To Our Shareholders

Internet Disclosure on the Notice of Convocation of the 63rd Annual General Meeting of Shareholders

June 2022

SMC Corporation

Contents

The above materials are deemed to have been provided to our shareholders by publishing on the Company's website (https://www.smcworld.com/ir/en/) based on the Regulation on Corporate Accounting and the Articles of Incorporation of the Company.

Consolidated Statement of Changes in Equity

(April 1, 2021 to March 31, 2022)

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Net assets at beginning of period	61,005	73,335	1,277,198	(59,139)	1,352,399
Cumulative effects of changes in accounting policies			(257)		(257)
Restated balance	61,005	73,335	1,276,940	(59,139)	1,352,142
Changes during period					
Dividends of surplus			(39,646)		(39,646)
Profit attributable to owners of parent			192,991		192,991
Purchase of treasury shares				(50,020)	(50,020)
Disposal of treasury shares				23	23
Net changes in items other than shareholders' equity					
Total changes during period	–	–	153,344	(49,997)	103,347
Net assets at end of period	61,005	73,335	1,430,285	(109,136)	1,455,489

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Net assets at beginning of period	11,404	12,056	842	24,304	3,283	1,379,987
Cumulative effects of changes in accounting policies						(257)
Restated balance	11,404	12,056	842	24,304	3,283	1,379,730
Changes during period						
Dividends of surplus						(39,646)
Profit attributable to owners of parent						192,991
Purchase of treasury shares						(50,020)
Disposal of treasury shares						23
Net changes in items other than shareholders' equity	(169)	75,836	167	75,834	361	76,196
Total changes during period	(169)	75,836	167	75,834	361	179,543
Net assets at end of period	11,235	87,893	1,010	100,139	3,645	1,559,274

Notes to Consolidated Financial Statements

[Notes on significant matters constituting the basis for preparing the Consolidated Financial Statements]

1. The scope of consolidation

(1) Number of consolidated subsidiaries and names of major consolidated subsidiaries

Number of consolidated subsidiaries: 44

Names of major consolidated subsidiaries:

Nihon Kizai Co., Ltd.	SMC Automation China Co., Ltd.
SMC Corporation of America	SMC (China) Co., Ltd.
SMC Deutschland GmbH	SMC (Beijing) Manufacturing Co., Ltd.
SMC Korea Co., Ltd.	

(2) Names of major non-consolidated subsidiaries: SC SMC Romania S.r.l., SMC Corporation (Chile) S.A.

(Reasons for exclusion from the scope of consolidation)

The 30 non-consolidated subsidiaries are excluded from the scope of consolidation since they are all small in size and their aggregate total assets, net sales, net income (amount corresponding to equity) and retained earnings (amount corresponding to equity) do not significantly impact the consolidated financial statements.

2. The scope of application of the equity method

Non-consolidated subsidiaries (SC SMC Romania S.r.l. and 29 other subsidiaries) and 1 affiliate that are not accounted for using the equity method are excluded from the equity method scope since their effect on the consolidated financial statements is considered to be minimal and insignificant in whole in terms of net income or loss (amount corresponding to equity) and retained earnings (amount corresponding to equity).

3. Matters pertaining to the fiscal year of consolidated subsidiaries

The consolidated financial statements were prepared based on the preliminary financial statements as of March 31, 2022 for the following 10 subsidiaries whose fiscal year-end date is December 31.

SMC Investment Management China Co., Ltd.	SMC Automation China Co., Ltd.
SMC (China) Co., Ltd.	SMC (Beijing) Manufacturing Co., Ltd.
SMC (Tianjin) Manufacturing Co., Ltd.	SMC Automation (Guangzhou) Ltd.
Nihon Kizai (Shanghai) Co., Ltd.	SMC Corporation (Mexico), S.A. de C.V.
SMC Pneumatik LLC	SMC Automação do Brasil Ltda.

4. Accounting policies

(1) Valuation standards and methods for significant assets

(i) Securities

Securities held to maturity: valued at amortized cost method.

Available-for-sale securities

a. Stocks other than those for which a market price is not available: stated at fair value method. (All unrealized holding gains and losses are included in net assets and cost of sales is principally calculated with the moving average method.)

b. Stocks for which a market price is not available: stated at cost using the moving average method.

(ii) Inventories: principally stated at cost using the gross average method (with book value written down on the balance sheet based on decreased profitability of assets).

(2) Depreciation methods for significant depreciable assets

(i) Property, plant and equipment (excluding leased assets)

Depreciation of property, plant and equipment of the Company and its domestic consolidated subsidiaries is calculated principally under the declining balance method. However, buildings acquired on and after April 1, 1998 (excluding facilities attached to buildings) and facilities attached to buildings and structures acquired on and after April 1, 2016 are calculated with the straight-line method. And that of foreign consolidated subsidiaries is determined in accordance with the straight-line method pursuant to the accounting standards of the corresponding nation.

Primary useful periods are as described below.

Buildings and structures: 3-50 years

Machinery, equipment and vehicles: 2-17 years

Tools, furniture and fixtures: 2-20 years

(ii) Intangible assets (excluding leased assets)

Amortization of intangible assets of the Company and its domestic consolidated subsidiaries is calculated in accordance with the straight-line method and that of foreign consolidated subsidiaries is determined in accordance with the straight-line method pursuant to the accounting standards of the corresponding nation.

Internal-use software is amortized on a straight-line basis over the useful life period (mainly 5 years) specified by the Company.

(3) Basis for significant allowances and provisions

(i) Allowance for doubtful accounts

The Company and its consolidated domestic subsidiaries provide an allowance for possible loan losses upon assessing the amount deemed uncollectible by applying the historical bad-debt ratio for general claims and by individually estimating such amount for specific doubtful claims. Foreign consolidated subsidiaries provide an allowance for possible loan losses in the amount deemed uncollectible based on an individual assessment of each claim.

(ii) Provision for bonuses

Some of the Company's consolidated subsidiaries provide a reserve of the estimated amount to prepare for bonus payment to employees.

(iii) Provision for retirement benefits for directors

Some of the Company's consolidated subsidiaries provide a reserve for retirement benefits for directors to prepare for the necessary payment amount as of the end of the current fiscal year in accordance with the internal rules.

(iv) Provision for share awards for directors

For the purpose of preparing for share benefits as remuneration to Directors, projected amount of share benefits at the end of the current fiscal year is recorded.

(4) Basis for translating significant foreign currency denominated assets and liabilities into Japanese yen

Foreign currency denominated assets and liabilities are translated into Japanese yen at exchange rates prevailing at the balance sheet date and the difference resulting from the translation is recognized as gains or losses. Meanwhile, assets and liabilities held by foreign consolidated subsidiaries are translated into Japanese yen at exchange rates prevailing at the balance sheet date, while revenues and expenses are translated into Japanese yen at average rates of exchange during the current consolidated fiscal year and the difference resulting from the translation is charged to foreign currency translation adjustments and non-controlling interests under net assets.

(5) Basis for significant revenues and expenses

(i) Contents of main performance obligations in major businesses

The Group is engaged in the manufacturing and sale of automatic control equipment, including pneumatic instruments, that is essential for automated, labor-saving operations in various industry sectors, and is under the obligation to deliver products to customers in accordance with sales agreements, etc.

(ii) At the usual point at which the Company fulfills its performance obligation (at the usual point at which it recognizes revenue)

The Group sells automatic control equipment, including pneumatic instruments, to customers. We deem control over these products to be transferred to the customer at the point at which the product is shipped or delivered, at which point we recognize the revenue.

(6) Other significant matters constituting the basis for preparing the Consolidated Financial Statements

Basis for net defined retirement benefit liabilities and net defined retirement benefit assets

For the purpose of preparing employees' retirement benefit payments, retirement benefit liabilities and retirement benefit assets are recorded based on the projected amounts for pension assets and retirement benefit obligations at the end of the fiscal year at the consolidated level. For the calculation of consolidated retirement benefit obligations, the retirement benefit formula is used to attribute expected retirement benefits for the period until the end of the current fiscal year.

Prior service cost is amortized on a straight-line basis over certain years (10 years) within the average remaining service periods at the time of recognition.

Actuarial net gain or loss is recognized on a straight-line basis over certain years (10 years) within the average remaining service period at the time of recognition of each fiscal year, starting from the succeeding period.

Unrecognized actuarial net gains or losses and unrecognized prior service costs are included, after adjusting for tax effects, in the re-measurements of defined benefit plans under accumulated other comprehensive income in the net asset section.

Some of the Company's consolidated subsidiaries adopt the simplified accounting method for the calculation of their net defined benefit assets, net defined benefit liabilities and retirement benefit expenses. Within, the amount payable to employees retiring due to personal reasons at year end is recognized as the amount of retirement benefit obligations.

[Notes on changes in accounting policy]

1. Application of the Accounting Standard for Revenue Recognition

The Group began applying the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020; hereinafter "the Accounting Standard for Revenue Recognition") at the consolidated level at the beginning of the fiscal year under review, such that at the point at which control of the promised good or service is transferred to the customer, the Company recognizes revenue equivalent to the amount it expects to receive in return for said good or service.

The amount of revenue recorded consists of the consideration promised in the agreement with the customer, from which returns, discounts, rebates and other items have been deducted.

The revenue recognition standard has been applied in accordance with the transitional measures set forth in the proviso to paragraph 84 of the revenue recognition standard, under which the cumulative effect of the retrospective application, assuming that the new accounting policy had been applied at the consolidated level to periods prior to the beginning of the fiscal year under review, was added to or deducted from the opening balance of retained earnings at the beginning of the fiscal year, and thus the new accounting policy was applied from this opening balance. However, due to the application of the methods provided for in paragraph 86 of the Accounting Standard for Revenue Recognition, the new accounting policy was not retrospectively applied at the consolidated level to contracts for which nearly all the revenue amounts had been recognized according to the previous treatment in periods prior to the beginning of the fiscal year under review.

In addition, some of the sales promotion expenses that were previously recorded in selling, general and administrative expenses, and sales discounts that were previously recorded in non-operating expenses, are now deducted from net sales.

As a result, the impact on the consolidated financial statements of the application of the Accounting Standard for Revenue Recognition was negligible.

2. Application of the Accounting Standard for Fair Value Measurement, etc.

The Company began applying the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019; hereinafter "the Accounting Standard for Fair Value Measurement") and relevant ASBJ regulations at the consolidated level at the beginning of the current fiscal year. Furthermore, in accordance with the transitional treatment set forth in paragraph 19 of the Accounting Standard for Fair Value Measurement and paragraph 44-2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019), the Company will prospectively apply the new accounting policy prescribed by the Accounting Standard for Fair Value Measurement and relevant ASBJ regulations. This had no impact on the consolidated financial statements.

Furthermore, in the Notes on Financial Instruments, the Company has opted to provide notes on matters related to the breakdown, etc. for each level of fair value for financial instruments.

[Notes on revenue recognition]

1. Information on disaggregated revenue arising from contracts with customers

(Millions of yen)

Net sales by region	Fiscal year 2021
Japan	173,232
United States	82,648
China	188,522
Asia (excluding China)	130,668
Europe	122,282
Other	30,042
Total net sales	727,397

Note: There is no revenue other than from the automatic control equipment business.

2. Basic information for understanding revenue

(1) Information on calculating transaction prices

The amount of revenue recorded consists of the consideration promised in the agreement with the customer, from which returns, discounts, rebates and other items have been deducted. For returns and discounts, predictions of the amounts that could occur are based on past experience, and rebates are calculated by assuming a fixed percentage will be rebated, based on the contract.

(2) Information on the point at which performance obligations are fulfilled

The Group sells automatic control equipment, including pneumatic instruments, to customers. Since these products do not require time for delivery inspection by the customer, control of the products is deemed to be transferred to the customer at the point at which the product is shipped or delivered, at which point revenue is recognized.

[Notes on accounting estimates]

Of the accounting estimates made in preparing the consolidated financial statements for the current fiscal year, those with a risk of having a material impact on the consolidated financial statements for the following fiscal year have not been identified, and are therefore omitted from this report.

[Notes on Consolidated Balance Sheet]

(Millions of yen)

1. Accumulated depreciation of property, plant and equipment	258,340
2. For non-consolidated subsidiaries and affiliates	
Investment securities (stocks)	14,863

[Notes on Consolidated Statements of Income]

(Millions of yen)

1. Principal items under selling, general and administrative expenses

Salaries and allowances	47,149
Bonuses	12,053
Retirement benefit expenses	1,432
Provision of allowance for doubtful accounts	384

2. Research and development expenses included under general and administrative expenses as well as manufacturing costs	23,457

[Notes on Consolidated Statement of Changes in Equity]

1. Type and number of outstanding shares and treasury shares

(Shares)

	Type	At the beginning of current fiscal year	Increase	Decrease	At the end of current fiscal year
Outstanding shares	Common share	67,369,359	–	–	67,369,359
Treasury shares	Common share	1,294,348	735,065	400	2,029,013

Note: Of the increase in treasury shares of 735,065 shares, 734,700 shares were purchased following a resolution by the Board of Directors for the purchase of treasury shares, and 365 shares were the result of purchasing shares from trading lots of less than one unit. The 400 share decrease in treasury shares was a result of shares being granted by the Board Benefit Trust for officers as part of the stock compensation plan for directors.

2. Dividends

(1) Dividend amount

Resolved at	Type	Total dividend amount	Dividend per share	Record date	Effective date
Annual General Meeting of Shareholders held on June 29, 2021	Common share	¥19,823 million	¥300	March 31, 2021	June 30, 2021
Board of Directors' Meeting held on November 12, 2021	Common share	¥19,823 million	¥300	September 30, 2021	December 1, 2021

Note: The "Total dividend amount" includes a dividend of ¥0 million for the Company's shares held by the "Board Benefit Trust".

(2) Dividends whose record date is within the term and effective date in the succeeding term

The following is to be proposed at the Annual General Meeting of Shareholders scheduled to be held on June 29, 2022.

Type	Source	Total dividend amount	Dividend per share	Record date	Effective date
Common share	Retained earnings	¥29,404 million	¥450	March 31, 2022	June 30, 2022

Note: The "Total dividend amount" includes a dividend of ¥1 million for the Company's shares held by the "Board Benefit Trust".

[Notes on financial instruments]

1. Status of financial instruments

(1) Policy on financial instruments

The Group procures fund through self-financing and external sources mainly in the form of loans from financial institutions including banks.

The Company invests temporary surplus funds in financial instruments with high levels of safety while its consolidated subsidiaries are prohibited from investing such funds in securities in principle and instead, are limited to invest in short-term bank deposits, etc.

We limit the derivative transactions within the range of actual demand and do not make speculative transactions, based on internal rules.

(2) Contents and risk of financial instruments

Notes and accounts receivable-trade, which are trade receivables, are subject to the credit risk of customers. Foreign currency denominated notes and accounts receivable-trade are also subject to the risk of exchange rate fluctuations.

Securities and investment securities, which consist mainly of stocks of companies that have business relationships with the Company, government bonds, and securities investment trusts, are subject to market price volatility risk and other risks.

Notes and accounts payable-trade, which are trade payables, have a due date of one year or less. Foreign currency denominated notes and trade payables drawn for imports of raw materials, etc. are subject to the risk of exchange rate fluctuations.

Short-term borrowings are mainly fund procurement for general purpose working capital. Long-term borrowings are used mainly to fund capital investments.

(3) Risk management system for financial instruments

(i) Credit risk management (risk relating to contract default by customers)

Regarding credit risk management for trade receivables, we manage the due date and balance of receivables by customer, and have established a system in which we collect customers' credit status information on a daily basis. As part of this system, we perform risk assessment regularly to ensure receivables are protected. Furthermore, the Company receives guarantee deposits from its principal distribution agents.

(ii) Market risk management (risk of fluctuations in exchange rates and interest rates)

For foreign currency denominated trade receivables and trade payables, the Company and some of its consolidated subsidiaries may engage in foreign exchange forward contract transactions when required. The balance of foreign currency denominated trade payables is constantly within the balance of foreign currency denominated trade receivables.

We regularly keep track of the fair values and financial conditions of the issuers of securities and investment securities.

(iii) Liquidity risk management relating to financing (risk of inability to repay on the due date)

We manage liquidity risk by methods such as creating a cash flow plan.

(4) Supplementary explanation on matters relating to fair value of financial instruments and others

Methods of calculating fair values of financial instruments include market price based values and deemed market price values that are reasonably assessed when there are no market prices. Since certain assumptions and others are adopted for calculating such values, they may differ when adopting different assumptions and others.

2. Fair value of financial instruments and others

The following are the consolidated balance sheet amounts, fair values and their differences.

(Millions of yen)

	Consolidated balance sheet amount	Fair value	Difference
Securities and investment securities			
(i) Securities held to maturity	950	898	(51)
(ii) Available-for-sale securities	55,078	55,078	–
Total assets	56,028	55,977	(51)

(*1) Notes on cash are omitted. Presentation of deposits, notes and accounts receivable-trade, notes and accounts payable-trade, and short-term borrowings has been omitted because they are settled in a short period of time and their fair value approximates their book value.

(*2) Stocks, etc. for which a market prices not available are not included in "Securities and investment securities". The following are the consolidated balance sheet amounts for these financial instruments.

Category	Consolidated balance sheet amount
Shares of subsidiaries and affiliates	¥14,863 million
Unlisted stocks	¥78 million

3. Breakdown etc. for each level of fair value for financial instruments

Fair value for financial instruments is categorized into one of the following three levels, depending on the observability and significance of inputs used in the calculation of fair value.

Level 1 fair value:	Fair value calculations with observable inputs, in which fair value is calculated using quoted prices formed in an active market for the assets or liabilities that are the subject of the fair value calculation.
Level 2 fair value:	Fair value calculations with observable inputs, in which fair value is calculated using inputs other than those used as inputs in Level 1.
Level 3 fair value:	Fair values calculated using unobservable inputs.

In cases where multiple inputs with a significant impact on the calculation of fair value are used, the fair value is categorized to the level, among those to which the various inputs belong, that has the lowest priority in the fair value calculation.

(1) Financial instruments recorded on the consolidated balance sheet at fair value

(Millions of yen)

Category	Fair value			
	Level 1	Level 2	Level 3	Total
Securities and investment securities				
Available-for-sale securities				
Stocks	14,565	–	–	14,565
Bonds	30,521	–	–	30,521
Other	9,991	–	–	9,991
Total assets	55,078	–	–	55,078

(2) Financial instruments other than financial instruments recorded on the consolidated balance sheet at fair value

(Millions of yen)

Category	Fair value			
	Level 1	Level 2	Level 3	Total
Securities and investment securities				
Securities held to maturity				
Corporate bonds	–	898	–	898
Total assets	–	898	–	898

Note: Explanation of valuation techniques and inputs used for fair value calculations.

Securities and investment securities

Listed stocks, government bonds and corporate bonds are valued using quoted market prices. Since listed stocks and government bonds are traded in active markets, their fair values are classified as at Level 1. However, corporate bonds held by consolidated subsidiaries are classified at Level 2 because their trade frequency in the market is low and their fair value is not considered to be their quoted market price in an active market.

[Notes on per share information]

1. Net assets per share: 23,808.08 yen

2. Net income per share: 2,923.76 yen

Note: In the Consolidated Statement of Changes in Equity and the Notes to Consolidated Financial Statements, amounts are rounded down to match the unit in which they are presented.

Non-consolidated Statement of Changes in Equity

(April 1, 2021 to March 31, 2022)

(Millions of yen)

	Shareholders' equity							
	Share capital	Capital surplus			Retained earnings			
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings		
						Reserve for special depreciation	Reserve for tax purpose reduction entry of assets	General reserve
Net assets at beginning of period	61,005	72,576	694	73,271	15,251	159	263	150,250
Cumulative effects of changes in accounting policies								
Restated balance	61,005	72,576	694	73,271	15,251	159	263	150,250
Changes during period								
Provision of reserve for special depreciation						29		
Reversal of reserve for special depreciation						(25)		
Reversal of reserve for tax purpose reduction entry of assets							(12)	
Dividends of surplus								
Profit								
Purchase of treasury shares								
Disposal of treasury shares								
Net changes in items other than shareholders' equity								
Total changes during period	–	–	–	–	–	3	(12)	–
Net assets at end of period	61,005	72,576	694	73,271	15,251	162	251	150,250

(Millions of yen)

	Shareholders' equity				Valuation and translation adjustments		Total net assets
	Retained earnings		Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
	Other retained earnings: Retained earnings brought forward	Total retained earnings					
Net assets at beginning of period	724,608	890,533	(59,139)	965,670	10,976	10,976	976,647
Cumulative effects of changes in accounting policies	(50)	(50)		(50)			(50)
Restated balance	724,557	890,482	(59,139)	965,619	10,976	10,976	976,596
Changes during period							
Provision of reserve for special depreciation	(29)	–		–			–
Reversal of reserve for special depreciation	25	–		–			–
Reversal of reserve for tax purpose reduction entry of assets	12	–		–			–
Dividends of surplus	(39,646)	(39,646)		(39,646)			(39,646)
Profit	130,658	130,658		130,658			130,658
Purchase of treasury shares			(50,020)	(50,020)			(50,020)
Disposal of treasury shares			23	23			23
Net changes in items other than shareholders' equity					(259)	(259)	(259)
Total changes during period	91,020	91,011	(49,997)	41,014	(259)	(259)	40,755
Net assets at end of period	815,578	981,494	(109,136)	1,006,634	10,717	10,717	1,017,351

Notes to Non-consolidated Financial Statements

[Notes on significant matters pertaining to accounting policies]

1. Standards and methods for valuation of securities

(1) Shares of subsidiaries and affiliates: Stated at cost using the moving average method.

(2) Available-for-sale securities

(i) Stocks other than those for which a market price is not available: stated at fair value method. (All unrealized holding gains and losses are included in net assets and cost of sales is principally calculated with the moving average method).

(ii) Stocks for which a market price is not available: stated at cost using the moving average method.

2. Valuation standards and methods for inventories

Principally stated at cost using the gross average method (with book value written down on the balance sheet based on decreased profitability of assets).

3. Depreciation methods of non-current assets

(1) Property, plant and equipment (excluding leased assets)

In accordance with the declining balance method.

However, buildings acquired on and after April 1, 1998 (excluding facilities attached to buildings) and facilities attached to buildings and structures acquired on and after April 1, 2016 are in accordance with the straight-line method.

Primary useful periods are as described below.

Buildings and structures: 3-50 years

Machinery, equipment and vehicles: 2-17 years

Tools, furniture and fixtures: 2-20 years

(2) Intangible assets (excluding leased assets)

In accordance with the straight-line method.

Internal-use software is amortized on a straight-line basis over the useful life period (5 years) specified by the Company.

4. Basis for allowances and provisions

(1) Allowance for doubtful accounts

An allowance is provided for possible loan losses upon assessing the amount deemed irrecoverable by applying the historical bad-debt ratio for general claims and by individually estimating such amount for specific doubtful claims.

(2) Provision for retirement benefits

A reserve is provided for employee retirement benefits based on the projected amount of retirement benefit obligations and pension plan assets in the fiscal year. For the calculation of retirement benefit obligations, the retirement benefit formula is used to attribute expected retirement benefits to the period until the current fiscal year.

Prior service cost is amortized on a straight-line basis over certain years (10 years) within the average remaining service periods at the time of recognition.

Actuarial net gain or loss is recognized on a straight-line basis over certain years (10 years) within the average remaining service periods at the time of recognition of each fiscal year, starting from the succeeding period.

(3) Provision for share awards for directors

For the purpose of preparing for share benefits as remuneration to Directors, projected amount of share benefits at the end of the current business year is recorded.

5. Accounting policy for recognition of significant revenues and expenses

(1) Contents of main performance obligations in major businesses

The Company is engaged in the manufacturing and sale of automatic control equipment, including pneumatic instruments, that is essential for automated, labor-saving operations in various industry sectors, and is under the obligation to deliver products to customers in accordance with sales agreements, etc.

(2) At the usual point at which the Company fulfills its performance obligation (at the usual point at which it recognizes revenue)

The Company sells automatic control equipment, including pneumatic instruments, to customers. We deem control over these products to be transferred to the customer at the point at which the product is shipped or delivered, at which point we recognize the revenue.

6. Other significant matters constituting the basis for preparing the Financial Statements

Accounting procedures for retirement benefits

The accounting procedures for unrecognized actuarial net gains or losses and unrecognized prior service costs related to retirement benefits are different from those adopted to prepare the consolidated financial statements.

[Notes on changes in accounting policy]

1. Application of the Accounting Standard for Revenue Recognition

The Group began applying the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020; hereinafter “the Accounting Standard for Revenue Recognition”) at the beginning of the fiscal year under review, such that at the point at which control of the promised good or service is transferred to the customer, the Company recognizes revenue equivalent to the amount it expects to receive in return for said good or service.

The amount of revenue recorded consists of the consideration promised in the agreement with the customer, from which returns, discounts, rebates and other items have been deducted.

The revenue recognition standard has been applied in accordance with the transitional measures set forth in the proviso to paragraph 84 of the revenue recognition standard, under which the cumulative effect of the retrospective application, assuming that the new accounting policy had been applied to periods prior to the beginning of the fiscal year under review, was added to or deducted from the opening balance of retained earnings brought forward at the beginning of the fiscal year, and thus the new accounting policy was applied from this opening balance. However, due to the application of the methods provided for in paragraph 86 of the Accounting Standard for Revenue Recognition, the new accounting policy was not retrospectively applied to contracts for which nearly all the revenue amounts had been recognized according to the previous treatment in periods prior to the beginning of the fiscal year under review.

In addition, some of the sales promotion expenses that were previously recorded in selling, general and administrative expenses, and sales discounts that were previously recorded in non-operating expenses, are now deducted from net sales.

As a result, the impact on the non-consolidated financial statements of the application of the Accounting Standard for Revenue Recognition was negligible.

2. Application of the Accounting Standard for Fair Value Measurement, etc.

The Company began applying the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019; hereinafter "the Accounting Standard for Fair Value Measurement") and relevant ASBJ regulations at the beginning of the current fiscal year. Furthermore, in accordance with the transitional treatment set forth in paragraph 19 of the Accounting Standard for Fair Value Measurement and paragraph 44-2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019), the Company will prospectively apply the new accounting policy prescribed by the Accounting Standard for Fair Value Measurement and relevant ASBJ regulations. This had no impact on the non-consolidated financial statements.

[Notes on revenue recognition]

Basic information for understanding revenue

Notes on revenue recognition have been omitted because the same information is presented in "Notes on revenue recognition" for the consolidated financial statements.

[Notes on accounting estimates]

Of the accounting estimates made in preparing the financial statements for the current fiscal year, those with a risk of having a material impact on the financial statements for the following fiscal year have not been identified, and are therefore omitted from this report.

[Notes on Balance Sheet]

(Millions of yen)

1. Accumulated depreciation of property, plant and equipment	128,403
2. Receivables and payables in relation to subsidiaries and affiliates	
Short-term receivables	103,749
Short-term payables	20,672

[Notes on Statements of Income]

Transactions with subsidiaries and affiliates (Millions of yen)

Net sales	336,761
Purchase amount	81,173
Selling, general and administrative expenses	2,546
Non-operating transaction amount	15,194

[Notes on Non-consolidated Statement of Changes in Equity]

Type and number of treasury shares (Shares)

	Type	At the end of previous fiscal year	Increase	Decrease	At the end of current fiscal year
Treasury shares	Common share	1,294,348	735,065	400	2,029,013

Note: Of the increase in treasury shares of 735,065 shares, 734,700 shares were purchased following a resolution by the Board of Directors for the purchase of treasury shares, and 365 shares were the result of purchasing shares from trading lots of less than one unit. The 400 share decrease in treasury shares was a result of shares being granted by the Board Benefit Trust for officers as part of the stock compensation plan for directors.

[Notes on tax effect accounting]

Significant components of deferred tax assets and deferred tax liabilities

(Millions of yen)

	The 63rd fiscal year (As of March 31, 2022)
Deferred tax assets	
Loss on valuation of investment securities	580
Loss on valuation of inventories	6,322
One-time depreciable assets	102
Loss on valuation of shares of subsidiaries and affiliates	390
Allowance for doubtful accounts	71
Accounts payable other	142
Accrued enterprise taxes, accrued business office taxes	1,761
Accrued expenses	2,848
Provision for retirement benefits	1,293
Provision for share awards for directors	19
Asset retirement obligations	61
Valuation difference on available-for-sale securities	6
Other	200
Total deferred tax assets	13,801
Deferred tax liabilities	
Asset retirement obligations	(1)
Prepaid pension costs	(1,446)
Reserve for special depreciation	(71)
Reserve for tax purpose reduction entry of assets	(111)
Valuation difference on available-for-sale securities	(4,736)
Other	(1)
Total deferred tax liabilities	(6,368)
Net deferred tax assets	7,433

[Notes on transactions with related parties]

1. Subsidiaries and affiliates

(Millions of yen)

Type	Name	Percentage of voting rights	Relationship	Transaction	Amount	Account title	Balance at end of period
Subsidiary	SMC (China) Co., Ltd.	(Indirect) 100.0%	Distributor of the Company's products and supplier	Sales of the Company's product (*1)	100,054	Accounts receivable-trade	25,099
Subsidiary	SMC Corporation of America	(Direct) 100.0%	Distributor of the Company's products and supplier	Sales of the Company's product (*1)	49,487	Accounts receivable-trade	12,345

Transaction conditions and policies on determining such conditions

(*1) The sales price of the Company's products is determined in consideration of the prevailing market price.

2. Director and individual major shareholders, etc.

(Millions of yen)

Type	Name	Percentage of voting rights	Relationship	Transaction	Amount	Account title	Balance at end of period
Companies, etc. in which the majority of voting rights are owned by a Director or his/her close relatives	SMAC Corporation (Note)	None	Supplier of raw materials	Purchase of raw materials (*1)	1,491	Accounts payable-trade	73
				Loan of machinery and equipment (*1)	–	Machinery, equipment and vehicles, other	0
				Rental of warehouses (*1)	–	Investments and other asset, other (leasehold and guarantee deposits)	70

Note: Samuel Neff, Director and Executive Officer of the Company, and his close relatives own 99.7% of the total voting rights.

Transaction conditions and policies on determining such conditions

(*1) The Company outsources the production of raw materials (tubes) to SMAC Corporation ("SMAC"). The purchase price of tubes is determined through negotiations, and machinery and equipment are lent to free of charge.

The rent fee for the warehouse that the Company rents from SMAC for storage of tubes is negotiated and set according to the amount of purchase, and is included in the purchase price of tubes.

Furthermore, purchase transactions with SMAC were terminated on March 31, 2022.

[Notes on per share information]

1. Net assets per share: 15,570.04 yen

2. Net income per share: 1,979.43 yen

Note: In the Non-consolidated Statement of Changes in Equity and the Notes to Non-consolidated Financial Statements, amounts are rounded down to match the unit in which they are presented.