678	79,829
Payments for purchase of fixed assets	(5,982)	(7,711)	(54,037)
Proceeds from sale of fixed assets	11	98	105
Net changes in short-term loans receivable	149	(59)	1,351
Payments for long-term loans receivable	(8)	(2)	(73)
Proceeds from long-term loans receivable	3	2	31
Others, net	(1,090)	188	(9,845)
Net cash provided by (used in) investing activities	1,894	(4,838)	17,113

NOF CORPORATION and Subsidiaries

Consolidated Statement of Cash Flows (continued)

For the Year Ended March 31,

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2021	2020	2021
Cash flows from financing activities:			
Net change in short-term bank loans.....	247	231	2,239
Repayments of long-term debt.....	(0)	(0)	(1)
Purchase of treasury stock	(1,655)	(4,188)	(14,951)
Purchase of treasury stock of subsidiaries	(1)	(31)	(10)
Repayments of lease obligations.....	(166)	(165)	(1,504)
Cash dividends paid	(6,465)	(7,130)	(58,396)
Cash dividends paid to non-controlling shareholders	(2)	(2)	(21)
Net cash used in financing activities	(8,042)	(11,287)	(72,646)
Effect of exchange rate changes on cash and cash equivalents	(40)	(383)	(367)
Net increase in cash and cash equivalents	24,537	11,327	221,636
Cash and cash equivalents at beginning of year.....	50,684	39,357	457,813
Increase in cash and cash equivalents from newly consolidated subsidiaries	1,374	—	12,411
Cash and cash equivalents at end of year (Note 25).....	¥76,596	¥50,684	\$691,861

The accompanying notes are an integral part of these statements.

NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements
For the years ended March 31, 2021 and 2020

1. Basis of presentation

NOF CORPORATION (the “Company”) and its domestic subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, and its foreign subsidiaries maintain their accounting records in conformity with those of their countries of domicile. Effective April 1, 2008, the Company adopted the “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements” (PITF No. 18). In accordance with PITF No. 18, the accompanying consolidated financial statements have been prepared by using the accounts of foreign consolidated subsidiaries prepared in accordance with either International Financial Reporting Standards (IFRS) or accounting principles generally accepted in the United States as adjusted for certain items including those for goodwill, actuarial differences and capitalized development costs. The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of IFRS, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

As permitted by the Financial instruments and Exchanges Act of Japan, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements do not necessarily agree with the sums of the individual amounts.

Certain prior year amounts have been reclassified to conform to the current year’s presentation.

2. Summary of significant accounting policies

(1) Scope of consolidation

The Company had 32 subsidiaries (majority-owned companies) as of March 31, 2021 (32 for 2020). The accompanying consolidated financial statements include the accounts of the Company and 25 of its subsidiaries (collectively, the “Group”) for the year ended March 31, 2021 (24 for 2020).

NOF METAL COATINGS SHANGHAI Co., Ltd. was newly included in the scope of consolidation due to its increased materiality from the year ended March 31, 2021.

The remaining 7 (8 for 2020) subsidiaries, whose combined assets, net sales, net income and retained earnings in the aggregate are not significant in relation to those of the consolidated financial statements of the Group, have been excluded from consolidation.

NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements
For the years ended March 31, 2021 and 2020

The above mentioned 25 majority-owned subsidiaries are listed below:

Name of subsidiaries	Percentage of voting rights owned by the Company
	%
(Domestic subsidiaries)	
Nippon Koki Co., Ltd.	95.0
NiGK Corporation	100.0
HOKKAIDO NOF CORPORATION	100.0
NOF METAL COATINGS ASIA PACIFIC Co., Ltd.	100.0
Showa Kinzoku Kogyo Co., Ltd.	98.3
JAPEX Corp.	70.0
Nichiyu Trading Co., Ltd.	100.0
Nichiyu Logistics Co., Ltd.	100.0
Nippo Kogyo Co., Ltd.	98.2
Yuka Sangyo Co., Ltd.	100.0
Nichiyu Kogyo Co., Ltd.	100.0
NIKKA COATING Co., Ltd.	100.0
CACTUS Co., Ltd.	100.0
(Foreign subsidiaries)	
Changshu NOF Chemical Co., Ltd.	100.0
P.T. NOF MAS Chemical Industries	89.6
NOF METAL COATINGS NORTH AMERICA Inc.	100.0
NOF AMERICA CORPORATION	100.0
NOF (Shanghai) Co., Ltd.	100.0
NOF EUROPE GmbH	100.0
NOF METAL COATINGS EUROPE S.A.	100.0
NOF METAL COATINGS EUROPE N.V.	100.0
NOF METAL COATINGS KOREA Co., Ltd.	100.0
SIE s.r.l.	100.0
NOF METAL COATINGS SOUTH AMERICA Ind. E Com. Ltda.	90.0
NOF METAL COATINGS SHANGHAI Co., Ltd.	100.0

The Company and all of its consolidated subsidiaries use a fiscal year ended March 31, except for NOF METAL COATINGS ASIA PACIFIC Co., Ltd., NIKKA COATING Co., Ltd. and foreign subsidiaries. Those subsidiaries use a fiscal year ended December 31. The accounts of those subsidiaries have been consolidated by using the results of operations and account balances for the fiscal year, and necessary adjustments have been made for any material transactions that occurred between the different fiscal year-ends.

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Notes to Consolidated Financial Statements
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(2) Consolidation and elimination

For the purposes of preparing the accompanying consolidated financial statements, any gains/losses in relation to inter-company transactions have been eliminated, and the portion thereof attributable to non-controlling interests is charged to non-controlling interests.

Applicable inter-company accounts have been eliminated. The cost of investments in the common stock of consolidated subsidiaries is offset by the underlying equity in the net assets of such subsidiaries. Assets and liabilities in the consolidated subsidiaries are revalued at fair market value when the majority interest in the subsidiaries is purchased.

The differences between the cost of an investment and the amount of underlying equity in the net assets of such subsidiaries are amortized on a straight-line basis over their estimated useful lives or over a period of 5 years.

(3) Translation of financial statements of foreign subsidiaries

The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen using the current exchange rate at the balance sheet date, except for shareholders' equity, which is translated using the historical rate. The income statements of the consolidated foreign subsidiaries are translated into Japanese yen using the average rate for the fiscal year. Related translation adjustments are recorded as "Translation adjustments" in a separate component of net assets.

(4) Application of equity method

There are no affiliates accounted for using equity method.

The unconsolidated subsidiaries and affiliates, whose combined net income and retained earnings in the aggregate are not significant in relation to those of the consolidated financial statements of the Group, have been excluded from equity method.

There are no major unconsolidated subsidiaries.

The major affiliate is Amagasaki Utility Services CO., Ltd.

(5) Other securities

Available-for-sale securities for which market quotations are available are stated at an amount based on the average market price over a period of one month prior to the balance sheet date. Net unrealized gains or losses on those securities are reported as a separate component of net assets at a net-of-tax amount.

Available-for-sale securities for which market quotations are unavailable are stated at cost, principally determined by the moving-average method.

(6) Inventories

Inventories are principally stated at the lower of cost, determined by the total-average method, or net selling value.

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(7) Property, plant and equipment (except for leased assets)

Depreciation of property is principally computed using the straight-line method, based on the estimated useful lives of the assets. The principal range of useful lives is principally from 7 to 50 years for buildings and structures and from 5 to 10 years for machinery, equipment and vehicles.

(8) Intangible assets (except for leased assets)

Intangible assets are amortized using the straight-line method.

Software for internal use is amortized using the straight-line method over the useful life of the software, which is 5 years.

(9) Leased assets

Leased assets under finance lease transactions that do not transfer ownership to the lessee are depreciated to a residual value of zero by the straight-line method using the term of contract as the useful life.

(10) Allowance for doubtful accounts

The allowance for doubtful accounts is provided at amounts sufficient to cover probable losses on collection. It consists of the estimated uncollectible amounts with respect to identified doubtful accounts and an amount calculated by a formula based on actual collection losses incurred in the past with respect to the remaining receivables.

(11) Accrued bonuses for employees

Certain consolidated subsidiaries recognized the estimated amount of employees' bonuses to be paid in the subsequent period that is attributable to the current fiscal year.

(12) Accrued retirement benefits for directors

Certain subsidiaries calculate the amount that would be required, based on the pertinent rules of these companies, if all directors retired at the balance sheet dates, and accounts for it as accrued retirement benefits for directors, which was presented as retirement benefit provisions for directors.

(13) Accrued retirement benefits for officers

The Company calculates the amount that would be required, based on the pertinent rules of the Company, if all officers retired at the balance sheet date, and accounts for it as accrued retirement benefits for officers, which was presented as accrued retirement benefits for officers.

NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements
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(14) Retirement benefit

Accrued retirement benefits and prepaid pension cost for employees have been recorded mainly at the amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as of the balance sheet date.

The retirement benefit obligation for employees is attributed to each period by the benefit formula method.

Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized primarily by the straight-line method over periods (mainly 10 years), which are shorter than the average remaining years of service of the employees.

Prior service cost is being amortized as incurred by the straight-line method over periods (mainly 10 years), which are shorter than the average remaining years of service of the employees.

Certain consolidated subsidiaries adopt a simplified method in calculating the retirement benefit obligation and retirement benefit expenses. The retirement benefit liability calculated using the simplified method is determined to be equal to the required amount if all the employees retired voluntarily at the balance sheet date.

(15) Hedge accounting

The Company has entered into forward foreign exchange contracts to reduce its exposure to the risk of fluctuation in foreign exchange rates related to its trade accounts receivables and payables. It is the Company's policy not to enter into any speculative derivatives transactions.

Gains or losses arising from changes in fair value of hedging instruments are deferred as assets or liabilities until the related gains or losses on the hedged items are recognized.

If forward foreign exchange contracts meet certain hedging criteria, however, the existing foreign currency receivables or payables are translated at their forward rates.

The Company evaluates the effectiveness of its hedging activities by reference to the accumulated gains or losses on the hedging instruments and the related hedged items from the commencement of the hedges.

(16) Goodwill

Goodwill, which could estimate the useful life, is amortized using the estimated useful life and the others are using straight-line method over the useful life, which is 5 years.

(17) Cash and cash equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash in hand, bank deposits able to be withdrawn on demand and short-term investments with an original maturity of three months or less and which represent a minor risk of fluctuations in value.

NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements
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(18) Income taxes

The income taxes of the Company and its domestic subsidiaries consist of corporate income taxes, local inhabitant taxes and enterprise taxes.

Deferred income taxes were determined using the assets and liabilities approach, whereby deferred tax assets and liabilities were recognized in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the financial statements.

(19) Consumption tax

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes. The consumption tax paid is generally offset against the balance of consumption tax withheld, and the balance is included in the accompanying consolidated balance sheets in "Other current liabilities."

3. Significant accounting estimates

(1) Recoverability of deferred tax assets

A. Amount recorded on the consolidated financial statements for the fiscal year

¥1,013 million (\$9,156 thousand) in deferred tax assets, net concerning consolidated subsidiaries, which fall under "Category 3" pursuant to Paragraph 29 of the "Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26)"

B. Details of significant accounting estimates related to the identified items

1). Method of calculation

The recoverability of deferred tax assets is determined through an estimate of taxable income based on future earning capacity, in contrast with future deductible differences.

2). Main assumptions

The estimate of taxable income based on future earning capacity uses the budget for the next fiscal year and the Mid-Term Management Plan as the foundation, and its main assumption is the future estimated sales volume. The said business plan has been formulated in consideration of the impact associated with the conditions of the COVID-19 pandemic; however, this impact is deemed to be limited.

NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements
For the years ended March 31, 2021 and 2020

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

Regarding the main assumption stated in 2), if actual results deviate from the assumption due to factors such as economic trends in the future, and there is a decrease in taxable income in the next fiscal year or later, there may be a review of the recoverability of deferred tax assets.

(2) Impairment of fixed assets

A. Amount recorded on the consolidated financial statements for the fiscal year

¥45 million (\$409 thousand) in impairment loss on fixed assets, ¥63,201 million (\$570,878 thousand) in property, plant and equipment and intangible assets

B. Details of significant accounting estimates related to the identified items

1). Method of calculation

The Group determines its asset groupings primarily according to the operating division, and assesses impairment. For assets and groups of assets with indications of impairment, the Group estimates undiscounted future cash flows based on the business plan of each business, and assesses the necessity of impairment.

2). Main assumptions

The estimate of undiscounted future cash flows uses the business plan of each business as the foundation, and its main assumption is the future estimated sales volume. The said business plans have been formulated in consideration of the impact associated with the conditions of the COVID-19 pandemic; however, this impact is deemed to be limited.

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

Regarding the main assumption stated in 2), if actual results deviate from the assumption due to factors such as economic trends in the future, and a group of assets shows new indications of impairment, or if undiscounted future cash flows fall below the book value of fixed assets in groups of assets, there may be impairment loss on fixed assets in the next fiscal year.

NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements
For the years ended March 31, 2021 and 2020

4. Accounting standards issued but not yet effective

Accounting Standard and Implementation Guidance on Revenue Recognition

On March 31, 2020, the ASBJ issued “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29) and “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No.19).

On March 26, 2021, the ASBJ issued “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30).

(1) Overview

This is a comprehensive accounting standard for revenue recognition. Specifically, the accounting standard establishes the following five-step model that will apply to revenue from customers:

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

(2) Scheduled date of adoption

The Company expects to adopt the accounting standard and implementation guidance from the beginning of the fiscal year ending March 31, 2022.

(3) Impact of the adoption of accounting standard and implementation guidance

The Company is currently evaluating the effect of the adoption of this accounting standard and implementation guidance on its consolidated financial statements.

Accounting standards for Fair Value Measurement, etc.

On July 4, 2019, the ASBJ issued “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30), “Accounting Standard for Measurement of Inventories” (ASBJ Statement No. 9), “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10) and “Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31).

On March 31, 2020, the ASBJ issued “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No.19)

(1) Overview

The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) in the United States have established almost identical detailed guidance on fair value measurement (IFRS 13 “Fair Value Measurement” based on International Financial Reporting Standards (IFRS) and Accounting Standards Codification topic 820 “Fair Value Measurement” based on U.S. generally accepted accounting principles (GAAP)). Considering this situation, the Accounting Standards Board of Japan (ASBJ) has worked to ensure consistency between Japanese standards primarily regarding guidance and disclosure related to the fair value of financial and international accounting standards, and has published the “Accounting Standards for Fair Value Measurement, etc.”

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The basic policy of the ASBJ in developing accounting standards for fair value measurement is to fundamentally incorporate all of the provisions of IFRS 13, from the standpoint of improving the international comparability of financial statements between companies by applying a unified measurement method, and to establish other accounting treatments for individual items without significantly compromising comparability between financial statements, taking into consideration practices, etc. that have been carried out in Japan.

- (2) Scheduled date of adoption
The Company expects to adopt the accounting standard and implementation guidance from the beginning of the fiscal year ending March 31, 2022.
- (3) Impact of the adoption of accounting standard and implementation guidance
The Company is currently evaluating the effect of the adoption of this accounting standard and implementation guidance on its consolidated financial statements.

5. Changes in presentation

Adoption of “Accounting Standard for Disclosure of Accounting Estimates”

“Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No. 31, March 31, 2020) has been adopted beginning with the Consolidated Financial Statements pertaining to the end of the fiscal year ended March 31, 2021, stating notes on significant accounting estimates in the Consolidated Financial Statements.

However, in accordance with the transitional treatment as stipulated in the proviso under Paragraph 11 of the said Accounting Standard, descriptions pertaining to the prior fiscal year are not stated in the said notes.

Consolidated statement of income

“Impairment loss on investments in securities” which was included in “Others, net” under “Other income (expenses)” in the prior fiscal year, has been presented as a separate account in the current fiscal year due to its increased financial materiality.

To reflect this change, ¥25 million of “Others, net” under “Other income (expenses)” in the prior fiscal year has been reclassified as ¥21 million in “Impairment loss on investments in securities” and ¥3 million in “Others, net”.

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6. Additional Information

Board Benefit Trust (BBT)

Based on the resolution at the 96th Annual General Meeting of Shareholders held on June 27, 2019, the Company introduced in the fiscal year ended March 31, 2020 a performance-linked stock compensation plan (the Board Benefit Trust (BBT)) for Directors (excluding Outside Directors) and Executive Operating Officers (hereinafter collectively referred to as the “Directors, etc.”) (hereinafter referred to as the “Plan”).

The purpose of the Plan is to further clarify the linkage between compensation of Directors, etc., financial results of the Company and the value of the Company’s shares, and have Directors, etc. share the risk of stock value fluctuation with the shareholders, thereby strengthening the awareness of Directors, etc. of their contribution to the medium to long-term improvement in financial results and enhancement of corporate value.

(1) Overview of the transactions under the Plan

Under the Plan, the Company’s shares are acquired through a trust using funds contributed by the Company (hereinafter, such trust established pursuant to the Plan is referred to as the “Trust”), and the Company’s shares and cash equivalents of such shares at their market value (hereinafter collectively referred to as the “Company’s Shares, etc.”) are distributed through the Trust to the Directors, etc., pursuant to the Officer Stock Distribution Rules established by the Company. The Directors, etc. shall receive the Company’s Shares, etc. upon their retirement, in principle. Accounting treatment of the trust agreement hereunder is subjected to the “Practical Solution on Transactions of Delivering the Company’s Own Stock to Employees etc. through Trusts” (PITF No.30, March 26, 2015).

(2) The Company’s shares remaining in the Trust

The Company records the Company’s shares remaining in the Trust at their book value (excluding incidental costs) at the Trust, as treasury stock under net assets.

Such treasury stock stood at ¥175 million of book value at March 31, 2021 and ¥179 million of book value at March 31, 2020.

The number of such shares was 51,400 at March 31, 2021 and 52,700 at March 31, 2020.

7. United States dollar amounts

The Company maintains its accounting records in yen by round down to the million. The dollar amounts included in the accompanying consolidated financial statements and notes thereto represent the arithmetical results of translating yen to U.S. dollars on the basis of $¥110.71 = \text{U.S.}\$1$, the approximate rate of exchange prevailing on the latest balance sheet date of March 31, 2021, and were round down to the thousand. The inclusion of such dollar amounts is solely for convenience of the reader and is not intended to imply that yen amounts have been or could be converted, realized or settled in U.S. dollars at $¥110.71 = \text{U.S.}\$1$ or at any other rate. As a result, the totals shown in the accompanying consolidated financial statements do not necessarily agree with the sums of the individual amounts.

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Notes to Consolidated Financial Statements
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8. Collateral

The Company's assets pledged as collateral for long-term loans and to obtain credit from banks, other financial institutions (including the current portion), and suppliers of ¥270 million (US\$2,445 thousand) at March 31, 2021, and ¥229 million at March 31, 2020 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2021	2020	2021
Investments in securities.....	¥ 15	¥ 9	\$ 141
Buildings and structures	61	64	554
Land.....	163	163	1,472
Total.....	¥240	¥236	\$2,169

9. Government grants which were deducted from acquisition costs of property, plant and equipment

The accumulative effects related to the Government grants which were deducted from acquisition costs of property, plant and equipment for the purpose of a reduction in taxable income as of March 31, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2021	2020	2021
Buildings and structures.....	¥512	¥509	\$4,628
Machinery, equipment and vehicles	449	379	4,058
Other	21	22	193
Total.....	¥983	¥911	\$8,880

10. Investments in unconsolidated subsidiaries and affiliates

Investments in unconsolidated subsidiaries and affiliates as of March 31, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2021	2020	2021
Investments in securities.....	¥349	¥349	\$3,155
Capital contribution	33	94	305
Total.....	¥383	¥443	\$3,460

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11. Commitments and contingencies

As of March 31, 2021 and 2020 the Company was contingently liable for the conditional assignment of ¥1,535 million (US\$13,868 thousand) and ¥1,480 million, respectively, of trade notes and accounts receivable with recourse obligations.

12. Inventories

Write-downs of inventories for the years ended March 31, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2021	2020	2021
Cost of sales	¥9	¥147	\$83

13. Selling, general and administrative expenses

Major elements of selling, general and administrative expenses for the years ended March 31, 2021 and 2020 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2021	2020	2021
Delivery and storage charges	¥5,362	¥5,445	\$48,440
Salaries and bonuses	8,245	8,474	74,477
Retirement benefit expenses	541	464	4,888
Accrued bonuses	1,153	1,118	10,421
Retirement benefit costs for officers.....	17	35	156
Research and development costs	4,873	5,181	44,018
Allowance for doubtful accounts.....	13	(33)	118

14. Research and development costs

Research and development costs for the years ended March 31, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2021	2020	2021
Research and development costs	¥5,760	¥6,148	\$52,028

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Notes to Consolidated Financial Statements
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15. Gain on sales of fixed assets

Gain on sales of fixed assets for the years ended March 31, 2021 and 2020 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2021	2020	2021
Machinery, equipment and vehicles	¥6	¥1	\$62
Land	—	56	—
Others	4	0	42
Total	¥11	¥58	\$105

16. Loss on sales of fixed assets

Loss on sales of fixed assets for the years ended March 31, 2021 and 2020 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2021	2020	2021
Machinery, equipment and vehicles	¥4	¥4	\$43
Others	0	1	0
Total	¥4	¥5	\$44

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Notes to Consolidated Financial Statements
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17. Impairment loss on fixed assets

The Company and its consolidated subsidiaries have recognized impairment losses on the following classes of assets for the years ended March 31, 2021 and 2020.

2021				
Location	Major use	Asset	Millions of yen	Thousands of U.S. dollars (Note 7)
Taketoyo-cho, Chita-gun, Aichi	Warehouse	Buildings	¥ 8	\$ 79
Kawagoe city, Saitama	Office building	Construction in progress	¥ 36	\$ 329

The Company and its consolidated subsidiaries have grouped business-use assets according to the operating division and have grouped idle assets on an individual basis.

When there is a decrease in profitability of a business operation and no expectation of recovery in operating earnings, the book value of the assets is written down to the recoverable amount.

The Taketoyo-cho, Chita-gun, Aichi asset listed in the above table was written down to its respective recoverable amounts and ¥8 million (US\$79 thousand) of impairment loss on fixed assets was recognized in the consolidated statement of income for the year ended March 31, 2021.

Kawagoe city, Saitama asset listed in the above table was written down mainly due to the review of the initial plan to construct the new office building, and ¥36 million (US\$329 thousand) of the book values related to the initial plan was recognized as impairment loss on fixed assets in the consolidated statement of income for the year ended March 31, 2021.

The recoverable amounts of these groups of assets are measured at value in use. The discounted cash flow was not calculated since the estimated future cash flow for The Taketoyo-cho, Chita-gun, Aichi asset is negative and zero for Kawagoe city, Saitama asset. The impairment loss on fixed assets consisted of ¥8 million (US\$79 thousand) for buildings and structures, ¥0 million (US\$6 thousand) for machinery and vehicles, ¥1 million (US\$13 thousand) for tools, furniture and fixtures and ¥34 million (US\$311 thousand) for construction in progress.

2020				
Location	Major use	Asset	Millions of yen	Thousands of U.S. dollars (Note 7)
Taketoyo-cho, Chita-gun, Aichi	Facilities	Machinery	¥ 19	\$ 179
Kawagoe city, Saitama	Facilities	Buildings and structures	¥ 429	\$ 3,946

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The Company and its consolidated subsidiaries have grouped business-use assets according to the operating division and have grouped idle assets on an individual basis.

When there is a decrease in profitability of a business operation and no expectation of recovery in operating earnings, the book value of the assets is written down to the recoverable amount. The Taketoyo-cho, Chita-gun, Aichi and Kawagoe city, Saitama assets listed in the above table were written down to their respective recoverable amounts and ¥449 million (US\$4,126 thousand) of impairment loss on fixed assets was recognized in the consolidated statement of income for the year ended March 31, 2020.

The recoverable amounts of these groups of assets are measured at value in use. The discounted cash flow was not calculated since the estimated future cash flows are negative. The impairment loss on fixed assets consisted of ¥294 million (US\$2,703 thousand) for buildings and structures, ¥64 million (US\$595 thousand) for machinery and vehicles, ¥89 million (US\$826 thousand) for tools, furniture and fixtures and ¥0 million (US\$1 thousand) for others.

18. Loss on retirement of fixed assets

Loss on retirement of fixed assets for the years ended March 31, 2021 and 2020 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2021	2020	2021
Buildings and structures.....	¥18	¥63	\$168
Machinery, equipment and vehicles	10	52	93
Other	8	7	77
Total	¥37	¥123	\$339

19. Loss on disaster

Loss on disaster for the years ended March 31, 2021 and 2020 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2021	2020	2021
Facilities and equipment	¥—	¥203	\$—
Inventories.....	—	13	—
Total	¥—	¥216	\$—

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20. Insurance income

There were no applicable items for the year ended March 31, 2021.
Insurance income for the year ended March 31, 2020 is the insurance claim received for damage caused by typhoons.

21. Settlement package

Settlement package for the year ended March 31, 2021 is a loss incurred in the business contract of a group company.
There were no applicable items for the year ended March 31, 2020.

22. Loss on business withdrawal

Loss on business withdrawal for the years ended March 31, 2021 and 2020 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2021	2020	2021
Facilities and equipment	¥—	¥4	\$—
Inventories.....	—	82	—
Total	¥—	¥87	\$—

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23. Other comprehensive income

Reclassification adjustments and tax effects of each component of other comprehensive income for the years ended March 31, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2021	2020	2021
Unrealized holding gain on securities:			
Amount arising during the year	¥15,686	¥(10,069)	\$ 141,692
Reclassification adjustments for gains and losses included in net income.....	(5,363)	(1,955)	(48,450)
Amount before tax effect	10,322	(12,025)	93,242
Tax effect	(3,210)	3,730	(28,997)
Unrealized holding gain on securities	7,112	(8,294)	64,244
Translation adjustments:			
Amount arising during the year	¥ (150)	¥ (463)	\$ (1,357)
Retirement benefits liability adjustments:			
Amount arising during the year	¥ 1,621	¥ (971)	\$ 14,649
Reclassification adjustments for gains and losses included in net income.....	311	96	2,814
Amount before tax effect	1,933	(875)	17,463
Tax effect	(604)	271	(5,458)
Retirement benefits liability adjustments....	1,329	(604)	12,005
Total other comprehensive income	¥ 8,291	¥ (9,362)	\$74,892

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24. Net assets

Information regarding changes in net assets for the years ended March 31, 2021 and 2020 are as follows:

(1) Shares issued and outstanding / Treasury stock

	Thousands of shares			
	2021			
	Number of shares at March 31, 2020	Increase	Decrease	Number of shares at March 31, 2021
Common stock.....	84,841	–	–	84,841
Treasury stock.....	1,732	292	1	2,023

The increase in treasury stock during the year ended March 31, 2021 was due to the purchase of odd-lot shares (3 thousand shares) and the market purchases (289 thousand shares).

The decrease in treasury stock during the year ended March 31, 2021 was due to the benefit payment of the Board Benefit Trust (BBT) (1 thousand shares).

Number of shares of treasury stock at the end of the fiscal year ended March 31, 2021 includes 51 thousand shares held by the Board Benefit Trust (BBT).

	Thousands of shares			
	2020			
	Number of shares at March 31, 2019	Increase	Decrease	Number of shares at March 31, 2020
Common stock.....	84,841	–	–	84,841
Treasury stock.....	671	1,060	–	1,732

The increase in treasury stock during the year ended March 31, 2020 was due to the purchase of odd-lot shares (2 thousand shares), the market purchases (1,005 thousand shares) and the purchase of the Board Benefit Trust (BBT) (52 thousand shares).

Number of shares of treasury stock at the end of the fiscal year ended March 31, 2020 includes 52 thousand shares held by the Board Benefit Trust (BBT).

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(2) Cash dividends

The Corporation Law of Japan provides that an amount equal to 10% of the amount to be distributed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) shall be transferred to the capital reserve or the legal reserve 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, but neither the capital reserve nor the legal reserve is available for distributions.

Appropriations are not accrued in the consolidated financial statements for the period to which they relate, but are recorded in the subsequent accounting period when the shareholders' approval has been obtained.

Dividends paid for the year ended March 31, 2021:

	Type of shares	Millions of yen	Thousands of U.S. dollars (Note 7)	Yen	U.S. dollars (Note 7)
		Total dividends	Total dividends	Dividends per share	Dividends per share
The General Meeting of Stockholders on June 26, 2020	Common stock	¥3,243	\$29,295	¥39	\$0.35
Meeting of the Board of Directors on November 5, 2020	Common stock	¥3,243	\$29,295	¥39	\$0.35

Total dividends ¥3,243 million includes ¥2 million of dividends for shares held by the Board Benefit Trust (BBT).

Dividends paid for the year ended March 31, 2020:

	Type of shares	Millions of yen	Thousands of U.S. dollars (Note 7)	Yen	U.S. dollars (Note 7)
		Total dividends	Total dividends	Dividends per share	Dividends per share
The General Meeting of Stockholders on June 27, 2019	Common stock	¥3,871	\$35,576	¥46	\$0.42
Meeting of the Board of Directors on November 7, 2019	Common stock	¥3,282	\$30,162	¥39	\$0.36

Total dividends ¥3,282 million includes ¥2 million of dividends for shares held by the Board Benefit Trust (BBT).

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Dividends with the cut-off date in the year ended March 31, 2021 and the effective date in the year ending March 31, 2022:

	Type of shares	Millions of yen	Thousands of U.S. dollars (Note 7)	Yen	U.S. dollars (Note 7)
		Total dividends	Total dividends	Dividends per share	Dividends per share
The General Meeting of Stockholders on June 29, 2021	Common stock	¥3,397	\$30,689	¥41	\$0.37

Total dividends ¥3,397 million includes ¥2 million of dividends for shares held by the Board Benefit Trust (BBT).

25. Supplementary cash flow information

Cash and cash equivalents as of March 31, 2021 and 2020 are reconciled to cash and deposits in the consolidated balance sheet as follows:

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2021	2020	2021
Cash and time deposits	¥78,669	¥51,849	\$710,590
Time deposits with maturity of more than three months.....	(2,067)	(1,158)	(18,674)
Separate deposit (Board Benefit Trust)	(6)	(6)	(54)
Cash and cash equivalents	<u>¥76,596</u>	<u>¥50,684</u>	<u>\$691,861</u>

26. Leases

The Group leases certain machinery, equipment and vehicles, software and other assets.

Obligations under non-cancelable operating leases as of March 31, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2021	2020	2021
Due within one year.....	¥67	¥55	\$613
Due after one year.....	137	60	1,242
Total.....	<u>¥205</u>	<u>¥115</u>	<u>\$1,855</u>

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27. Financial instruments

(1) Policy for financial instruments

In consideration of plans for capital investment, the Company and its consolidated subsidiaries raise funds through bank borrowings. The Group manages temporary cash surpluses through low-risk financial assets. Further, the Group raises short-term capital through bank borrowings. The Group uses derivatives for the purpose of reducing risk and does not enter into derivatives for speculative or trading purposes.

(2) Types of financial instruments and related risk and risk management system

Trade receivables—Trade notes and accounts receivable—are exposed to credit risk in relation to customers.

In accordance with the internal policies of the Group for managing credit risk arising from receivables, each related division monitors credit worthiness of their main customers periodically, and monitors due dates and outstanding balances by individual customer.

Marketable securities and investment securities are exposed to market risk. Those securities are composed of mainly held-to-maturity debt securities and the shares of common stock of other companies with which the Group has business relationships, or affiliated companies.

Regarding the shares of common stock of other listed companies, the Group evaluates market value quarterly to reduce fluctuation risk.

The Group has also loans receivable from other companies with which it has business relationships.

Short-term borrowings are raised mainly in connection with business activities, and long-term debt is taken out principally for the purpose of making capital investments. Long-term debt with variable interest rates is exposed to interest rate fluctuation risk. However, to reduce such risk for long-term debt bearing interest at variable rates, the Group mainly utilizes fixed interest.

The group policy for hedge accounting is indicated in Note 2 “Summary of significant accounting policies” (15) “Hedge accounting”.

(3) Supplemental information on the fair value of financial instruments

The Group calculates the fair value of financial instruments based on market prices, or by using reasonable estimates when market prices are not available. These estimates include variable factors and are subject to fluctuation due to changes in underlying assumptions.

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(4) Fair value of financial instruments

The carrying value, the estimated fair value and the difference of the financial instruments on the balance sheet as of March 31, 2021 and 2020 are as follows. Fair values that are not readily determinable are not included in the following table.

	Millions of yen		
	2021		
	Carrying value	Estimated fair value	Difference
Assets			
Cash and time deposits	¥78,669	¥78,669	¥ –
Trade notes, accounts receivable and electronically recorded monetary claims-operating (less allowance for doubtful accounts)....	¥41,764	¥41,764	¥ –
Available-for-sale securities	¥46,532	¥46,532	¥ –
Liabilities			
Notes and accounts payable	¥17,129	¥17,129	¥ –
Short-term bank borrowings	¥ 1,570	¥ 1,570	¥ –
Long-term borrowings from banks and other financial institutions	¥ 8,053	¥ 8,039	¥(13)
	Millions of yen		
	2020		
	Carrying value	Estimated fair value	Difference
Assets			
Cash and time deposits	¥51,849	¥51,849	¥ –
Trade notes, accounts receivable and electronically recorded monetary claims-operating (less allowance for doubtful accounts)....	¥40,904	¥40,904	¥ –
Available-for-sale securities	¥39,655	¥39,655	¥ –
Liabilities			
Notes and accounts payable	¥14,998	¥14,998	¥ –
Short-term bank borrowings	¥ 1,353	¥ 1,353	¥ –
Long-term borrowings from banks and other financial institutions	¥ 8,060	¥ 8,025	¥(34)

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	Thousands of U.S. dollars (Note 7)		
	2021		
	Carrying value	Estimated fair value	Difference
Assets			
Cash and time deposits	\$710,590	\$710,590	\$ –
Trade notes, accounts receivable and electronically recorded monetary claims-operating (less allowance for doubtful accounts)....	\$377,239	\$377,239	\$ –
Available-for-sale securities	\$420,312	\$420,312	\$ –
Liabilities			
Notes and accounts payable	\$154,725	\$154,725	\$ –
Short-term bank borrowings.....	\$ 14,189	\$ 14,189	\$ –
Long-term borrowings from banks and other financial institutions	\$ 71,811	\$ 71,685	\$(126)

Fair value measurement of financial instruments and information relating to short-term investment securities:

Assets

(1) Cash and time deposits

Since these items are subject to be settled in a short term, their carrying amounts approximate fair value.

(2) Trade notes, accounts receivable and electronically recorded monetary claims - operating

The carrying value, less allowance for doubtful accounts, is used as the amount approximates fair value due to the short maturity of these instruments.

(3) Available-for-sale securities

The fair value of equity securities equals quoted market price, if available. The fair value of debt securities equals quoted market price or the price provided by financial institutions.

Moreover, investment securities classified by holding purpose are described in Note 29 “Investments in securities.”

Liabilities

(1) Notes and accounts payable and (2) Short-term bank borrowings

The carrying amount is used as the amount approximates fair value due to the short maturity of these instruments.

(3) Long-term borrowings from banks and other financial institutions

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The fair value of long-term borrowings from banks is calculated based on each payment period by applying a discount rate to the total of future net cash flows. The discount rate is based on the interest rate considering the payment periods or credit risk.

Financial instruments for which it is extremely difficult to determine the fair value as of March 31, 2021 and 2020:

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2021	2020	2021
	Unlisted stock	¥1,211	¥1,211
Fund certificate	¥ 0	¥ 0	\$ 3

These items are not included in short-term investments in securities and investments in securities because the fair values are not readily determinable as market prices do not exist.

The carrying value of monetary assets as of March 31, 2021 and 2020 is as follows:

	Millions of yen			
	2021			
	Within a year	1 to 5 years	5 to 10 years	Over 10 years
Cash and time deposits	¥78,661	¥ –	¥ –	¥ –
Notes and accounts Receivable	¥39,529	¥ –	¥ –	¥ –
Electronically recorded monetary claims-operating	¥ 2,441	¥ –	¥ –	¥ –

	Millions of yen			
	2020			
	Within a year	1 to 5 years	5 to 10 years	Over 10 years
Cash and time deposits	¥51,843	¥ –	¥ –	¥ –
Notes and accounts Receivable	¥38,625	¥ –	¥ –	¥ –
Electronically recorded monetary claims-operating	¥ 2,467	¥ –	¥ –	¥ –

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	Thousands of U.S. dollars (Note 7)			
	2021			
	Within a year	1 to 5 years	5 to 10 years	Over 10 years
Cash and time deposits	\$710,520	\$ –	\$ –	\$ –
Notes and accounts Receivable	\$357,050	\$ –	\$ –	\$ –
Electronically recorded monetary claims-operating	\$ 22,049	\$ –	\$ –	\$ –

28. Short-term bank loans and long-term debt

Short-term bank loans outstanding are generally represented by notes payable issued by the Company to banks with weighted average interest rates of 0.77% at March 31, 2021, and 0.96% at March 31, 2020.

Long-term debt as of March 31, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2021	2020	2021
Loans, principally from banks and insurance companies, due April 2021 to September 2026 with average interest rates of 0.66% at March 31, 2021, and 0.34% at March 31, 2020.....	¥8,053	¥8,060	\$72,746
Less: Current maturities of:			
Long-term loans.....	(5,000)	(0)	(45,164)
Total.....	¥3,053	¥8,059	\$27,581

Aggregate annual maturities of long-term debt subsequent to March 31, 2021 are as follows:

	Millions of yen	Thousands of U.S. dollars (Note 7)
Years ending March 31		
2023	¥2,903	\$26,227
2024	1,500	1,354
2025	–	–
2026	–	–
2027 and thereafter	–	–
Total.....	¥3,053	\$27,581

29. Investments in securities

(1) The acquisition cost, book value and unrealized gains or losses on available-for-sale

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securities with fair value as of March 31, 2021 and 2020 are as follows:

Description	Millions of yen		
	2021		
	Acquisition cost	Book value (fair value)	Unrealized gain or loss
Book value in excess of acquisition cost			
Stocks	¥11,236	¥46,024	¥34,787
Bonds	—	—	—
Others	—	—	—
Sub total	¥11,236	¥46,024	¥34,787
Book value not in excess of acquisition cost			
Stocks	¥ 599	¥508	¥ (91)
Bonds	—	—	—
Others	—	—	—
Sub total	¥ 599	¥508	¥ (91)
Total	¥11,836	¥46,532	¥34,696
Description	Millions of yen		
	2020		
	Acquisition cost	Book value (fair value)	Unrealized gain or loss
Book value in excess of acquisition cost			
Stocks	¥12,543	¥37,489	¥24,945
Bonds	—	—	—
Others	—	—	—
Sub total	¥12,543	¥37,489	¥24,945
Book value not in excess of acquisition cost			
Stocks	¥ 2,738	¥2,166	¥ (572)
Bonds	—	—	—
Others	—	—	—
Sub total	¥ 2,738	¥2,166	¥ (572)
Total	¥15,282	¥39,655	¥24,373

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Description	Thousands of U.S. dollars (Note 7)		
	2021		
	Acquisition cost	Book value (fair value)	Unrealized gain or loss
Book value in excess of acquisition cost			
Stocks	\$101,498	\$415,722	\$314,224
Bonds	–	–	–
Others	–	–	–
Sub total	\$101,498	\$415,722	\$314,224
Book value not in excess of acquisition cost			
Stocks	\$ 5,417	\$ 4,590	\$ (827)
Bonds	–	–	–
Others	–	–	–
Sub total	\$ 5,417	\$ 4,590	\$ (827)
Total	\$106,915	\$420,312	\$313,396

The Group recorded impairment losses on investment securities in the amounts of ¥12 million (US\$115 thousand) for the year ended March 31, 2021.

Impairment losses are recorded for all securities whose fair values have declined by 50% or more, and impairment losses are recorded for those that have declined in a range of 30% to 50% if the decline is deemed to be irrecoverable.

- (2) Available-for-sale securities sold during the years ended March 31, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2021	2020	2021
	Proceeds from sale of available-for-sale securities	¥8,837	¥2,678
Realized gain	5,408	1,994	48,855
Realized loss	32	21	289

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- (3) The book value of major securities without fair value as of March 31, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2021	2020	2021
Unlisted stocks.....	¥862	¥862	\$7,787
Fund certificates.....	0	0	3

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30. Retirement benefit plans

The Company and its consolidated subsidiaries have either funded and unfunded defined benefit plans and/or defined contribution plans for benefit payments to their employees. For defined benefit plans (all funded plans), a lump-sum payment or annual pension calculated based on salary paid and length of service provided will be paid. For certain lump-sum retirement plans, the lump-sum payments are also determined based on salary paid and length of service provided. For defined benefit corporate pension plans and retirement lump-sum plans offered by certain consolidated subsidiaries, net defined benefit liability and retirement benefit expenses are calculated by a simplified method. In addition, certain consolidated subsidiaries adopt a smaller enterprise retirement allowance mutual plan and defined contribution pension plans.

Defined benefit plan

(1) The changes in retirement benefit obligation during the years ended March 31, 2021 and 2020 are as follows (excluding plans using the simplified method):

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2021	2020	2021
Beginning balance of retirement benefit obligation.....	¥23,608	¥23,443	\$213,243
Service cost.....	1,390	1,422	12,558
Interest cost.....	33	32	299
Actuarial loss.....	22	(15)	204
Retirement benefits paid.....	(1,227)	(1,279)	(11,088)
Other.....	(4)	5	(37)
Ending balance of retirement benefit obligation.....	<u>¥23,822</u>	<u>¥23,608</u>	<u>\$215,178</u>

(2) The changes in plan assets during the years ended March 31, 2021 and 2020 are as follows (excluding plans using the simplified method):

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2021	2020	2021
Beginning balance of plan assets.....	¥21,420	¥22,248	\$193,482
Expected return on plan assets.....	395	406	3,574
Actuarial loss.....	1,644	(988)	14,849
Contributions by the Company.....	878	883	7,932
Retirement benefits paid.....	(1,037)	(1,155)	(9,372)
Other.....	(0)	26	(6)
Ending balance of plan assets.....	<u>¥23,299</u>	<u>¥21,420</u>	<u>\$210,459</u>

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- (3) The changes in liabilities for retirement benefits calculated by using the simplified method during the years ended March 31, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2021	2020	2021
Beginning balance of net defined benefit liability	¥1,500	¥1,433	\$13,557
Retirement benefit expenses.....	284	283	2,570
Retirement benefits paid.....	(135)	(115)	(1,223)
Contributions by the Company.....	(105)	(100)	(953)
Ending balance of net defined benefit liability.....	¥1,544	¥1,500	\$13,950

- (4) The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2021 and 2020 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2021	2020	2021
Funded retirement benefit obligation	¥ 22,372	¥ 22,081	\$ 202,078
Plan assets.....	(24,773)	(22,800)	(223,773)
	(2,401)	(719)	(21,694)
Unfunded retirement benefit obligation	4,468	4,408	40,364
Net liabilities in consolidated balance sheet.....	2,066	3,688	18,669
Assets for retirement benefits.....	(2,856)	(1,153)	(25,798)
Liabilities for retirement benefits	4,923	4,841	44,468
Net liabilities in consolidated balance sheet.....	¥ 2,066	¥ 3,688	\$ 18,669

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- (5) The components of retirement benefit expense for the years ended March 31, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2021	2020	2021
	Service cost.....	¥1,390	¥1,422
Interest cost.....	33	32	299
Expected return on plan assets	(395)	(406)	(3,574)
Amortization of actuarial loss	311	96	2,811
Retirement benefit expenses for simplified method.....	284	283	2,570
Retirement benefit expenses for defined benefit plans	¥1,623	¥1,428	\$14,664

- (6) The components of retirement benefits liability adjustments included in other comprehensive income (before tax effect) for the years ended March 31, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2021	2020	2021
	Actuarial loss.....	¥(1,933)	¥875
Total.....	¥(1,933)	¥875	\$(17,463)

- (7) The components of retirement benefits liability adjustments included in accumulated other comprehensive income (before tax effect) as of March 31, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2021	2020	2021
	Unrecognized actuarial loss	¥(76)	¥1,856
Total	¥(76)	¥1,856	\$(692)

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- (8) 1) The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2021 and 2020 is as follows:

	2021	2020
Equity securities	26%	22%
Debt securities	32%	31%
General accounts	31%	33%
Other.....	11%	14%
Total	100%	100%

NOTE:

The plan assets include 8% and 8% of the retirement pension trusts for corporate pension plans as of March 31, 2021 and 2020, respectively.

- 2) The long-term expected rate of return on plan assets has been estimated based on the current and projected pension asset allocations and the current and projected return rate on various assets comprising plan assets.

- (9) The assumptions used in accounting for the above plans are as follows:

	2021	2020
Discount rate	mainly 0.00%	mainly 0.00%
Long-term expected rate of return on plan assets	mainly 2.00%	mainly 2.00%
Expected rate of salary increase.....	1.00 ~ 5.86%	1.00 ~ 5.86%

Defined contribution plans

The required contributions to the defined contribution plan for certain consolidated subsidiaries for the years ended March 31, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	(Note 7)
	2021	2020	2021
Defined contribution plans.....	¥93	¥103	\$843

31. Stock option

There were no applicable items.

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32. Income taxes

(1) Significant components of deferred tax assets and liabilities

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2021	2020	2021
Deferred tax assets:			
Accrued bonus.....	¥ 1,046	¥ 1,032	\$ 9,448
Liabilities for retirement benefits.....	2,497	3,030	22,559
Elimination of intercompany profits .	444	397	4,018
Valuation loss on inventories.....	334	378	3,018
Accrued enterprise tax.....	395	277	3,569
Impairment loss on fixed assets	475	535	4,293
Accrued retirement benefits for directors and officers.....	25	33	231
Impairment loss on investment securities.....	204	210	1,846
Foreign tax credit	—	—	—
Deemed dividend by distribution in kind	2,125	2,125	19,195
Others	729	704	6,586
Subtotal	8,277	8,725	74,767
Valuation allowance.....	(2,437)	(2,489)	(22,015)
Total deferred tax assets.....	5,840	6,235	52,752
Deferred tax liabilities:			
Unrealized gain on investments in securities	(10,652)	(7,442)	(96,223)
Reserve for advanced depreciation of property, plant and equipment.....	(1,519)	(1,546)	(13,728)
Valuation differences	(1,513)	(1,513)	(13,674)
Gain on revaluation of assets trusted for retirement benefit.....	(633)	(633)	(5,724)
Others	(1,230)	(716)	(11,077)
Total deferred tax liabilities	(15,550)	(11,853)	(140,429)
Net deferred tax liabilities	¥ (9,706)	¥ (5,617)	\$ (87,677)

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(2) Reconciliation of the effective statutory tax rate to the Company's effective tax rate

Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries consist of corporation tax, inhabitants' taxes and enterprise tax, which, in the aggregate, resulted in statutory rates of approximately 31.0% and 31.0% for the years ended March 31, 2021 and 2020, respectively. Income taxes of the foreign consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

The note for the reconciliation of the effective statutory tax rate to the Company's effective tax rates is omitted, because the difference between effective statutory tax rate and effective tax rates after adoption of tax-effect accounting is less than 5% of effective statutory tax rate.

33. Business combination

There were no applicable items.

34. Asset retirement obligations

Information on the asset retirement obligations recorded on the consolidated balance sheet at March 31, 2021 and 2020 is as follows:

A. Outline of the asset retirement obligations

Expenses allocated for obligations to remove harmful materials such as fluorocarbon and PCB (polychlorinated biphenyl) from fixed assets and for removal of company dormitory.

B. Calculation method of asset retirement obligations

An estimated period of use of 2-38 years and a discount rate of 0.00%-2.27% are used to calculate the amount of the asset retirement obligations.

C. Changes in the total amount of the asset retirement obligations for the fiscal years ended March 31, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	(Note 7) 2021
Balance at beginning of year	¥190	¥195	\$1,721
Increase due to acquisition of property, plant and equipment	368	2	3,328
Accretion expenses	0	0	2
Decrease due to fulfillment of asset retirement obligations	(3)	(8)	(34)
Balance at the end of year	¥555	¥190	\$5,018

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35. Segment information

- (1) The Company's reportable segments are components for which separate financial information is available, and whose operating results are reviewed regularly by the Board of Directors in order to determine the allocation of resources and assess segment performance.

The Company's reportable segments are as follows:

1. Functional Chemicals --- fatty acids, fatty acid derivatives, surfactants, ethylene oxide and propylene oxide derivatives, organic peroxides, functional polymers, electronic materials, materials for anti-corrosion
2. Life Science --- MPC-related products, raw materials for DDS drug formulation, edible oils, functional foods
3. Explosive & Propulsion --- industrial explosives, defense-related explosives, rocket propellant, automotive safety devices, metal manufactured products

The accounting policies of the reportable segments are mostly the same as those in Note 2 "Summary of significant accounting policies"

The amount of segment income corresponds to that of operating income.

Intersegment sales and transfer prices are calculated mainly based on market value or manufacturing cost.

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Millions of yen								
2021								
Reportable segments								
	Functional Chemicals	Life Science	Explosive & Propulsion	Subtotal	Others	Total	Adjustments	Consolidated
Sales								
Sales to customers	¥109,822	¥31,232	¥30,078	¥171,133	¥1,511	¥172,645	¥ –	¥172,645
Inter-segment.....	831	4,446	9	5,286	7,892	13,179	(13,179)	–
Total.....	110,654	35,679	30,087	176,420	9,403	185,824	(13,179)	172,645
Segment income.....	¥ 15,655	¥ 10,310	¥ 2,036	¥ 28,003	¥ 228	¥ 28,231	¥ (1,629)	¥ 26,602
Assets.....	¥ 95,572	¥24,353	¥58,313	¥178,239	¥3,812	¥182,051	¥ 89,484	¥271,536
Depreciation.....	2,950	675	1,573	5,199	86	5,286	266	5,553
Capital expenditures	4,653	2,106	1,376	8,136	61	8,198	234	8,432

Thousands of U.S. dollars (Note 7)								
2021								
Reportable segments								
	Functional Chemicals	Life Science	Explosive & Propulsion	Subtotal	Others	Total	Adjustments	Consolidated
Sales								
Sales to customers	\$991,985	\$282,115	\$271,684	\$1,545,785	\$13,653	\$1,559,438	\$ –	\$1,559,438
Inter-segment.....	7,513	40,159	82	47,754	71,287	119,042	(119,042)	–
Total.....	999,499	322,274	271,766	1,593,540	84,941	1,678,481	(119,042)	1,559,438
Segment income.....	\$141,410	\$ 93,133	\$ 18,397	\$ 252,940	\$ 2,602	\$ 255,003	\$ (14,715)	\$ 240,288
Assets.....	\$863,273	\$219,976	\$526,719	\$1,609,968	\$34,433	\$1,644,401	\$ 808,279	\$2,452,681
Depreciation.....	26,652	6,099	14,216	46,968	784	47,753	2,410	50,163
Capital expenditures	42,034	19,031	12,431	73,497	556	74,054	2,116	76,171

Notes:

1. The “Others” category represents segments other than the reportable segments, which includes transportation, real estate sales and administrative operations.

2. Adjustments

1) Adjustments and eliminations for segment income ¥ (1,629) million (\$ (14,715) thousand) include ¥ 70 million (\$ 639 thousand) of elimination of inter-segment income and loss and ¥ (1,699) million (\$ (15,355) thousand) of corporate general administrative expense, which are not allocable to the reportable segments.

2) Adjustments and eliminations for segment assets ¥ 89,484 million (\$808,279 thousand) include ¥ (27,391) million (\$ (247,414) thousand) of elimination of inter-segment and ¥ 116,875 million (\$1,055,694 thousand) of corporate general administrative assets, which are not allocable to the reportable segments.

3) Adjustments for depreciation include ¥266 million (\$2,410 thousand) of depreciation and amortization for corporate assets.

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4) Adjustments for capital expenditures ¥234 million (\$2,116 thousand) refer to the increase in corporate assets.

3. Segment income is reconciled with operating income in the consolidated financial statements.

	Millions of yen							
	2020							
	Reportable segments				Others	Total	Adjustments	Consolidated
Functional Chemicals	Life Science	Explosive & Populsion	Subtotal					
Sales								
Sales to customers	¥117,270	¥30,369	¥31,838	¥179,479	¥1,438	¥180,917	¥ –	¥180,917
Inter-segment.....	994	3,019	15	4,029	8,229	12,258	(12,258)	–
Total.....	118,265	33,389	31,854	183,508	9,668	193,176	(12,258)	180,917
Segment income.....	¥ 17,562	¥ 8,456	¥ 1,916	¥ 27,935	¥ 207	¥ 28,143	¥ (1,269)	¥ 26,874
Assets	¥ 91,099	¥21,907	¥58,425	¥171,433	¥3,551	¥174,984	¥ 60,263	¥235,248
Depreciation.....	2,657	671	1,647	4,976	69	5,045	259	5,304
Capital expenditures	6,106	350	1,363	7,820	76	7,897	188	8,085

Notes:

1. The “Others” category represents segments other than the reportable segments, which includes transportation, real estate sales and administrative operations.

2. Adjustments

1) Adjustments and eliminations for segment income ¥ (1,269) million (\$ (11,662) thousand) include ¥ 234 million (\$ 2,157 thousand) of elimination of inter-segment income and loss and ¥ (1,504) million (\$ (13,820) thousand) of corporate general administrative expense, which are not allocable to the reportable segments.

2) Adjustments and eliminations for segment assets ¥ 60,263 million (\$553,740 thousand) include ¥ (25,567) million (\$ (234,931) thousand) of elimination of inter-segment and ¥ 85,831 million (\$788,672 thousand) of corporate general administrative assets, which are not allocable to the reportable segments.

3) Adjustments for depreciation include ¥259 million (\$2,383 thousand) of depreciation and amortization for corporate assets.

4) Adjustments for capital expenditures ¥188 million (\$1,727 thousand) refer to the increase in corporate assets.

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Notes to Consolidated Financial Statements For the years ended March 31, 2021 and 2020

(2) Information related to reportable segments

- 1) The Group's sales by geographical area for the years ended March 31, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2021	2020	2021
Japan	¥122,467	¥129,115	\$1,106,202
Asia	29,428	30,676	265,812
Others	20,749	21,126	187,424
Total	¥172,645	¥180,917	\$1,559,438

- 2) The Group's property, plant and equipment by geographical area as of March 31, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2021	2020	2021
Japan	¥56,786	¥54,029	\$512,926
Others	5,426	5,229	49,013
Total	¥62,212	¥59,258	\$561,940

- (3) Impairment losses on fixed assets by reportable segments for the years ended March 31, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2021	2020	2021
Functional Chemicals	¥8	¥19	\$79
Life Science	-	-	-
Explosive & Propulsion	36	429	329
Others	-	-	-
Total	¥45	¥449	\$409

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36. Related party transactions

The information for the fiscal years ended March 31, 2021 and 2020 was not disclosed because there were no significant transactions with related parties.

37. Per share information

Income attributable to owners of parent per share of common stock is based upon the weighted average number of shares outstanding during each fiscal year.

	Yen		U.S. dollars (Note 7)
	2021	2020	2021
Income attributable to owners of parent per share:			
Basic	¥ 280.49	¥ 251.72	\$2.53
Diluted	—	—	—
Cash dividends applicable to the year	80.00	78.00	0.72
Net assets	2,448.60	2,140.98	22.12

Income attributable to owners of parent— diluted for the years ended March 31, 2021 and 2020 is not disclosed because there are no diluted shares.

Cash dividends per share applicable to the period for the fiscal year ended March 31, 2021, comprise interim dividends of ¥39.00 and year-end dividends of ¥41.00.

The Company's shares held by the Board Benefit Trust (BBT) are included in treasury stock subject to exclusion.

Number of shares issued that were excluded for the purpose of calculating per share information 51,400 at March 31, 2021, and 52,700 at March 31, 2020.

Average number of shares that were excluded for the purpose of calculating per share information 51,800 during the year ended March 31, 2021 and 32,431 during the year ended March 31, 2020.

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Basis for calculating income attributable to owners of parent per share:

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2021	2020	2021
Income attributable to owners of parent	¥23,302	¥21,140	\$210,481
Amount not available to shareholders	—	—	—
Income attributable to owners of parent applicable to common stock	¥23,302	¥21,140	\$210,481
Average number of shares outstanding (1,000 shares).....	83,077	83,981	

38. Subsequent events

There were no applicable items.