

Financial Information

1. Basis of preparing consolidated financial statements and non-consolidated financial statements

- (1) Nippon Carbon Co., Ltd. (the “Company”) prepares its consolidated financial statements in accordance with the Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (Ministry of Finance Order No. 28 of 1976).
- (2) The Company prepares its non-consolidated financial statements in accordance with the Regulation on Terminology, Forms, and Preparation Methods of Financial Statements (Ministry of Finance Order No. 59 of 1963; the “Regulation on Financial Statements”).
Furthermore, the Company is a special company submitting financial statements, and prepares its non-consolidated financial statements pursuant to the provisions of Article 127 of the Regulation on Financial Statements.

2. Independent audit

The Company’s consolidated and non-consolidated financial statements for the fiscal year ended December 31, 2021 (from January 1, 2021 to December 31, 2021) were audited by Deloitte Touche Tohmatsu LLC, pursuant to the provisions of Article 193-2, paragraph (1) of the Financial Instruments and Exchange Act.

3. Extra measures to ensure fair presentation of consolidated financial statements and other information

The Company takes extra measures to ensure fair presentation of consolidated financial statements and other information. Specifically, the Company strives to understand and properly address changes in accounting systems and details of accounting standards by maintaining membership in the Financial Accounting Standards Foundation, attending seminars held by audit firms and other external organizations, subscribing to accounting magazines, and other means.

1. Consolidated Financial Statements and Other Information

(1) Consolidated Financial Statements

(i) Consolidated Balance Sheets

(Millions of yen)

	As of December 31, 2020	As of December 31, 2021
Assets		
Current assets		
Cash and deposits	14,600	17,865
Notes and accounts receivable - trade	*3 9,228	*3 11,592
Merchandise and finished goods	9,366	7,896
Work in process	4,524	4,595
Raw materials and supplies	3,469	2,886
Income taxes receivable	1,350	-
Other	509	585
Allowance for doubtful accounts	(20)	(22)
Total current assets	43,028	45,399
Non-current assets		
Property, plant and equipment		
Buildings and structures	17,227	17,407
Accumulated depreciation and impairment	(9,806)	(10,230)
Buildings and structures, net	7,420	7,177
Machinery and equipment	45,516	47,249
Accumulated depreciation and impairment	(37,778)	(39,053)
Machinery and equipment, net	7,737	8,195
Vehicles, tools, furniture and fixtures	3,293	3,392
Accumulated depreciation and impairment	(2,810)	(2,927)
Vehicles, tools, furniture and fixtures, net	483	464
Land	3,524	3,544
Construction in progress	968	132
Total property, plant and equipment	*2 20,135	*2 19,515
Intangible assets	198	264
Investments and other assets		
Investment securities	*1 5,026	*1 5,172
Deferred tax assets	334	378
Other	*1 2,209	*1 1,964
Allowance for doubtful accounts	(2)	(2)
Total investments and other assets	7,567	7,513
Total non-current assets	27,902	27,292
Total assets	70,930	72,692

(Millions of yen)

	As of December 31, 2020	As of December 31, 2021
Liabilities		
Current liabilities		
Notes and accounts payable - trade	*3 3,321	*3 3,900
Short-term borrowings	*2 9,425	*2 9,180
Accrued expenses	587	516
Income taxes payable	466	1,038
Provision for bonuses	146	208
Provision for bonuses for directors (and other officers)	43	59
Provision for loss on order received	13	–
Provision for plant relocation related expense	159	–
Other	*3 1,418	*3 2,123
Total current liabilities	15,580	17,027
Non-current liabilities		
Long-term borrowings	2,562	1,387
Deferred tax liabilities	422	633
Retirement benefit liability	771	776
Provision for retirement benefits for directors (and other officers)	52	55
Provision for share awards for directors (and other officers)	70	89
Provision for environmental measures	28	28
Asset retirement obligations	62	62
Other	380	373
Total non-current liabilities	4,351	3,407
Total liabilities	19,931	20,434
Net assets		
Shareholders' equity		
Share capital	7,402	7,402
Capital surplus	7,857	7,857
Retained earnings	29,287	29,805
Treasury shares	(1,913)	(2,011)
Total shareholders' equity	42,634	43,054
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,542	1,868
Foreign currency translation adjustment	53	124
Remeasurements of defined benefit plans	(84)	(59)
Total accumulated other comprehensive income	1,511	1,932
Non-controlling interests	6,852	7,270
Total net assets	50,998	52,257
Total liabilities and net assets	70,930	72,692

(ii) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income
Consolidated Statements of Income

(Millions of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Net sales	26,802	31,578
Cost of sales	*2 19,673	*2 23,539
Gross profit	7,129	8,038
Selling, general and administrative expenses	*1, *2 4,113	*1, *2 4,332
Operating profit	3,015	3,706
Non-operating income		
Interest income	1	4
Dividend income	119	99
Foreign exchange gains	31	146
Share of profit of entities accounted for using equity method	–	42
Subsidy income	2	2
Compensation income	150	366
Insurance claim income	796	208
Other	72	221
Total non-operating income	1,174	1,092
Non-operating expenses		
Interest expenses	68	61
Loss on retirement of non-current assets	181	20
Share of loss of entities accounted for using equity method	113	–
Depreciation of inactive non-current assets	148	149
Loss on disaster	48	59
Other	42	72
Total non-operating expenses	602	363
Ordinary profit	3,587	4,434
Extraordinary income		
Gain on sale of investment securities	62	179
Total extraordinary income	62	179
Extraordinary losses		
Loss on fire	*3 249	*3 97
Plant relocation related expense	*4 139	*4 84
Total extraordinary losses	389	182
Profit before income taxes	3,260	4,431
Income taxes - current	797	1,362
Income taxes - deferred	182	7
Total income taxes	980	1,370
Profit	2,280	3,060
Profit attributable to non-controlling interests	469	331
Profit attributable to owners of parent	1,810	2,729

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Profit	2,280	3,060
Other comprehensive income		
Valuation difference on available-for-sale securities	(590)	332
Foreign currency translation adjustment	9	114
Remeasurements of defined benefit plans, net of tax	(17)	24
Total other comprehensive income	*	*
Total other comprehensive income	(599)	471
Comprehensive income	1,681	3,532
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,209	3,157
Comprehensive income attributable to non-controlling interests	471	375

(iii) Consolidated Statements of Changes in Equity

Fiscal year ended December 31, 2020

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	7,402	7,857	29,689	(1,921)	43,028
Changes during period					
Dividends of surplus			(2,212)		(2,212)
Profit attributable to owners of parent			1,810		1,810
Purchase of treasury shares				(2)	(2)
Disposal of treasury shares				11	11
Net changes in items other than shareholders' equity					-
Total changes during period	-	-	(402)	8	(393)
Balance at end of period	7,402	7,857	29,287	(1,913)	42,634

	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		
Balance at beginning of period	2,129	49	(66)	2,112	6,513	51,654
Changes during period						
Dividends of surplus				-		(2,212)
Profit attributable to owners of parent				-		1,810
Purchase of treasury shares				-		(2)
Disposal of treasury shares				-		11
Net changes in items other than shareholders' equity	(587)	3	(17)	(601)	339	(261)
Total changes during period	(587)	3	(17)	(601)	339	(655)
Balance at end of period	1,542	53	(84)	1,511	6,852	50,998

Fiscal year ended December 31, 2021

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	7,402	7,857	29,287	(1,913)	42,634
Changes during period					
Dividends of surplus			(2,211)		(2,211)
Profit attributable to owners of parent			2,729		2,729
Purchase of treasury shares				(98)	(98)
Net changes in items other than shareholders' equity					-
Total changes during period	-	-	518	(98)	419
Balance at end of period	7,402	7,857	29,805	(2,011)	43,054

	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		
Balance at beginning of period	1,542	53	(84)	1,511	6,852	50,998
Changes during period						
Dividends of surplus				-		(2,211)
Profit attributable to owners of parent				-		2,729
Purchase of treasury shares				-		(98)
Net changes in items other than shareholders' equity	325	71	24	421	417	839
Total changes during period	325	71	24	421	417	1,259
Balance at end of period	1,868	124	(59)	1,932	7,270	52,257

(iv) Consolidated Statements of Cash Flows

(Millions of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Cash flows from operating activities		
Profit before income taxes	3,260	4,431
Depreciation	2,193	2,385
Increase (decrease) in retirement benefit liability	(12)	29
Increase (decrease) in provision for retirement benefits for directors (and other officers)	9	2
Increase (decrease) in provision for plant relocation related expense	(158)	(159)
Interest and dividend income	(119)	(103)
Insurance claim income	(796)	(208)
Compensation income	(150)	(366)
Interest expenses	68	61
Share of loss (profit) of entities accounted for using equity method	113	(42)
Loss (gain) on sale of investment securities	(62)	(179)
Loss on fire	249	97
Loss on retirement of non-current assets	181	20
Decrease (increase) in trade receivables	4,786	(2,302)
Decrease (increase) in inventories	849	2,050
Increase (decrease) in trade payables	(2,500)	535
Increase (decrease) in accrued expenses	(627)	(71)
Increase (decrease) in accounts payable - other	(85)	(19)
Decrease (increase) in accounts receivable - other	53	(90)
Other, net	(750)	362
Subtotal	6,500	6,434
Interest and dividends received	120	103
Interest paid	(68)	(59)
Income taxes refund	21	1,340
Income taxes paid	(3,667)	(842)
Proceeds from insurance income	796	208
Proceeds from compensation	150	366
Net cash provided by (used in) operating activities	3,853	7,551
Cash flows from investing activities		
Purchase of property, plant and equipment	(4,763)	(1,528)
Purchase of intangible assets	(110)	(117)
Purchase of investment securities	(5)	(6)
Proceeds from sale of investment securities	163	544
Decrease (increase) in time deposits	-	500
Other, net	(0)	-
Net cash provided by (used in) investing activities	(4,716)	(608)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	1,000	(250)
Proceeds from long-term borrowings	200	100
Repayments of long-term borrowings	(1,240)	(1,270)
Net decrease (increase) in treasury shares	(2)	(98)
Dividends paid	(2,214)	(2,206)
Dividends paid to non-controlling interests	(132)	(37)
Net cash provided by (used in) financing activities	(2,389)	(3,762)
Effect of exchange rate change on cash and cash equivalents	1	84
Net increase (decrease) in cash and cash equivalents	(3,251)	3,264
Cash and cash equivalents at beginning of period	17,707	14,455
Cash and cash equivalents at end of period	*	*
	14,455	17,720

Notes to Consolidated Financial Statements

Basis of Preparation of Consolidated Financial Statements

1. Scope of consolidation

The Company has nine consolidated subsidiaries, namely Nippon Techno-Carbon Co., Ltd., Nippon Carbon Engineering Co., Ltd., NGS Advanced Fibers Co., Ltd., NTC Machining Co., Ltd., Central Carbon Co., Ltd., Nikka-en Co., Ltd., Nippon Carbon Europe GmbH, NIPPON CARBON OF AMERICA, LLC, and Nippon Carbon Shanghai Co., Ltd.

The Company's subsidiary STS Co., Ltd. is excluded from the scope of consolidation, because it is small in scale and the aggregate amounts of its total assets, net sales, profit or loss (the Company's share), and retained earnings (the Company's share) do not have a material impact on the Company's consolidated financial statements.

2. Application of equity method

Number of associates accounted for using equity method: one company

Nippon Kornmeyer Carbon Group GmbH is accounted for using the equity method.

The non-consolidated subsidiary as well as the Company's associate Toho Tanso Kogyo Co., Ltd. are not accounted for using the equity method, because their exclusion from the scope of equity method application has a minimal impact on the Company's consolidated financial statements and they are immaterial given their profit or loss (the Company's share) and retained earnings (the Company's share).

3. Fiscal year of consolidated subsidiaries

All consolidated subsidiaries have the same fiscal year as the consolidated fiscal year.

4. Accounting policies

(1) Valuation basis and methods for significant assets

(i) Inventories

Generally stated at cost, determined by the periodic average method (carrying amounts calculated with consideration of write-downs due to decreased profitability).

(ii) Securities

Available-for-sale securities

Securities with market value

Stated at fair value based on the market price on the consolidated balance sheet date.

(Valuation differences are booked directly in a separate component of net assets, and cost of securities sold is determined by the moving average method)

Securities without market value

Stated at cost determined by the moving average method

(iii) Net receivables and payables arising from derivatives

Stated at fair value.

(2) Accounting methods for depreciation of significant depreciable assets

(i) Property, plant and equipment

The Company and its domestic consolidated subsidiaries Nippon Carbon Engineering Co., Ltd., NGS Advanced Fibers Co., Ltd., and Nikka-en Co., Ltd. use the straight-line method. Domestic consolidated subsidiaries Nippon Techno-Carbon Co., Ltd. and NTC Machining Co., Ltd. use the straight-line method for buildings and structures and the declining balance method for other depreciable assets. Overseas consolidated subsidiaries Central Carbon Co., Ltd., Nippon Carbon Europe GmbH, NIPPON CARBON OF AMERICA, LLC, and Nippon Carbon Shanghai Co., Ltd. use the straight-line method. Major useful lives are as follows:

Buildings and structures: 17 to 50 years

Machinery and equipment: 9 years

- (ii) Intangible assets
 - Software (for internal use)
For amortization of software, the straight-line method based on the estimated internal use period (five years) is applied.

- (3) Accounting policy for significant provisions
 - (i) Allowance for doubtful accounts
 - To allow for losses on bad debts arising from trade receivables, loans receivable, and other receivables, the Company provides an allowance for the estimated amount of doubtful receivables deemed uncollectible. This allowance is based on historical default rates for general receivables and on an individual analysis of collectability for doubtful receivables and other specific receivables.
 - (ii) Provision for bonuses
 - To allow for payment of bonuses to employees, the Company records a provision for the estimated payment amount to be borne in the fiscal year under review.
 - (iii) Provision for bonuses for directors (and other officers)
 - To allow for payment of bonuses to Directors and other officers, the Company records a provision for the amount corresponding to the fiscal year under review based on estimated payment amounts.
 - (iv) Provision for loss on order received
 - To allow for future losses on contractual orders received, Nippon Carbon Engineering Co., Ltd., the Company's consolidated subsidiary, records a provision for estimated losses that would be incurred in future fiscal years.
 - (v) Provision for retirement benefits for directors (and other officers)
 - To allow for payment of retirement benefits to Directors and other officers, some of the consolidated subsidiaries record a provision for amounts required to be paid as of the end of each fiscal year based on regulations on officer retirement benefits.
 - (vi) Provision for share awards for directors (and other officers)
 - To allow for granting of the Company's shares to Directors and other officers based on regulations for granting of shares to officers, the Company records a provision for the estimated granting amount to be borne as of the end of the fiscal year under review.
 - (vii) Provision for environmental measures
 - To allow for future expenses on treatment of polychlorinated biphenyl (PCB) wastes expected to be incurred pursuant to the Act on Special Measures concerning Promotion of Proper Treatment of PCB Wastes, the Company and its consolidated subsidiary Nippon Techno-Carbon Co., Ltd. record provisions for estimated amounts required.

- (4) Accounting methods for retirement benefits
 - (i) Method of attributing expected retirement benefits to periods
 - In the calculation of retirement benefit obligations, expected retirement benefits are attributed to the period up to the end of the current fiscal year on a benefit formula basis.
 - (ii) Method of amortizing actuarial gains and losses and past service cost
 - Past service cost is primarily amortized using the straight-line method over a certain period (13 years) that is shorter than the average remaining years of service of employees at the time of incurring the cost.
 - Actuarial gains and losses are primarily amortized using the straight-line method over a certain period (10 years) that is shorter than the average remaining years of service of employees at the time of accruing the gain or loss in each fiscal year, from the fiscal year following the accrual of each gain or loss.
 - Unrecognized actuarial gains and losses and unrecognized past service cost are recorded as remeasurements of defined benefit plans in accumulated other comprehensive income under net assets,

after adjusting for tax effects.

(iii) Application of simplified accounting method used by consolidated subsidiaries

The Company's consolidated subsidiaries use the simplified accounting method in calculating retirement benefit liability and retirement benefit expenses.

(5) Accounting policy for translation of significant foreign currency assets and liabilities into Japanese yen

Monetary receivables and payables in foreign currencies are translated into Japanese yen at the spot exchange rate prevailing as of the consolidated balance sheet date, and translation differences are accounted for as profit or loss. Assets, liabilities, income, and expenses of overseas subsidiaries are translated into Japanese yen at the spot exchange rate prevailing as of the consolidated balance sheet date, and translation differences are included in foreign currency translation adjustment and non-controlling interests under net assets.

(6) Significant hedge accounting methods

(i) Hedge accounting

In principle, the deferral hedge accounting is applied. The exceptional accounting treatment is applied to interest rate swap contracts that meet the requirements for exceptional accounting.

The assignment accounting treatment is applied to forward exchange contracts and currency swap contracts that meet the requirements for assignment accounting.

(ii) Hedged items and hedge instruments

a. Hedge instruments: forward exchange contracts and currency swap contracts

Hedged items: accounts receivable - trade and forecast transactions denominated in foreign currencies

b. Hedge instruments: interest rate swap contracts

Hedged items: Interest on borrowings

(iii) Hedging policies

Pursuant to the Group's internal management regulations, interest rate swap contracts are used for the purpose of hedging the interest rate fluctuation risks on borrowings, and forward exchange contracts and currency swap contracts are used for the purpose of hedging the exchange rate fluctuation risks.

(iv) Assessing hedge effectiveness

If hedge instruments and hedged items have the same material conditions, they are deemed highly effective and thus assessment of hedge effectiveness is omitted. For other hedges, hedge effectiveness is assessed by comparing the accumulated fluctuations in market rates or cash flows of the hedged items and the hedge instruments based on the ratio of those fluctuations.

(7) Scope of cash and cash equivalents in consolidated statement of cash flows

Cash and cash equivalents in consolidated statements of cash flows consist of cash on hand, demand deposits, and short-term investments with a maturity of three months or less from the date of acquisition that are readily convertible into cash and have an insignificant risk of changes in value.

(8) Other significant matters for preparing consolidated financial statements

Accounting for consumption taxes

Transactions are recorded exclusive of consumption taxes and local consumption taxes.

Significant Accounting Estimates

Loss on valuation of inventories

- (1) Carrying amount in the consolidated financial statements for the current fiscal year

	(Millions of yen)
Merchandise and finished goods	7,896
Work in process	4,595
Cost of sales (loss on valuation of inventories)	(62)

Loss on valuation of inventories is stated at a net amount reflecting reversals, with a negative amount indicating a reversal.

- (2) Description of accounting estimates

If the net realizable value of inventories falls below the carrying amount, the carrying amount is reduced to the net realizable value, and the amount of reduction is recorded in cost of sales as a loss on valuation of inventories. In addition, inventories that are no longer in the ordinary process of sales cycle are deemed to be long-term dead stock when a certain period has passed since the fiscal year-end. Valuation of such inventories is reduced to the disposal value, and a corresponding loss is recorded in cost of sales.

Because the Group's products have a relatively long lead time from manufacturing to shipping and some products cannot be readily repurposed after processing, results may be affected by future changes in the market environment and other uncertainties. Accordingly, these estimates may have an impact on consolidated financial statements for future fiscal years.

Accounting Standards Issued But Not Yet Applied

Accounting Standard for Revenue Recognition, etc.

- "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020, Accounting Standards Board of Japan)
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 26, 2021, Accounting Standards Board of Japan)

- (1) Overview

International Accounting Standards Board (IASB) and the U.S. Financial Accounting Standards Board (FASB) jointly developed a comprehensive accounting standard for revenue recognition and issued "Revenue from Contracts with Customers" (IFRS 15 issued by IASB and Topic 606 issued by FASB) in May 2014. Considering the situation that the application of IFRS 15 is effective from the fiscal year beginning on or after January 1, 2018 and the application of Topic 606 is effective from the fiscal year beginning after December 15, 2017, the ASBJ developed a comprehensive accounting standard for revenue recognition and issued it together with its implementation guidance.

The ASBJ's basic policy in developing the accounting standard for revenue recognition was to incorporate the basic principles of IFRS 15 as a starting point to establish the accounting standard, from the viewpoint of comparability between financial statements, which is one of the benefits of consistency with IFRS 15, and to add alternative accounting treatments, but to the extent not impairing comparability, where consideration should be given to practices that have been conducted to date in Japan.

- (2) Scheduled date of application

This accounting standard and related implementation guidances will be applied effective from the beginning of the fiscal year ending December 31, 2022.

- (3) Effects of application of the accounting standards, etc.

The effects of applying the "Accounting Standard for Revenue Recognition," and related implementation guidances on the consolidated financial statements are currently under evaluation.

Accounting Standard for Fair Value Measurement, etc.

- “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019, Accounting Standards Board of Japan)
- “Accounting Standard for Measurement of Inventories” (ASBJ Statement No. 9, July 4, 2019, Accounting Standards Board of Japan)
- “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019, Accounting Standards Board of Japan)
- “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, July 4, 2019, Accounting Standards Board of Japan)
- “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19, March 31, 2020, Accounting Standards Board of Japan)

(1) Overview

In light of the situation in which the International Accounting Standards Board (IASB) and the U.S. Financial Accounting Standards Board (FASB) have established detailed guidance on fair value measurement with almost the same content (IFRS 13 “Fair Value Measurement” in International Financial Reporting Standards (IFRS), and Accounting Standards Codification Topic 820 “Fair Value Measurement” in the US GAAP), the Accounting Standards Board of Japan (ASBJ) worked to ensure consistency of the Japanese GAAP with international accounting standards mainly for guidance and disclosures on fair value of financial instruments and issued the “Accounting Standard for Fair Value Measurement” and relevant ASBJ regulations.

The ASBJ’s basic policy for the development of the accounting standard for fair value measurement is to incorporate, in principle, all the provisions of IFRS 13 from the perspective of increasing comparability of financial statements among companies in Japan and overseas by using the unified measurement method, and to establish other treatments of individual items to the extent that consideration is given to practices that have been conducted to date in Japan and comparability among financial statements is not impaired largely.

(2) Scheduled date of application

This accounting standard and related implementation guidances will be applied effective from the beginning of the fiscal year ending December 31, 2022.

(3) Effects of application of the accounting standard, etc.

The effects of applying the “Accounting Standard for Fair Value Measurement” and relevant ASBJ regulations on the consolidated financial statements are undetermined.

Changes in Presentation

Application of Accounting Standard for Disclosure of Accounting Estimates

The Company has applied the Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31, March 31, 2020) from the consolidated financial statements prepared at the end of the fiscal year ended December 31, 2021, stating notes on significant accounting estimates in the consolidated financial statements. However, information for the previous fiscal year is not included in these notes, in accordance with the transitional treatment provided for in the proviso to paragraph 11 of the said accounting standard.

Additional Information

Board benefit trust (BBT) for Directors

The Company has put in place a board benefit trust (BBT), which is a performance-linked share-based remuneration plan, to incentivize Directors to improve performance and increase corporate value over the medium to long term.

Accounting treatment related to this trust agreement is based on the Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts (PITF No. 30, March 26, 2015).

(1) Overview of the transaction

This plan is a performance-linked share-based remuneration plan, under which the Company's shares are acquired by a trust using funds contributed by the Company, and the Company's shares and cash equivalent to the market value of the Company's shares are provided to Directors and other beneficiaries from the trust in accordance with the regulations for granting of shares to officers established by the Company. In principle, the Company's shares and associated remuneration will be provided to Directors and other beneficiaries on their retirement.

(2) Treasury shares remaining in trust

The shares of the Company remaining in trust are recorded as treasury shares under net assets based on the book value in trust (excluding the amount of incidental costs). As of December 31, 2021, the number of such treasury shares was 60,900 shares, amounting to the book value of 213 million yen. The average number of such shares for the fiscal year ended December 31, 2021 was 55,800 shares. These shares are included in treasury shares to be deducted for calculation of per share information.

Accounting estimates on the impact of the COVID-19 pandemic

The Group makes accounting estimates on impairment of non-current assets, recoverability of deferred tax assets, and other items based on information available as of the preparation of consolidated financial statements. Based on the Group's assessment of the impact of the COVID-19 pandemic on its business, the COVID-19 pandemic has no significant impact on accounting estimates.

Notes to Consolidated Balance Sheets

*1 “Investment securities (shares)” and “Investments in capital of subsidiaries” under “Investments and other assets” invested in unconsolidated subsidiaries and associates are as follows:

(Millions of yen)

	As of December 31, 2020	As of December 31, 2021
Investment securities (shares)	1,126	1,152
Investments in capital of subsidiaries	1	1

Investments in capital of subsidiaries are included in “Other” as investments and other assets.

*2 Assets pledged as collateral and obligations related to collateral
[Pledge]

(Millions of yen)

	As of December 31, 2020	As of December 31, 2021
Property, plant and equipment	6,208	6,848

[Obligations]

(Millions of yen)

	As of December 31, 2020	As of December 31, 2021
Short-term borrowings	2,710	2,710

*3 Notes matured at the end of the fiscal year

Notes are settled as of the note exchange date. The following notes matured at the end of the fiscal year were included in the closing balance, because December 31, 2021 was a non-business day for financial institutions.

(Millions of yen)

	As of December 31, 2020	As of December 31, 2021
Notes receivable - trade	152	103
Notes payable - trade	117	62
Notes payable - facilities	31	24

Notes to Consolidated Statements of Income

*1 Of these, major expenses and amounts are as follows:

(Millions of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Salaries, bonuses and allowances	1,072	949
Sales commission	282	233
Freight-out and packing cost	686	958
Provision for retirement benefits for directors (and other officers)	13	18
Retirement benefit expenses	57	56
Provision for share awards for directors (and other officers)	14	19
Provision for bonuses	4	78
Provision for bonuses for directors (and other officers)	35	59
Research and development expenses	360	297

*2 Research and development expenses included in general and administrative expenses and manufacturing costs for period are as follows:

(Millions of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
	406	368

*3 Loss on fire

Fiscal year ended December 31, 2020

This is the cost of restoring production facilities damaged in fire at the Company's Toyama Plant in January 2020.

Fiscal year ended December 31, 2021

This is the cost of restoring production facilities damaged in fire at the Company's Shiga Plant in September 2021.

*4 Plant relocation related expense

Fiscal year ended December 31, 2020

The Company has recorded an estimated cost of relocating facilities at the Yamanashi Plant to the Toyama Plant to improve productivity.

Fiscal year ended December 31, 2021

The Company has recorded the cost of relocating facilities at the Yamanashi Plant to the Toyama Plant to improve productivity.

Notes to Consolidated Statements of Comprehensive Income

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

(Millions of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Valuation difference on available-for-sale securities		
Gains or losses arising during the year	(803)	659
Reclassification adjustments to profit or loss	(48)	(179)
Amount before income tax effect	(852)	479
Income tax effect	261	(146)
Valuation difference on available-for-sale securities	(590)	332
Foreign currency translation adjustment		
Gains or losses arising during the year	9	114
Remeasurements of defined benefit plans, net of tax		
Gains or losses arising during the year	(43)	14
Reclassification adjustments to profit or loss	18	20
Amount before income tax effect	(25)	34
Income tax effect	7	(10)
Remeasurements of defined benefit plans, net of tax	(17)	24
Total other comprehensive income	(599)	471

Notes to Consolidated Statements of Changes in Equity

Fiscal year ended December 31, 2020

1. Issued shares

Class of shares	Number of shares at beginning of the fiscal year	Increase	Decrease	Number of shares at end of the fiscal year
Common shares (hundreds of shares)	118,325	–	–	118,325

2. Treasury shares

Class of shares	Number of shares at beginning of the fiscal year	Increase	Decrease	Number of shares at end of the fiscal year
Common shares (hundreds of shares)	7,694	7	38	7,663

(Note) The above figures include shares in the Company held by the board benefit trust (BBT), which amounted to 42,700 shares at the beginning of the fiscal year and 38,900 shares at the end of the fiscal year.

Overview of reasons for changes

The breakdown of increases and decreases is as follows:

Increase due to purchase of shares less than one unit: 700 shares

Decrease due to the board benefit trust (BBT) granting shares: (3,800) shares

3. Dividends

(1) Dividends paid

Resolution	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
March 27, 2020 Annual General Meeting of Shareholders	Common shares	1,110	100.00	December 31, 2019	March 30, 2020
August 7, 2020 Board of Directors	Common shares	1,110	100.00	June 30, 2020	September 9, 2020

(Notes) 1. The total amount of dividends pursuant to the resolution at the Annual General Meeting of Shareholders held on March 27, 2020 includes dividends of 4 million yen for shares in the Company held by the board benefit trust (BBT).

2. The total amount of dividends pursuant to the resolution at the Board of Directors meeting held on August 7, 2020 includes dividends of 3 million yen for shares in the Company held by the board benefit trust (BBT).

(2) Dividends whose effective date falls in the fiscal year following the fiscal year of the record date

Resolution	Class of shares	Total dividends (Millions of yen)	Source of dividends	Dividends per share (Yen)	Record date	Effective date
March 26, 2021 Annual General Meeting of Shareholders	Common shares	1,110	Retained earnings	100.00	December 31, 2020	March 29, 2021

(Note) The total amount of dividends pursuant to the resolution at the Annual General Meeting of Shareholders held on March 26, 2021 includes dividends of 6 million yen for shares in the Company held by the board benefit trust (BBT).

Fiscal year ended December 31, 2021

1. Issued shares

Class of shares	Number of shares at beginning of the fiscal year	Increase	Decrease	Number of shares at end of the fiscal year
Common shares (hundreds of shares)	118,325	–	–	118,325

2. Treasury shares

Class of shares	Number of shares at beginning of the fiscal year	Increase	Decrease	Number of shares at end of the fiscal year
Common shares (hundreds of shares)	7,663	223	–	7,887

(Note) The above figures include shares in the Company held by the board benefit trust (BBT), which amounted to 38,900 shares at the beginning of the fiscal year and 60,900 shares at the end of the fiscal year.

Overview of reasons for changes

The breakdown of increases and decreases is as follows:

Increase due to purchase of shares less than one unit: 300 shares

Increase due to the board benefit trust (BBT) purchasing shares: 22,000 shares

3. Dividends

(1) Dividends paid

Resolution	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
March 26, 2021 Annual General Meeting of Shareholders	Common shares	1,110	100.00	December 31, 2020	March 29, 2021
August 10, 2021 Board of Directors	Common shares	1,110	100.00	June 30, 2021	September 8, 2021

- (Notes) 1. The total amount of dividends pursuant to the resolution at the Annual General Meeting of Shareholders held on March 26, 2021 includes dividends of 3 million yen for shares in the Company held by the board benefit trust (BBT).
 2. The total amount of dividends pursuant to the resolution at the Board of Directors meeting held on August 10, 2021 includes dividends of 6 million yen for shares in the Company held by the board benefit trust (BBT).

(2) Dividends whose effective date falls in the fiscal year following the fiscal year of the record date

Resolution	Class of shares	Total dividends (Millions of yen)	Source of dividends	Dividends per share (Yen)	Record date	Effective date
March 29, 2022 Annual General Meeting of Shareholders	Common shares	1,110	Retained earnings	100.00	December 31, 2021	March 30, 2022

(Note) The total amount of dividends pursuant to the resolution at the Annual General Meeting of Shareholders held on March 29, 2022 includes dividends of 6 million yen for shares in the Company held by the board benefit trust (BBT).

Notes to Consolidated Statements of Cash Flows

- * Reconciliation of closing balance of cash and cash equivalents and the related account on the consolidated balance sheet

(Millions of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Cash and deposits	14,600	17,865
Time deposits with maturity of over three months	(145)	(145)
Cash and cash equivalents	14,455	17,720

Financial Instruments

1. Status of financial instruments

(1) Policy on financial instruments

The Group manages its funds only using deposits and other instruments with limited risk, and procures its funds through borrowings from financial institutions such as banks. Derivatives are used to mitigate the risks described below, and the Group does not conduct speculative transactions.

(2) Details of financial instruments and associated risks

Notes and accounts receivable - trade, which are trade receivables, are exposed to customer credit risks. Trade receivables denominated in foreign currencies, which arise mainly from the export business, are exposed to exchange rate fluctuation risks. Investment securities are mainly stocks and exposed to market price fluctuation risks.

Notes and accounts payable - trade, which are trade payables, have due dates within one year. Some of them, arising from the import of raw materials and other goods, are denominated in foreign currencies and are exposed to exchange rate fluctuation risks. However, they do not exceed the balance of accounts receivable - trade denominated in the same foreign currency at any time. Borrowings are used as operating funds (short-term) and as funds for capital investment (long-term). Borrowings with floating interest rates are exposed to interest rate fluctuation risks.

Derivatives used by the Group are forward exchange contracts and currency swap contracts, which are used for the purpose of hedging the exchange rate fluctuation risks on trade receivables denominated in foreign currencies, as well as interest rate swap contracts, which are used for the purpose of hedging the interest rate fluctuation risks on borrowings. Hedge accounting methods, including hedge instruments, hedged items, hedging policies, and means of assessing hedge effectiveness, are described in “4.

Accounting policies, (6) Significant hedge accounting methods” of the Basis of Preparation of Consolidated Financial Statements above.

(3) Risk management system for financial instruments

(i) Management of credit risks (default risks, etc.)

The Company’s sales departments and accounting and finance departments manage due dates and balances of trade receivables for each counterparty, and they strive to quickly identify and mitigate concerns over collections due to deteriorating financial conditions and other reasons, in accordance with the Company regulations on managing receivables. Consolidated subsidiaries of the Company also manage trade receivables in the same manner, applying the Company regulations on managing receivables.

When using derivatives, the Group conducts transactions only with financial institutions that have high ratings to mitigate credit risks. Credit risks on derivatives are therefore minimal.

(ii) Management of market risks (risks associated with foreign exchange rates, interest rates, etc.)

For trade receivables denominated in foreign currencies, the Company enters into forward exchange contracts and currency swap contracts as needed based on the real demand principle.

Regarding investment securities, the Company periodically reviews market prices and financial conditions of the issuers (counterparty companies).

Furthermore, the Company and some of its consolidated subsidiaries use interest rate swap contracts to reduce the interest rate fluctuation risks on borrowings.

The Group has established regulations on managing derivatives, limiting the use of derivatives for risk hedging purposes.

(iii) Management of liquidity risks associated with funding

The Company manages liquidity risks such as by having accounting and finance departments prepare and update cash flow plans based on reports from each department and maintaining a certain level of liquidity.

(4) Supplementary explanation related to fair values, etc. of financial instruments

Fair values of financial instruments represent their market values or reasonably calculated values if market values are not available. Because such calculations involve variable inputs, the results of calculations may vary depending on what premises and assumptions are used. Furthermore, the contract amount, etc. of derivatives stated in the notes on “Derivatives” do not represent the market risks related to derivatives.

2. Fair values of financial instruments

Carrying amounts in the consolidated balance sheet, fair values and the differences between them were as follows. The figures do not include items whose fair value is deemed extremely difficult to determine (refer to Note 2).

As of December 31, 2020

(Millions of yen)

	Carrying amount (A)	Fair value (B)	Difference (B) - (A)
(1) Cash and deposits	14,600	14,600	–
(2) Notes and accounts receivable - trade	9,228		
Allowance for doubtful accounts (*)	(20)		
	9,207	9,207	–
(3) Income taxes receivable	1,350	1,350	–
(4) Investment securities			
Available-for-sale securities	3,874	3,874	–
Total assets	29,033	29,033	–
(1) Notes and accounts payable - trade	3,321	3,321	–
(2) Notes payable - facilities	438	438	–
(3) Short-term borrowings (current portion of long-term borrowings excluded)	8,160	8,160	–
(4) Income taxes payable	466	466	–
(5) Long-term borrowings (current portion of long-term borrowings included)	3,827	3,829	1
Total liabilities	16,214	16,215	1

(*) Excluding allowance for doubtful accounts recorded in notes and accounts receivable - trade.

As of December 31, 2021

(Millions of yen)

	Carrying amount (A)	Fair value (B)	Difference (B) - (A)
(1) Cash and deposits	17,865	17,865	–
(2) Notes and accounts receivable - trade	11,592		
Allowance for doubtful accounts (*)	(22)		
	11,569	11,569	–
(3) Investment securities			
Available-for-sale securities	3,995	3,995	–
Total assets	33,431	33,431	–
(1) Notes and accounts payable - trade	3,900	3,900	–
(2) Notes payable - facilities	480	480	–
(3) Short-term borrowings (current portion of long-term borrowings excluded)	7,910	7,910	–
(4) Income taxes payable	1,038	1,038	–
(5) Long-term borrowings (current portion of long-term borrowings included)	2,657	2,658	0
Total liabilities	15,987	15,987	0

(*) Excluding allowance for doubtful accounts recorded in notes and accounts receivable - trade.

(Note 1) Methods for calculating fair values of financial instruments, and securities and derivatives

Assets

(1) Cash and deposits, and (2) Notes and accounts receivable - trade

Their carrying amounts are used as fair values, because these items are settled within a short term and their market values are nearly equal to carrying amounts.

(3) Investment securities

Fair values of stocks are based on prices at exchanges, and fair values of bonds are based on prices quoted by relevant financial institutions. Please refer to the notes on “Securities” for notes on securities by purpose of holding.

Liabilities

(1) Notes and accounts payable - trade, (2) Notes payable - facilities, (3) Short-term borrowings, and (4) Income taxes payable

Their carrying amounts are used as fair values, because these items are settled within a short term and their market values are nearly equal to carrying amounts.

(5) Long-term borrowings

The fair value of long-term borrowings is calculated by discounting the total of principal and interest at an interest rate that would be charged for similar new loans. Exceptional accounting of interest rate swaps is applied to long-term borrowings on floating interest rates (Please refer to the notes on “Derivatives.”), whereby the fair value is calculated by discounting the total of principal and interest processed as a single entity with the relevant interest swap at a reasonably estimated interest rate that would be applied for similar loans.

(Note 2) Carrying amounts of financial instruments whose fair values are deemed extremely difficult to determine

(Millions of yen)

Category	As of December 31, 2020	As of December 31, 2021
Shares of subsidiaries and associates		
Unlisted shares	1,126	1,152
Available-for-sale securities		
Unlisted shares	24	24

Since these financial instruments do not have market prices, the fair value is deemed extremely difficult to determine. Therefore, they are not included in “(3) Investment securities.”

(Note 3) Expected redemption amounts of monetary claims and securities with maturity after the consolidated balance sheet date

As of December 31, 2020

(Millions of yen)

	Within one year	Over one year and within five years	Over five years and within ten years	Over ten years
Cash and deposits	14,600	–	–	–
Notes and accounts receivable - trade	9,228	–	–	–
Income taxes receivable	1,350	–	–	–
Total	25,179	–	–	–

As of December 31, 2021

(Millions of yen)

	Within one year	Over one year and within five years	Over five years and within ten years	Over ten years
Cash and deposits	17,865	–	–	–
Notes and accounts receivable - trade	11,592	–	–	–
Total	29,458	–	–	–

(Note 4) Repayment schedule of short-term borrowings and long-term borrowings after the consolidated balance sheet date

As of December 31, 2020

(Millions of yen)

Category	Within one year	Over one year and within two years	Over two years and within three years	Over three years and within four years	Over four years and within five years	Over five years
Short-term borrowings	8,160	–	–	–	–	–
Long-term borrowings	1,265	1,250	1,242	40	30	–

As of December 31, 2021

(Millions of yen)

Category	Within one year	Over one year and within two years	Over two years and within three years	Over three years and within four years	Over four years and within five years	Over five years
Short-term borrowings	7,910	–	–	–	–	–
Long-term borrowings	1,270	1,262	60	50	15	–

Securities

1. Available-for-sale securities with market value

As of December 31, 2020

Category	Type	Carrying amount (A) (Millions of yen)	Acquisition cost (B) (Millions of yen)	Difference (A) - (B) (Millions of yen)
Items whose carrying amount exceeds acquisition cost	Shares	3,697	1,445	2,251
Subtotal		3,697	1,445	2,251
Items whose carrying amount does not exceed acquisition cost	Shares	177	205	(27)
Subtotal		177	205	(27)
Total		3,874	1,650	2,224

As of December 31, 2021

Category	Type	Carrying amount (A) (Millions of yen)	Acquisition cost (B) (Millions of yen)	Difference (A) - (B) (Millions of yen)
Items whose carrying amount exceeds acquisition cost	Shares	3,840	1,107	2,733
Subtotal		3,840	1,107	2,733
Items whose carrying amount does not exceed acquisition cost	Shares	155	184	(29)
Subtotal		155	184	(29)
Total		3,995	1,291	2,703

2. Available-for-sale securities sold during the fiscal year

Fiscal year ended December 31, 2020

(Millions of yen)

Category	Sale proceeds	Total gain on sale	Total loss on sale
(1) Shares	159	60	(0)
(2) Other	3	1	-
Total	163	62	(0)

Fiscal year ended December 31, 2021

(Millions of yen)

Category	Sale proceeds	Total gain on sale	Total loss on sale
(1) Shares	544	179	(0)
(2) Other	-	-	-
Total	544	179	-

Derivatives

1. Derivatives to which hedge accounting is not applied

Not applicable

2. Derivatives to which hedge accounting is applied

Interest rate-related contracts

As of December 31, 2020

(Millions of yen)

Hedge accounting	Type of derivatives, etc.	Hedged item	Contract amount, etc.	Of contract amount, etc., those over one year	Fair value
Exceptional accounting of interest rate swaps	Interest rate swap contracts Fixed rate payment, floating rate receipt	Long-term borrowings	337	187	(Notes) 2.

(Notes) 1. The fair value is determined based on the price provided by financial institutions.

2. The fair value of interest rate swaps that are accounted for using exceptional accounting, is included in that of corresponding long-term borrowings, since those interest rate swaps are treated as an adjustment to the long-term borrowings as hedged items.

As of December 31, 2021

(Millions of yen)

Hedge accounting	Type of derivatives, etc.	Hedged item	Contract amount, etc.	Of contract amount, etc., those over one year	Fair value
Exceptional accounting of interest rate swaps	Interest rate swap contracts Fixed rate payment, floating rate receipt	Long-term borrowings	187	37	(Notes) 2.

(Notes) 1. The fair value is determined based on the price provided by financial institutions.

2. The fair value of interest rate swaps that are accounted for using exceptional accounting, is included in that of corresponding long-term borrowings, since those interest rate swaps are treated as an adjustment to the long-term borrowings as hedged items.

Retirement Benefits

Fiscal year ended December 31, 2020

1. Overview of retirement benefit plans adopted

The Company and its consolidated subsidiaries have adopted funded defined benefit plans to provide retirement benefits to employees.

Under retirement benefit corporate pension plans, lump-sum payments or annual payments are made based on salaries and years of service.

Furthermore, the Company's consolidated subsidiaries calculate retirement benefit liability and retirement benefit expenses using a simplified method in which the amount that would be required to be paid if all their eligible employees voluntarily terminated their employment as of the end of the fiscal year is treated as retirement benefit obligation. Extra retirement payments may be provided upon retirement of certain employees, where those payments are not considered to be retirement benefit obligations as calculated under actuarial methods in accordance with accounting policies on retirement benefits.

2. Defined benefit plans

- (1) Reconciliation between retirement benefit obligations at beginning of period and end of period (excluding plans to which simplified method is applied stated in (3))

	(Millions of yen)
Balance of retirement benefit obligations at beginning of period	1,607
Service cost	111
Interest cost	6
Actuarial gains and losses accrued	25
Retirement benefits paid	(90)
<hr/> Balance of retirement benefit obligations at end of period	<hr/> 1,660

- (2) Reconciliation between plan assets at beginning of period and end of period (excluding plans to which simplified method is applied stated in (3))

	(Millions of yen)
Balance of plan assets at beginning of period	1,178
Expected return on plan assets	23
Actuarial gains and losses accrued	(17)
Contribution from employer	98
Retirement benefits paid	(48)
<hr/> Balance of plan assets at end of period	<hr/> 1,234

- (3) Reconciliation between net defined benefit liabilities for plans to which simplified method is applied at beginning of period and end of period

	(Millions of yen)
Retirement benefit liability at beginning of period	328
Retirement benefit expenses	49
Retirement benefits paid	(19)
Contribution to plans	(13)
<hr/> Retirement benefit liability at end of period	<hr/> 344

- (4) Reconciliation between ending balance of retirement benefit obligations and plan assets, and retirement benefit liability/asset recorded in the consolidated balance sheet

	(Millions of yen)
Retirement benefit obligations of funded plans	1,660
Plan assets	(1,234)
	426
Retirement benefit obligations of unfunded plans	344
Net amount of liabilities and assets recorded in the consolidated balance sheet	771
Retirement benefit liability	771
Net amount of liabilities and assets recorded in the consolidated balance sheet	771

(Note) Include plans to which the simplified method was applied.

- (5) Amounts of retirement benefit expenses and their components

	(Millions of yen)
Service cost	111
Interest cost	6
Expected return on plan assets	(23)
Amortization of actuarial gains and losses	9
Amortization of past service cost	8
Retirement benefit expenses applying simplified method	49
Retirement benefit expenses under defined benefit plans	161

- (6) Remeasurements of defined benefit plans included in other comprehensive income

The components of remeasurements of defined benefit plans (before deduction of tax effects) are as follows:

	(Millions of yen)
Past service cost	8
Actuarial gains and losses	(34)
Total	(25)

- (7) Remeasurements of defined benefit plans included in accumulated other comprehensive income

The components of remeasurements of defined benefit plans (before deduction of tax effects) are as follows:

	(Millions of yen)
Unrecognized past service cost	4
Unrecognized actuarial gains and losses	116
Total	121

(8) Plan assets

(i) Major components of plan assets

The ratio of each major category to total plan assets is as follows:

	(%)
General accounts (life insurance companies)	61
Other	39
<u>Total</u>	<u>100</u>

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

To determine the long-term expected rate of return on plan assets, the Company takes into account current and expected allocation of plan assets, and current and expected long-term return rate on various types of assets constituting plan assets.

(9) Actuarial assumptions

Major actuarial assumptions at the end of the current fiscal year

Discount rate:	0.4%
Long-term expected rate of return:	2.0%

Fiscal year ended December 31, 2021

1. Overview of retirement benefit plans adopted

The Company and its consolidated subsidiaries have adopted funded defined benefit plans to provide retirement benefits to employees.

Under retirement benefit corporate pension plans, lump-sum payments or annual payments are made based on salaries and years of service.

Furthermore, the Company's consolidated subsidiaries calculate retirement benefit liability and retirement benefit expenses using a simplified method in which the amount that would be required to be paid if all their eligible employees voluntarily terminated their employment as of the end of the fiscal year is treated as retirement benefit obligation. Extra retirement payments may be provided upon retirement of certain employees, where those payments are not considered to be retirement benefit obligations as calculated under actuarial methods in accordance with accounting policies on retirement benefits.

2. Defined benefit plans

(1) Reconciliation between retirement benefit obligations at beginning of period and end of period (excluding plans to which simplified method is applied stated in (3))

	(Millions of yen)
Balance of retirement benefit obligations at beginning of period	1,660
Service cost	111
Interest cost	6
Actuarial gains and losses accrued	(12)
Retirement benefits paid	(39)
<u>Balance of retirement benefit obligations at end of period</u>	<u>1,726</u>

- (2) Reconciliation between plan assets at beginning of period and end of period (excluding plans to which simplified method is applied stated in (3))

	(Millions of yen)
Balance of plan assets at beginning of period	1,234
Expected return on plan assets	24
Actuarial gains and losses accrued	2
Contribution from employer	88
Retirement benefits paid	(24)
Balance of plan assets at end of period	1,325

- (3) Reconciliation between net defined benefit liabilities for plans to which simplified method is applied at beginning of period and end of period

	(Millions of yen)
Retirement benefit liability at beginning of period	344
Retirement benefit expenses	56
Retirement benefits paid	(10)
Contribution to plans	(15)
Retirement benefit liability at end of period	374

- (4) Reconciliation between ending balance of retirement benefit obligations and plan assets, and retirement benefit liability/asset recorded in the consolidated balance sheet

	(Millions of yen)
Retirement benefit obligations of funded plans	1,726
Plan assets	(1,325)
	401
Retirement benefit obligations of unfunded plans	375
Net amount of liabilities and assets recorded in the consolidated balance sheet	776
Retirement benefit liability	776
Net amount of liabilities and assets recorded in the consolidated balance sheet	776

(Note) Include plans to which the simplified method was applied.

- (5) Amounts of retirement benefit expenses and their components

	(Millions of yen)
Service cost	111
Interest cost	6
Expected return on plan assets	(24)
Amortization of actuarial gains and losses	16
Amortization of past service cost	3
Retirement benefit expenses applying simplified method	56
Retirement benefit expenses under defined benefit plans	169

(6) Remeasurements of defined benefit plans included in other comprehensive income

The components of remeasurements of defined benefit plans (before deduction of tax effects) are as follows:

	(Millions of yen)
Past service cost	12
Actuarial gains and losses	22
<u>Total</u>	<u>34</u>

(7) Remeasurements of defined benefit plans included in accumulated other comprehensive income

The components of remeasurements of defined benefit plans (before deduction of tax effects) are as follows:

	(Millions of yen)
Unrecognized past service cost	9
Unrecognized actuarial gains and losses	76
<u>Total</u>	<u>86</u>

(8) Plan assets

(i) Major components of plan assets

The ratio of each major category to total plan assets is as follows:

	(%)
General accounts (life insurance companies)	59
Other	41
<u>Total</u>	<u>100</u>

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

To determine the long-term expected rate of return on plan assets, the Company takes into account current and expected allocation of plan assets, and current and expected long-term return rate on various types of assets constituting plan assets.

(9) Actuarial assumptions

Major actuarial assumptions at the end of the current fiscal year

Discount rate:	0.4%
Long-term expected rate of return:	2.0%

Deferred Tax Accounting

1. Major components of deferred tax assets and liabilities

(Millions of yen)

	As of December 31, 2020	As of December 31, 2021
Deferred tax assets		
Excess of allowance for doubtful accounts	2	0
Retirement benefit liability	237	240
Loss on valuation of inventories	238	241
Enterprise taxes payable	33	68
Excess of provision for bonuses	60	73
Impairment losses	532	465
Tax effects relating to unrealized profit	127	134
Accrued expenses	24	14
Plant relocation related expense	51	–
Other	696	578
Subtotal	2,000	1,813
Valuation allowance	(1,198)	(1,180)
Total	802	633
Deferred tax liabilities		
Valuation difference on available-for-sale securities	(680)	(666)
Tax effects relating to undistributed profit of overseas consolidated subsidiaries	(96)	(113)
Other	(114)	(109)
Total	(890)	(888)
Net deferred tax assets (liabilities)	(88)	(255)

(Note) Net deferred tax assets as of December 31, 2020 and December 31, 2021 are included in the following items on consolidated balance sheets.

	(Millions of yen)	
	As of December 31, 2020	As of December 31, 2021
Non-current assets - deferred tax assets	334	378
Non-current liabilities - deferred tax liabilities	(422)	(633)

2. Reconciliation of significant differences between the statutory effective tax rate and the actual effective rate of income taxes after application of deferred tax accounting

	As of December 31, 2020	As of December 31, 2021
	The note is omitted, because the difference between the statutory effective tax rate and the actual effective rate of income taxes after application of deferred tax accounting is less than 5% of statutory effective tax rate.	The note is omitted, because the difference between the statutory effective tax rate and the actual effective rate of income taxes after application of deferred tax accounting is less than 5% of statutory effective tax rate.

Segment Information, Etc.

[Segment information]

1. Overview of reportable segments

The reportable segments of the Company are components of the Company for which discrete financial information is available and regularly reviewed by the Board of Directors to make decisions about allocation of managerial resources and to assess their performance.

The Company has reportable segments based on product and service categories, namely carbon product business, silicon carbide product business, and other businesses. In some cases, different carbon products are manufactured using the same production facilities, and multiple carbon products may be sold together. Accordingly, carbon products are treated as a single segment based on their close relation in making investment decisions. The main details of each reportable segment are as follows:

Reportable segment	Major details
Carbon product business	Artificial graphite electrodes, impervious graphite products, high-purity isotropic graphite products, graphite products for mechanical components, general-purpose carbon fiber and graphite fiber, PTFE-mixed graphite fiber packing materials, flexible graphite sealing materials, and anode materials for lithium-ion batteries
Silicon carbide product business	Silicon carbide continuous fibers
Other businesses	Manufacturing of industrial machinery, repairs of machinery, and parking space rentals

2. Explanation of measurements of sales, profit (loss), asset, liability, and other items for each reportable segment

The accounting method for the operating segments that are reportable is the same as described in “Basis of Preparation of Consolidated Financial Statements.” Profit of reportable segment is based on operating profit. Intersegment revenue or transfers are based on actual market price.

3. Disclosure of sales, profit (loss), asset, liability, and other items for each reportable segment

Fiscal year ended December 31, 2020

(Millions of yen)

	Reportable segment				Adjustment (Notes) 1.	Carrying amount (Notes) 2.
	Carbon product business	Silicon carbide product business	Other	Total		
Net sales						
Revenues from external customers	23,628	2,211	963	26,802	–	26,802
Transactions with other segments	1	6	1,439	1,447	(1,447)	–
Total	23,629	2,217	2,403	28,250	(1,447)	26,802
Segment profit	2,137	531	331	2,999	15	3,015
Segment assets	43,744	7,052	1,631	52,428	18,502	70,930
Other items						
Depreciation	1,551	638	41	2,231	(38)	2,193
Increase in property, plant and equipment and intangible assets	3,478	95	31	3,605	(33)	3,572

(Notes) 1. Adjustments are as follows.

- (1) The adjustment to segment assets of 18,502 million yen primarily consists of assets related to surplus funds (cash and securities) and long-term investment funds (investment securities).
 - (2) The adjustment to depreciation of (38) million yen and the adjustment to increase in property, plant and equipment and intangible assets of (33) million yen under other items are for eliminating unrealized profit.
2. Segment profit equals operating profit in the consolidated statement of income.

Fiscal year ended December 31, 2021

(Millions of yen)

	Reportable segment				Adjustment (Notes) 1.	Carrying amount (Notes) 2.
	Carbon product business	Silicon carbide product business	Other	Total		
Net sales						
Revenues from external customers	29,204	1,565	808	31,578	–	31,578
Transactions with other segments	–	6	1,113	1,120	(1,120)	–
Total	29,204	1,572	1,921	32,698	(1,120)	31,578
Segment profit	3,390	185	108	3,684	21	3,706
Segment assets	43,182	6,711	909	50,803	21,888	72,692
Other items						
Depreciation	1,737	649	42	2,429	(44)	2,385
Increase in property, plant and equipment and intangible assets	1,708	107	19	1,835	(23)	1,812

(Notes) 1. Adjustments are as follows.

- (1) The adjustment to segment assets of 21,888 million yen primarily consists of assets related to surplus funds (cash and securities) and long-term investment funds (investment securities).
 - (2) The adjustment to depreciation of (44) million yen and the adjustment to increase in property, plant and equipment and intangible assets of (23) million yen under other items are for eliminating unrealized profit.
2. Segment profit equals operating profit in the consolidated statement of income.

[Related information]

Fiscal year ended December 31, 2020

1. Information about products and services

The information is omitted because the same information is disclosed in “[Segment information].”

2. Information about geographical areas

(1) Net sales

(Millions of yen)

Japan	Other	Total
16,906	9,895	26,802

(Note) Net sales are classified by country or region based on customers' location.

(2) Property, plant and equipment

The information is omitted, because the amount of property, plant and equipment located in Japan accounted for more than 90% of total property, plant and equipment in the consolidated balance sheet.

3. Information about main customers

This information is omitted because there were no customers from which more than 10% of the amount of gross sales in the consolidated statement of income was received.

Fiscal year ended December 31, 2021

1. Information about products and services

The information is omitted because the same information is disclosed in “[Segment information].”

2. Information about geographical areas

(1) Net sales

(Millions of yen)

Japan	Other	Total
19,304	12,274	31,578

(Note) Net sales are classified by country or region based on customers' location.

(2) Property, plant and equipment

The information is omitted, because the amount of property, plant and equipment located in Japan accounted for more than 90% of total property, plant and equipment in the consolidated balance sheet.

3. Information about main customers

This information is omitted because there were no customers from which more than 10% of the amount of gross sales in the consolidated statement of income was received.

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

Fiscal year ended December 31, 2020

Not applicable

Fiscal year ended December 31, 2021

Not applicable

[Information about amortization and unamortized balance of goodwill by reportable segment]

Fiscal year ended December 31, 2020

Not applicable

Fiscal year ended December 31, 2021

Not applicable

[Information about gain on bargain purchase by reportable segment]

Fiscal year ended December 31, 2020

Not applicable

Fiscal year ended December 31, 2021

Not applicable

Related Party Information

Fiscal year ended December 31, 2020

Not applicable

Fiscal year ended December 31, 2021

Not applicable

Per Share Information

(Yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Net assets per share	3,989.30	4,073.56
Basic earnings per share	163.64	247.00

- (Notes)
1. The amount of diluted earnings per share is not provided because there are no potential shares.
 2. Shares in the Company held by the board benefit trust (BBT) are deducted from the total number of outstanding shares when calculating net assets per share. Shares in the Company held by the board benefit trust (BBT), averaging 40,000 shares for the fiscal year ended December 31, 2020 and 55,800 shares for the fiscal year ended December 31, 2021, are deducted when calculating the average number of outstanding common shares during the period used as the basis for calculating basic earnings per share.
 3. Calculation basis of net assets per share is as follows.

Item	As of December 31, 2020	As of December 31, 2021
Total net assets (Millions of yen)	50,998	52,257
Difference between total net assets and net assets at end of period related to common shares used for calculating net assets per share (Millions of yen)	6,852	7,270
[Of which, non-controlling interests (Millions of yen)]	[6,852]	[7,270]
Net assets attributable to common shares (Millions of yen)	44,146	44,987
Number of common shares as of the fiscal year-end used in the calculation of net assets per share (hundreds of shares)	110,661	110,437

4. Calculation basis of basic earnings per share is as follows.

Item	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Profit attributable to owners of parent (Millions of yen)	1,810	2,729
Profit attributable to owners of parent attributable to common shares (Millions of yen)	1,810	2,729
Profit (loss) not attributable to common shareholders (Millions of yen)	—	—
Average number of outstanding common shares during the period (hundreds of shares)	110,652	110,490

Subsequent Events

Not applicable

(v) Annexed Consolidated Detailed Schedules

[Consolidated Detailed Schedule of Corporate Bonds]

Not applicable

[Consolidated Detailed Schedule of Borrowings]

Category	Balance at beginning of period (Millions of yen)	Balance at end of period (Millions of yen)	Average interest rate (%)	Payment due
Short-term borrowings	8,160	7,910	0.45	–
Current portion of long-term borrowings	1,265	1,270	0.64	–
Current portion of lease obligations	–	–	–	–
Long-term borrowings (excluding current portion)	2,562	1,387	0.66	2023 to 2026
Lease obligations (excluding current portion)	–	–	–	–
Other interest-bearing debt	–	–	–	–
Total	11,987	10,567	–	–

(Notes) 1. Average interest rate is the weighted average interest rate on the balance of borrowings at the end of period.

2. Total amounts of scheduled repayments of long-term borrowings (excluding current portion) by year for five years after the consolidated balance sheet date

(Millions of yen)

Category	Over one year and within two years	Over two years and within three years	Over three years and within four years	Over four years and within five years
Long-term borrowings	1,262	60	50	15

[Consolidated Detailed Schedule of Asset Retirement Obligations]

The information is omitted, because the amounts of asset retirement obligations at the beginning and the end of the fiscal year ended December 31, 2021 were not more than 1% of the total of liabilities and net assets at the beginning and the end of the fiscal year ended December 31, 2021, respectively.

(2) Other Information

Quarterly information for the fiscal year ended December 31, 2021

Cumulative period	Three months ended March 31, 2021	Six months ended June 30, 2021	Nine months ended September 30, 2021	Fiscal year ended December 31, 2021
Net sales (Millions of yen)	6,077	14,543	22,258	31,578
Profit before income taxes (Millions of yen)	457	1,596	2,387	4,431
Profit attributable to owners of parent (Millions of yen)	226	889	1,451	2,729
Basic earnings per share (Yen)	20.50	80.49	131.34	247.00

Accounting period	First quarter	Second quarter	Third quarter	Fourth quarter
Basic earnings per share (Yen)	20.50	59.98	50.82	115.64

2. Non-consolidated Financial Statements and Other Information

(1) Non-consolidated Financial Statements

(i) Non-consolidated Balance Sheets

(Millions of yen)

	As of December 31, 2020	As of December 31, 2021
Assets		
Current assets		
Cash and deposits	10,744	13,646
Notes receivable - trade	*1, *3 682	*1, *3 959
Accounts receivable - trade	*1 5,569	*1 6,843
Merchandise and finished goods	7,491	4,983
Work in process	333	745
Raw materials and supplies	1,885	1,353
Prepaid expenses	132	119
Short-term loans receivable	59	314
Income taxes receivable	1,350	-
Other	291	95
Total current assets	28,541	29,063
Non-current assets		
Property, plant and equipment		
Buildings	*2 2,269	*2 2,235
Structures	*2 545	*2 532
Machinery and equipment	*2 3,684	*2 4,386
Vehicles	*2 24	*2 19
Tools, furniture and fixtures	*2 237	*2 207
Land	*2 3,166	*2 3,166
Construction in progress	529	75
Total property, plant and equipment	10,456	10,624
Intangible assets		
Software	84	166
Other	7	7
Total intangible assets	91	173
Investments and other assets		
Investment securities	3,862	3,979
Shares of subsidiaries and associates	3,201	3,116
Long-term loans receivable	-	*1 2,000
Long-term prepaid expenses	181	117
Other	1,978	1,806
Allowance for doubtful accounts	(2)	(2)
Total investments and other assets	9,220	11,018
Total non-current assets	19,768	21,816
Total assets	48,310	50,879

(Millions of yen)

	As of December 31, 2020	As of December 31, 2021
Liabilities		
Current liabilities		
Notes payable - trade	242	416
Accounts payable - trade	*1 1,560	*1 2,867
Short-term borrowings	*2 3,635	*2 3,640
Accounts payable - other	*1 356	*1 631
Accrued expenses	*1 308	*1 202
Income taxes payable	–	752
Notes payable - facilities	125	52
Provision for bonuses	78	128
Provision for bonuses for directors (and other officers)	35	50
Provision for plant relocation related expense	167	–
Other	*1 175	*1 303
Total current liabilities	6,686	9,045
Non-current liabilities		
Long-term borrowings	372	237
Deferred tax liabilities	490	681
Provision for retirement benefits	304	314
Provision for share awards for directors (and other officers)	70	89
Provision for environmental measures	0	0
Long-term guarantee deposits	262	262
Asset retirement obligations	60	60
Other	66	66
Total non-current liabilities	1,627	1,712
Total liabilities	8,313	10,758
Net assets		
Shareholders' equity		
Share capital	7,402	7,402
Capital surplus		
Legal capital surplus	1,851	1,851
Other capital surplus	6,006	6,006
Total capital surplus	7,857	7,857
Retained earnings		
Other retained earnings		
Retained earnings brought forward	25,120	25,012
Total retained earnings	25,120	25,012
Treasury shares	(1,913)	(2,011)
Total shareholders' equity	38,468	38,261
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	1,528	1,860
Total valuation and translation adjustments	1,528	1,860
Total net assets	39,996	40,121
Total liabilities and net assets	48,310	50,879

(ii) Non-consolidated Statements of Income

(Millions of yen)

	Fiscal year ended December 31, 2020		Fiscal year ended December 31, 2021	
Net sales		16,395		19,770
Cost of sales		11,688		14,303
Gross profit		4,707		5,466
Selling, general and administrative expenses	*2	2,852	*2	3,025
Operating profit		1,854		2,441
Non-operating income				
Interest income		2		20
Dividend income	*1	324	*1	239
Insurance claim income		6		191
Foreign exchange gains		32		137
Miscellaneous income		71		220
Total non-operating income		437		809
Non-operating expenses				
Interest expenses		19		19
Loss on retirement of non-current assets	*3	174	*3	10
Loss on disaster		48		59
Miscellaneous expenses		32		67
Total non-operating expenses		274		156
Ordinary profit		2,016		3,094
Extraordinary income				
Gain on sale of investment securities		40		179
Total extraordinary income		40		179
Extraordinary losses				
Loss on fire	*4	247	*4	97
Plant relocation related expense	*5	122	*5	95
Loss on valuation of shares of subsidiaries and associates		—	*6	85
Total extraordinary losses		369		277
Profit before income taxes		1,688		2,996
Income taxes - current		229		848
Income taxes - deferred		96		44
Total income taxes		325		893
Profit		1,362		2,103

(iii) Non-consolidated Statements of Changes in Equity

Fiscal year ended December 31, 2020

(Millions of yen)

	Shareholders' equity					
	Share capital	Capital surplus			Retained earnings	
		Legal capital surplus	Other capital surplus	Total capital surplus	Other retained earnings	Total retained earnings
					Retained earnings brought forward	
Balance at beginning of period	7,402	1,851	6,006	7,857	25,971	25,971
Changes during period						
Dividends of surplus				–	(2,212)	(2,212)
Profit				–	1,362	1,362
Purchase of treasury shares				–		–
Disposal of treasury shares				–		–
Net changes in items other than shareholders' equity				–		–
Total changes during period	–	–	–	–	(850)	(850)
Balance at end of period	7,402	1,851	6,006	7,857	25,120	25,120

	Shareholders' equity		Valuation and translation adjustments		Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at beginning of period	(1,921)	39,310	2,112	2,112	41,422
Changes during period					
Dividends of surplus		(2,212)		–	(2,212)
Profit		1,362		–	1,362
Purchase of treasury shares	(2)	(2)		–	(2)
Disposal of treasury shares	11	11		–	11
Net changes in items other than shareholders' equity		–	(583)	(583)	(583)
Total changes during period	8	(841)	(583)	(583)	(1,425)
Balance at end of period	(1,913)	38,468	1,528	1,528	39,996

Fiscal year ended December 31, 2021

(Millions of yen)

	Shareholders' equity					
	Share capital	Capital surplus			Retained earnings	
		Legal capital surplus	Other capital surplus	Total capital surplus	Other retained earnings	Total retained earnings
					Retained earnings brought forward	
Balance at beginning of period	7,402	1,851	6,006	7,857	25,120	25,120
Changes during period						
Dividends of surplus				–	(2,211)	(2,211)
Profit				–	2,103	2,103
Purchase of treasury shares				–		–
Net changes in items other than shareholders' equity				–		–
Total changes during period	–	–	–	–	(107)	(107)
Balance at end of period	7,402	1,851	6,006	7,857	25,012	25,012

	Shareholders' equity		Valuation and translation adjustments		Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at beginning of period	(1,913)	38,468	1,528	1,528	39,996
Changes during period					
Dividends of surplus		(2,211)		–	(2,211)
Profit		2,103		–	2,103
Purchase of treasury shares	(98)	(98)		–	(98)
Net changes in items other than shareholders' equity		–	331	331	331
Total changes during period	(98)	(206)	331	331	124
Balance at end of period	(2,011)	38,261	1,860	1,860	40,121

Notes to Non-consolidated Financial Statements

Significant Accounting Policies

1. Valuation basis and methods for securities
 - (1) Shares in subsidiaries and affiliates
Stated at cost determined by the moving average method
 - (2) Available-for-sale securities
Securities with market value
Stated at fair value based on the market price on the non-consolidated balance sheet date.
(Valuation differences are booked directly in a separate component of net assets, and cost of securities sold is determined by the moving average method)

Securities without market value
Stated at cost determined by the moving average method
2. Valuation basis and methods for net receivables and payables arising from derivatives
Stated at fair value.
3. Valuation basis and methods for inventories
Merchandise and finished goods, work in process, and raw materials and supplies are stated at cost, determined by the periodic average method (carrying amounts calculated with consideration of write-downs due to decreased profitability).
4. Accounting method for depreciation of non-current assets
 - (1) Property, plant and equipment
The straight-line method is applied.
Major useful lives are as follows:
Buildings: 31 to 50 years
Machinery and equipment: 9 years
 - (2) Intangible assets
Software (for internal use)
For amortization of software, the straight-line method based on the estimated internal use period (five years) is applied.
5. Accounting policy for translation of foreign currency assets and liabilities into Japanese yen
Monetary receivables and payables in foreign currencies are translated into Japanese yen at the spot exchange rate prevailing as of the non-consolidated balance sheet date, and translation differences are accounted for as profit or loss.
6. Accounting policy for provisions
 - (1) Allowance for doubtful accounts
To allow for losses on bad debts arising from trade receivables, loans receivable, and other receivables, the Company provides an allowance for the estimated amount of doubtful receivables deemed uncollectible. This allowance is based on historical default rates for general receivables and on an individual analysis of collectability for doubtful receivables and other specific receivables.
 - (2) Provision for bonuses
To allow for payment of bonuses to employees, the Company records a provision for the estimated payment amount to be borne in the fiscal year under review.
 - (3) Provision for bonuses for directors (and other officers)
To allow for payment of bonuses to Directors and other officers, the Company records a provision for the estimated payment amount to be borne in the fiscal year under review.

(4) Provision for retirement benefits

To allow for employee retirement benefits, the Company records a provision based on expected amounts of retirement benefit obligations and plan assets as of the end of the fiscal year under review.

(i) Method of attributing expected retirement benefits to periods

In the calculation of retirement benefit obligations, expected retirement benefits are attributed to the period up to the end of the fiscal year on a benefit formula basis.

(ii) Method of amortizing actuarial gains and losses and past service cost

Past service cost is amortized using the straight-line method over the average remaining service years (13 years) of employees when incurred.

Actuarial gains and losses are amortized using the straight-line method over the average remaining service years (10 years) of employees when incurred in each fiscal year, from the fiscal year following the accrual of each gain or loss.

(5) Provision for share awards for directors (and other officers)

To allow for granting of the Company's shares to Directors and other officers based on regulations for granting of shares to officers, the Company records a provision for the estimated granting amount to be borne as of the end of the fiscal year under review.

(6) Provision for environmental measures

To allow for future expenses on treatment of polychlorinated biphenyl (PCB) wastes expected to be incurred pursuant to the Act on Special Measures concerning Promotion of Proper Treatment of PCB Wastes, the Company records a provision for estimated amounts required.

7. Accounting methods for hedging

(1) Hedge accounting

In principle, the deferral hedge accounting is applied. The exceptional accounting treatment is applied to interest rate swap contracts that meet the requirements for exceptional accounting.

The assignment accounting treatment is applied to forward exchange contracts and currency swap contracts that meet the requirements for assignment accounting.

(2) Hedged items and hedge instruments

a. Hedge instruments: forward exchange contracts and currency swap contracts

Hedged items: accounts receivable - trade and forecast transactions denominated in foreign currencies

b. Hedge instruments: interest rate swap contracts

Hedged items: Interest on borrowings

(3) Hedging policies

Pursuant to the Company's internal management regulations, interest rate swap contracts are used for the purpose of hedging the interest rate fluctuation risks on borrowings, and forward exchange contracts and currency swap contracts are used for the purpose of hedging the exchange rate fluctuation risks.

(4) Assessing hedge effectiveness

If hedge instruments and hedged items have the same material conditions, they are deemed highly effective and thus assessment of hedge effectiveness is omitted. For other hedges, hedge effectiveness is assessed by comparing the accumulated fluctuations in market rates or cash flows of the hedged items and the hedge instruments based on the ratio of those fluctuations.

8. Other significant matters for preparing non-consolidated financial statements

(1) Accounting for consumption taxes

Transactions are recorded exclusive of consumption taxes and local consumption taxes.

(2) Accounting for retirement benefits

The method of accounting for unrecognized actuarial gains or losses and unrecognized past service cost pertaining to retirement benefits is different from the method of accounting for these items in consolidated financial statements.

(3) Additional information

Board benefit trust (BBT) for Directors

The Company has put in place a board benefit trust (BBT), which is a performance-linked share-based remuneration plan, to incentivize Directors to improve performance and increase corporate value over the medium to long term.

Accounting treatment related to this trust agreement is based on the Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts (PITF No. 30, March 26, 2015).

1) Overview of the transaction

This plan is a performance-linked share-based remuneration plan, under which the Company's shares are acquired by a trust using funds contributed by the Company, and the Company's shares and cash equivalent to the market value of the Company's shares are provided to Directors and other beneficiaries from the trust in accordance with the regulations for granting of shares to officers established by the Company. In principle, the Company's shares and associated remuneration will be provided to Directors and other beneficiaries on their retirement.

2) Treasury shares remaining in trust

The shares of the Company remaining in trust are recorded as treasury shares under net assets based on the book value in trust (excluding the amount of incidental costs). As of December 31, 2021, the number of such treasury shares was 60,900 shares, amounting to the book value of 213 million yen. The average number of such shares for the fiscal year ended December 31, 2021 was 55,800 shares. These shares are included in treasury shares to be deducted for calculation of per share information.

Significant Accounting Estimates

Loss on valuation of inventories

- (1) Carrying amount in the non-consolidated financial statements for the current fiscal year

Merchandise and finished goods: ¥4,983 million

Cost of sales (loss on valuation of inventories): ¥(130) million

Loss on valuation of inventories is stated at a net amount reflecting reversals, with a negative amount indicating a reversal.

- (2) Information regarding significant accounting estimates for identified items

This information is omitted because it is the same as the information stated in “Notes to Consolidated Financial Statements, Significant Accounting Estimates, Loss on valuation of inventories, (2) Description of accounting estimates” in the consolidated financial statements.

Changes in Presentation

Application of Accounting Standard for Disclosure of Accounting Estimates

The Company has applied the Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31, March 31, 2020) from the non-consolidated financial statements prepared at the end of the fiscal year ended December 31, 2021, stating notes on significant accounting estimates in the non-consolidated financial statements. However, information for the previous fiscal year is not included in these notes, in accordance with the transitional treatment provided for in the proviso to paragraph 11 of the said accounting standard.

Notes to Non-consolidated Balance Sheet

- *1 Monetary receivables from and monetary payables to subsidiaries and associates

(Millions of yen)

	As of December 31, 2020	As of December 31, 2021
Short-term monetary receivables	1,694	2,658
Long-term monetary receivables	—	2,000
Short-term monetary payables	544	631

- *2 Assets pledged as collateral

The following properties are registered as factory foundations, which comprise the factory’s buildings, structures, machinery and equipment, vehicles, tools, furniture and fixtures, and land. These factory foundations have been pledged as collateral for obligations as follows.

[Pledge]

(Millions of yen)

	As of December 31, 2020	As of December 31, 2021
Toyama Plant	3,475	4,112
Shiga Plant	2,733	2,735
Total	6,208	6,848

[Obligations]

(Millions of yen)

	As of December 31, 2020	As of December 31, 2021
Short-term borrowings	2,710	2,710
Total	2,710	2,710

- *3 Notes matured at the end of the fiscal year

Notes are settled as of the note exchange date.

The following notes matured at the end of the fiscal year were included in the closing balance, because December 31, 2021 was a non-business day for financial institutions.

(Millions of yen)

	As of December 31, 2020	As of December 31, 2021
Notes receivable - trade	126	59

***4 Contingent liabilities**

The Company provides a joint and several guarantee on the following borrowings of subsidiaries and associates.

(Millions of yen)

	As of December 31, 2020	As of December 31, 2021
Nippon Carbon Engineering Co., Ltd.	250	Nippon Carbon Engineering Co., Ltd. –
NGS Advanced Fibers Co., Ltd.	1,615	NGS Advanced Fibers Co., Ltd. 1,095

Notes to Non-consolidated Statement of Income

***1 Items related to subsidiaries and associates**

(Millions of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Dividend income	205	140

***2 Major components of selling, general and administrative expenses and their approximate ratio were as follows:**

(Millions of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Depreciation	25	25
Packing cost	162	281
Freight costs	239	377
Sales commission	252	227
Salaries	427	416
Retirement benefit expenses	39	38
Provision for share awards for directors (and other officers)	14	19
Provision for bonuses	35	78
Provision for bonuses for directors (and other officers)	35	50
Research and development expenses	360	297
Approximate ratio		
Selling expenses:	29%	37%
General and administrative expenses:	71%	63%

*3 The breakdown of loss on retirement of non-current assets.

(Millions of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Facilities related to electrodes and fine carbon	174	10
Other	0	0
Total	174	10

*4 Loss on fire

Fiscal year ended December 31, 2020

This is the cost of restoring production facilities damaged in fire at the Company's Toyama Plant in January 2020.

Fiscal year ended December 31, 2021

This is the cost of restoring production facilities damaged in fire at the Shiga Plant in September 2021.

*5 Plant relocation related expense

Fiscal year ended December 31, 2020

The Company has recorded an estimated cost of relocating facilities at the Yamanashi Plant to the Toyama Plant to improve productivity.

Fiscal year ended December 31, 2021

The Company has recorded the cost of relocating facilities at the Yamanashi Plant to the Toyama Plant to improve productivity.

*6 Loss on valuation of shares of subsidiaries and associates

Fiscal year ended December 31, 2021

The loss pertains to NIPPON CARBON OF AMERICA, LLC, a consolidated subsidiary.

Securities

(Millions of yen)

Category	As of December 31, 2020	As of December 31, 2021
(1) Shares of subsidiaries	1,724	1,639
(2) Share of associates	1,477	1,477
Total	3,201	3,116

The above items do not have market prices, and their fair values are deemed extremely difficult to determine.

Deferred Tax Accounting

1. Major components of deferred tax assets and liabilities

	As of December 31, 2020	As of December 31, 2021
Deferred tax assets		
Excess of allowance for doubtful accounts	0	0
Provision for retirement benefits	93	96
Loss on valuation of inventories	85	38
Enterprise taxes payable	–	45
Undeducted portion of disaster restoration expenses	22	9
Provision for bonuses	42	56
Gain on sale of businesses	306	306
Impairment losses	530	465
Plant relocation related expense payable	51	–
Other	158	195
Subtotal	1,292	1,213
Valuation allowance	(995)	(967)
Total	297	246
Deferred tax liabilities		
Valuation difference on available-for-sale securities	(674)	(820)
Other	(112)	(106)
Total	(787)	(927)
Net deferred tax liabilities	(490)	(681)
(Note) Net deferred tax assets as of December 31, 2020 and December 31, 2021 are included in the following items on non-consolidated balance sheets.		

(Millions of yen)

	As of December 31, 2020	As of December 31, 2021
Non-current liabilities - deferred tax liabilities	(490)	(681)

2. Reconciliation of differences between the statutory effective tax rate and the actual effective rate of income taxes after application of deferred tax accounting

	As of December 31, 2020 (%)	As of December 31, 2021
Statutory effective tax rate	30.6	The note is omitted, because the difference between the statutory effective tax rate and the actual effective rate of income taxes after application of deferred tax accounting is less than 5% of statutory effective tax rate.
(Adjustments)		
Income not taxable permanently, such as dividend income	(4.1)	
Expenses not deductible permanently, such as entertainment expenses	1.2	
Expenses not deductible permanently, such as bonuses for directors (and other officers)	1.6	
Increase (decrease) of valuation allowance	(5.3)	
Tax credits	(5.5)	
Other	0.7	
Effective rate of income taxes after application of deferred tax accounting	19.3	

(iv) Annexed Non-consolidated Detailed Schedules

[Annexed detailed schedule of property, plant and equipment, etc.]

(Millions of yen)

Type of assets	Balance at beginning of period	Increase	Decrease	Balance at end of period	Accumulated depreciation and amortization at end of period	Depreciation and amortization	Net balance at end of period
Property, plant and equipment							
Buildings	8,531	113	49	8,595	6,359	146	2,235
Structures	1,491	41	16	1,516	983	51	532
Machinery and equipment	28,080	1,351	191	29,241	24,854	642	4,386
Vehicles	117	3	1	120	100	7	19
Tools, furniture and fixtures	1,236	41	29	1,248	1,040	70	207
Land	3,166	0	–	3,166	–	–	3,166
Construction in progress	529	1,049	1,503	75	–	–	75
Total	43,154	2,599	1,790	43,963	33,339	919	10,624
Intangible assets							
Software	–	–	–	213	–	46	166
Other	–	–	–	7	–	–	7
Total	–	–	–	220	–	46	173
Long-term prepaid expenses	292	5	14	283	165	75	117

(Notes) 1. Major increases of property, plant and equipment included the following.

(Millions of yen)

Toyama Plant	Enhancement of kneading, mixing, and molding facilities for electrodes	728
	Upgrades to electrode production facilities	301
Shiga Plant	Upgrades to purification facilities	136
	Upgrades to carbon fiber production facilities	123
	Environmental facilities	91

- Balance at beginning of period, increase, and decrease of intangible assets are omitted because intangible assets accounted for no more than 1% of total assets.
- Accumulated depreciation and amortization at end of period includes accumulated impairment losses.

[Annexed detailed schedule of provisions]

(Millions of yen)

Account title	Balance at beginning of period	Increase	Decrease	Balance at end of period
Allowance for doubtful accounts	2	2	2	2
Provision for bonuses	78	128	78	128
Provision for bonuses for directors (and other officers)	35	50	35	50
Provision for plant relocation related expense	167	95	262	–
Provision for share awards for directors (and other officers)	70	19	–	89
Provision for environmental measures	0	–	–	0

(Notes) 1. Reasons for recording provisions and methods of calculating their amounts are stated in “Significant Accounting Policies.”

2. The decrease in allowance for doubtful accounts was due to an annual reversal.

(2) Components of major assets and liabilities

This information is omitted because the Company prepares consolidated financial statements.

(3) Other

Not applicable