

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, 2022 (from January 1, 2022 to December 31, 2022) 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, 2021	As of December 31, 2022
Assets		
Current assets		
Cash and deposits	17,865	18,322
Notes and accounts receivable - trade	*3 11,592	-
Notes and accounts receivable - trade, and contract assets	-	*3, *4 11,922
Merchandise and finished goods	7,896	8,661
Work in process	4,595	4,408
Raw materials and supplies	2,886	3,447
Income taxes refund receivable	-	16
Other	585	781
Allowance for doubtful accounts	(22)	(14)
Total current assets	45,399	47,546
Non-current assets		
Property, plant and equipment		
Buildings and structures	17,407	17,494
Accumulated depreciation and impairment	(10,230)	(10,677)
Buildings and structures, net	7,177	6,817
Machinery and equipment	47,249	48,024
Accumulated depreciation and impairment	(39,053)	(39,629)
Machinery and equipment, net	8,195	8,394
Vehicles, tools, furniture and fixtures	3,392	3,558
Accumulated depreciation and impairment	(2,927)	(3,018)
Vehicles, tools, furniture and fixtures, net	464	540
Land	3,544	3,553
Construction in progress	132	197
Total property, plant and equipment	*2 19,515	*2 19,502
Intangible assets	264	240
Investments and other assets		
Investment securities	*1 5,172	*1 4,566
Deferred tax assets	378	434
Other	1,964	1,893
Allowance for doubtful accounts	(2)	(2)
Total investments and other assets	7,513	6,892
Total non-current assets	27,292	26,635
Total assets	72,692	74,181

(Millions of yen)

	As of December 31, 2021	As of December 31, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	*3 3,900	*3 5,416
Short-term borrowings	*2 9,180	*2 8,892
Accrued expenses	516	579
Income taxes payable	1,038	1,271
Advances received	552	801
Provision for bonuses	208	223
Provision for bonuses for directors (and other officers)	59	74
Provision for loss on orders received	—	0
Other	*3 1,571	*3 1,915
Total current liabilities	17,027	19,175
Non-current liabilities		
Long-term borrowings	1,387	200
Deferred tax liabilities	633	274
Retirement benefit liability	776	784
Provision for retirement benefits for directors (and other officers)	55	19
Provision for share awards for directors (and other officers)	89	85
Provision for environmental measures	28	0
Asset retirement obligations	62	62
Other	373	369
Total non-current liabilities	3,407	1,795
Total liabilities	20,434	20,971
Net assets		
Shareholders' equity		
Share capital	7,402	7,402
Capital surplus	7,857	7,858
Retained earnings	29,805	30,744
Treasury shares	(2,011)	(2,012)
Total shareholders' equity	43,054	43,992
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,868	1,493
Foreign currency translation adjustment	124	170
Remeasurements of defined benefit plans	(59)	(93)
Total accumulated other comprehensive income	1,932	1,570
Non-controlling interests	7,270	7,647
Total net assets	52,257	53,210
Total liabilities and net assets	72,692	74,181

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

(Millions of yen)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Net sales	31,578	*1 35,799
Cost of sales	*2, *4 23,539	*2, *4 25,950
Gross profit	8,038	9,849
Selling, general and administrative expenses	*3, *4 4,332	*3, *4 5,058
Operating profit	3,706	4,791
Non-operating income		
Interest income	4	1
Dividend income	99	130
Foreign exchange gains	146	250
Share of profit of entities accounted for using equity method	42	79
Subsidy income	2	–
Compensation income	366	–
Insurance claim income	208	223
Other	221	155
Total non-operating income	1,092	840
Non-operating expenses		
Interest expenses	61	52
Loss on retirement of non-current assets	20	156
Depreciation of inactive non-current assets	149	146
Loss on disaster	59	78
Other	72	155
Total non-operating expenses	363	589
Ordinary profit	4,434	5,042
Extraordinary income		
Gain on sale of investment securities	179	183
Total extraordinary income	179	183
Extraordinary losses		
Loss on fire	*5 97	–
Plant relocation related expense	*6 84	–
Total extraordinary losses	182	–
Profit before income taxes	4,431	5,225
Income taxes - current	1,362	1,812
Income taxes - deferred	7	(232)
Total income taxes	1,370	1,579
Profit	3,060	3,646
Profit attributable to non-controlling interests	331	451
Profit attributable to owners of parent	2,729	3,194

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Profit	3,060	3,646
Other comprehensive income		
Valuation difference on available-for-sale securities	332	(377)
Foreign currency translation adjustment	114	74
Remeasurements of defined benefit plans, net of tax	24	(33)
Total other comprehensive income	*	*
Total other comprehensive income	471	(336)
Comprehensive income	3,532	3,309
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,157	2,831
Comprehensive income attributable to non-controlling interests	375	478

(iii) Consolidated Statements of Changes in Equity

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
Cumulative effects of changes in accounting policies					–
Restated balance	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)
Disposal of treasury shares					–
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
Cumulative effects of changes in accounting policies				–		–
Restated balance	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)
Disposal of treasury shares				–		–
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

Fiscal year ended December 31, 2022

(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	29,805	(2,011)	43,054
Cumulative effects of changes in accounting policies			(46)		(46)
Restated balance	7,402	7,857	29,759	(2,011)	43,007
Changes during period					
Dividends of surplus			(2,208)		(2,208)
Profit attributable to owners of parent			3,194		3,194
Purchase of treasury shares				(1)	(1)
Disposal of treasury shares		0		0	0
Net changes in items other than shareholders' equity					-
Total changes during period	-	0	985	(0)	984
Balance at end of period	7,402	7,858	30,744	(2,012)	43,992

	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	1,868	124	(59)	1,932	7,270	52,257
Cumulative effects of changes in accounting policies				-		(46)
Restated balance	1,868	124	(59)	1,932	7,270	52,211
Changes during period						
Dividends of surplus				-		(2,208)
Profit attributable to owners of parent				-		3,194
Purchase of treasury shares				-		(1)
Disposal of treasury shares				-		0
Net changes in items other than shareholders' equity	(374)	45	(33)	(362)	376	13
Total changes during period	(374)	45	(33)	(362)	376	998
Balance at end of period	1,493	170	(93)	1,570	7,647	53,210

(iv) Consolidated Statements of Cash Flows

(Millions of yen)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Cash flows from operating activities		
Profit before income taxes	4,431	5,225
Depreciation	2,385	2,484
Increase (decrease) in retirement benefit liability	29	(40)
Increase (decrease) in provision for retirement benefits for directors (and other officers)	2	(36)
Increase (decrease) in provision for plant relocation related expense	(159)	–
Interest and dividend income	(103)	(131)
Insurance claim income	(208)	(223)
Compensation income	(366)	–
Interest expenses	61	52
Share of loss (profit) of entities accounted for using equity method	(42)	(79)
Loss (gain) on sale of investment securities	(179)	(183)
Loss on disaster	59	78
Loss on fire	97	–
Loss on retirement of non-current assets	20	156
Decrease (increase) in trade receivables	(2,302)	–
Decrease (increase) in trade receivables, and contract assets	–	(273)
Decrease (increase) in inventories	2,050	(1,083)
Increase (decrease) in trade payables	535	1,509
Increase (decrease) in accrued expenses	(71)	63
Increase (decrease) in accounts payable - other	(19)	(209)
Increase (decrease) in advances received	418	248
Decrease (increase) in accounts receivable - other	(90)	(205)
Other, net	(115)	(396)
Subtotal	6,434	6,955
Interest and dividends received	103	166
Interest paid	(59)	(52)
Income taxes refund	1,340	29
Income taxes paid	(842)	(1,604)
Proceeds from insurance income	208	304
Proceeds from compensation	366	–
Net cash provided by (used in) operating activities	7,551	5,798
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,528)	(1,775)
Purchase of intangible assets	(117)	(67)
Purchase of investment securities	(6)	(6)
Proceeds from sale of investment securities	544	247
Decrease (increase) in time deposits	500	–
Net cash provided by (used in) investing activities	(608)	(1,601)

(Millions of yen)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(250)	(300)
Proceeds from long-term borrowings	100	100
Repayments of long-term borrowings	(1,270)	(1,275)
Net decrease (increase) in treasury shares	(98)	(0)
Dividends paid	(2,206)	(2,206)
Dividends paid to non-controlling interests	(37)	(94)
Net cash provided by (used in) financing activities	(3,762)	(3,777)
Effect of exchange rate change on cash and cash equivalents	84	37
Net increase (decrease) in cash and cash equivalents	3,264	456
Cash and cash equivalents at beginning of period	14,455	17,720
Cash and cash equivalents at end of period	* 17,720	* 18,177

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.

(Note) The trade name of Nippon Techno-Carbon Co., Ltd. in Japanese was changed to Nippon Techno-Carbon Kabushiki Kaisha from Shin-Nippon Techno-Carbon Kabushiki Kaisha on January 1, 2023.

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 other than equity securities, etc. without 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)

Equity securities, etc. 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 (excluding leased assets)

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

(Note) The trade name of Nippon Techno-Carbon Co., Ltd. in Japanese was changed to Nippon Techno-Carbon Kabushiki Kaisha from Shin-Nippon Techno-Carbon Kabushiki Kaisha on January 1, 2023.

(ii) Intangible assets (excluding leased assets)

Software (for internal use)

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

(iii) Leased assets

Leased assets related to finance lease transactions that transfer ownership

The same method as the one for depreciation of own non-current assets 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 estimated payment amount to be borne in the fiscal year under review.

(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.

(Note) The trade name of Nippon Techno-Carbon Co., Ltd. in Japanese was changed to Nippon Techno-Carbon Kabushiki Kaisha from Shin-Nippon Techno-Carbon Kabushiki Kaisha on January 1, 2023.

(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 recognition of significant revenues and expenses

Revenues of the Group primarily come from the sale of its products. The performance obligations are fully satisfied when goods or services are delivered. For transactions in Japan, paragraph 98 of the "Implementation Guidance on Accounting Standard for Revenue Recognition" is applied to recognize revenue at the time of shipment of products. As for export transactions, revenue is recognized at the time of transfer of risks to customers based on the trade terms provided in the Incoterms and others.

With respect to revenues of subsidiaries, performance obligations for construction work contracts are satisfied over a certain period of time. For such contracts, the degree of completion of performance obligations is reasonably estimated to recognize revenue over a certain period of time. Where the degree of completion of performance obligations under relevant contracts cannot be reasonably estimated, the cost recovery method based on incurred costs expected to be recovered is used to recognize revenue.

Promised consideration is collected generally within six months from the time of satisfaction of relevant performance obligations. Further, no material financing factors are included in consideration for transactions.

(6) 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.

(7) 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.

(8) 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.

(9) 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	8,661
Work in process	4,408
Cost of sales (loss on valuation of inventories)	730

Loss on valuation of inventories is stated at a net amount reflecting reversals.

(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 end of the previous fiscal year. 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.

Changes in Accounting Policies

Application of accounting standard for revenue recognition, etc.

The Company has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020; hereinafter referred to as the "Revenue Recognition Accounting Standard") and others from the beginning of the fiscal year ended December 31, 2022, to recognize revenue in an amount expected to be received in exchange for a promised good or service upon the transfer of the control of the relevant good or service to a customer. As a

result, for contracts where risks are not transferred at the time of lading among export sales to which the lading basis was previously applied, revenue is now recognized upon the transfer of risks to customers based on trade terms provided in the Incoterms and others. Also, for contracts where performance obligations are satisfied over a certain period of time among those to which the completed contract method was previously applied, revenue is now recognized over a certain period of time as performance obligations are satisfied. Where the degree of completion of relevant performance obligations cannot be reasonably estimated, the cost recovery method based on incurred costs expected to be recovered is used to recognize revenue for such contracts.

The Revenue Recognition Accounting Standard and others are applied in accordance with the transitional treatment set forth in paragraph 84, proviso of the Revenue Recognition Accounting Standard. Accordingly, retained earnings at the beginning of the current fiscal year have been adjusted for cumulative effects of applying the new accounting policy retrospectively to periods prior to the beginning of the current fiscal year, and the new accounting policy is applied from such beginning balance. However, the new accounting policy is not retrospectively applied to contracts for which revenue was recognized almost in full before the beginning of the current fiscal year, in accordance with the method provided for in paragraph 86 of the Revenue Recognition Accounting Standard.

As a result, compared to the previous method, net sales and cost of sales during the fiscal year ended December 31, 2022 increased 96 million yen and 49 million yen, respectively. Gross profit, operating profit, ordinary profit and profit before income taxes increased 46 million yen. Further, the balance of retained earnings at the beginning of the current period decreased 46 million yen. Given the application of the Revenue Recognition Accounting Standard and others, “Notes and accounts receivable - trade” which were presented in “Current assets” on the consolidated balance sheet for the fiscal year ended December 31, 2021 are presented as part of “Notes and accounts receivable - trade, and contract assets” from the fiscal year ended December 31, 2022. However, no reclassification using the new presentation method is made for the previous fiscal year, in accordance with the transitional treatment provided for in paragraph 89-2 of the Revenue Recognition Accounting Standard.

Application of accounting standard for fair value measurement, etc.

The Company has applied “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019; hereinafter referred to as the “Fair Value Measurement Accounting Standard”) and others from the beginning of the fiscal year ended December 31, 2022. Further, in accordance with the transitional treatment set forth in paragraph 19 of the Fair Value Measurement Accounting Standard and paragraph 44-2 of “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019), the Company has prospectively applied a new accounting policy prescribed by the Fair Value Measurement Accounting Standard and others. This has no impact on the consolidated financial statements. In addition, the Company has added a note regarding information on breakdown, etc. by level of fair values of financial instruments in the Notes to financial instruments.

Changes in Presentation

Consolidated balance sheets

“Advances received,” which was included in “Other” under “Current liabilities” in the fiscal year ended December 31, 2021, is now presented separately due to the increased importance of the item as a result of the Revenue Recognition Accounting Standard applied from the fiscal year ended December 31, 2022. To reflect this change in presentation, reclassification has been made for the previous fiscal year.

As a result, 2,123 million yen presented as “Other” under “Current liabilities” in the consolidated balance sheets for the previous fiscal year has been reclassified as “Advances received” of 552 million yen and “Other” of 1,571 million yen.

Consolidated statements of cash flows

“Loss on disaster” and “Increase (decrease) in advances received,” which were included in “Other” under “Cash flows from operating activities” in the fiscal year ended December 31, 2021, are now separately presented due to the increased importance of their amounts. To reflect this change in presentation, reclassification has been made for the previous fiscal year.

As a result, 362 million yen presented as “Other” under “Cash flows from operating activities” in the consolidated statements of cash flows for the previous fiscal year has been reclassified as “Loss on disaster” of 59 million yen, “Increase (decrease) in advances received” of 418 million yen, and “Other, net” of negative 115 million yen.

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, 2022, the number of such treasury shares was 609 hundred shares, amounting to the book value of 213 million yen. The average number of such shares for the fiscal year ended December 31, 2022 was 609 hundred 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, 2021	As of December 31, 2022
Investment securities (shares)	1,152	1,147
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, 2021	As of December 31, 2022
Property, plant and equipment	6,848	7,679

[Obligations]

(Millions of yen)

	As of December 31, 2021	As of December 31, 2022
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, 2022 was a non-business day for financial institutions.

(Millions of yen)

	As of December 31, 2021	As of December 31, 2022
Notes receivable - trade	103	133
Notes payable - trade	62	140
Notes payable - facilities	24	15

*4 Claims arising from contracts with customers

The amounts of claims and contract assets arising from contracts with customers among Notes and accounts receivable - trade, and contract assets are as follows:

(Millions of yen)

	As of December 31, 2021	As of December 31, 2022
Notes receivable - trade	—	2,465
Accounts receivable - trade	—	9,349
Contract assets	—	108

Notes to Consolidated Statements of Income

*1 Revenue from contracts with customers

For net sales, revenue from contracts with customers is not shown separately from other revenues. The amount of revenue from contracts with customers is provided in “Notes to Consolidated Financial Statements, Revenue Recognition, 1. Information on the breakdown of revenue from contracts with customers.”

*2 Ending balance of inventories is an amount with consideration of write-downs due to decreased profitability and includes loss on valuation of inventories as follows:

(Millions of yen)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
	(62)	730

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

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

(Millions of yen)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Salaries, bonuses and allowances	949	952
Sales commission	233	249
Freight-out and packing cost	958	1,514
Provision for retirement benefits for directors (and other officers)	18	20
Retirement benefit expenses	56	52
Provision for share awards for directors (and other officers)	19	15
Provision for bonuses	78	78
Provision for bonuses for directors (and other officers)	59	58
Research and development expenses	297	276

*4 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, 2021	Fiscal year ended December 31, 2022
	368	369

*5 Loss on fire

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.

*6 Plant relocation related expense

Fiscal year ended December 31, 2021

The Company 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, 2021	Fiscal year ended December 31, 2022
Valuation difference on available-for-sale securities		
Gains or losses arising during the year	659	(360)
Reclassification adjustments to profit or loss	(179)	(183)
Amount before income tax effect	479	(544)
Income tax effect	(146)	166
Valuation difference on available-for-sale securities	332	(377)
Foreign currency translation adjustment		
Gains or losses arising during the year	114	74
Remeasurements of defined benefit plans, net of tax		
Gains or losses arising during the year	14	(63)
Reclassification adjustments to profit or loss	20	15
Amount before income tax effect	34	(48)
Income tax effect	(10)	14
Remeasurements of defined benefit plans, net of tax	24	(33)
Total other comprehensive income	471	(336)

Notes to Consolidated Statements of Changes in Equity

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 389 hundred shares at the beginning of the fiscal year and 609 hundred 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: 3 hundred shares

Increase due to the board benefit trust (BBT) purchasing shares: 220 hundred 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).

Fiscal year ended December 31, 2022

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)	7,887	3	0	7,890

(Note) The above figures include shares in the Company held by the board benefit trust (BBT), which amounted to 609 hundred shares at the beginning of the fiscal year and 609 hundred 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: 3 hundred shares
 Decrease due to sale of shares less than one unit: (0) hundred shares

3. Dividends

(1) Dividends paid

Resolution	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
March 29, 2022 Annual General Meeting of Shareholders	Common shares	1,110	100.00	December 31, 2021	March 30, 2022
August 10, 2022 Board of Directors	Common shares	1,110	100.00	June 30, 2022	September 7, 2022

(Notes) 1. 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).
 2. The total amount of dividends pursuant to the resolution at the Board of Directors meeting held on August 10, 2022 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, 2023 Annual General Meeting of Shareholders	Common shares	1,110	Retained earnings	100.00	December 31, 2022	March 30, 2023

(Note) The total amount of dividends to be resolved at the Annual General Meeting of Shareholders held on March 29, 2023 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, 2021	Fiscal year ended December 31, 2022
Cash and deposits	17,865	18,322
Time deposits with maturity of over three months	(145)	(145)
Cash and cash equivalents	17,720	18,177

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, (7) 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

Because calculations of financial instruments 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.

As of December 31, 2021

(Millions of yen)

	Carrying amount (A)	Fair value (B)	Difference (B) - (A)
(1) Investment securities (*2)			
Available-for-sale securities	3,995	3,995	–
Total assets	3,995	3,995	–
(1) Long-term borrowings (current portion of long-term borrowings included)	2,657	2,658	0
Total liabilities	2,657	2,658	0

(*1) Notes on cash are omitted, and notes to deposits, notes and accounts receivable - trade, and contract assets, income taxes refund receivable, notes and accounts payable - trade, notes payable - facilities, advances received, short-term borrowings, and income taxes payable are omitted since they are scheduled to be settled in a short period of time, causing the fair value to approximate the book value.

(*2) Equity securities, etc. that have no market value and for which future cash flows cannot be estimated are not included in “(1) Investment securities.” Carrying amount of such financial instruments on the consolidated balance sheet is as follows:

(Millions of yen)

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

As of December 31, 2022

(Millions of yen)

	Carrying amount (A)	Fair value (B)	Difference (B) - (A)
(1) Investment securities (*2)			
Available-for-sale securities	3,394	3,394	–
Total assets	3,394	3,394	–
(1) Long-term borrowings (current portion of long-term borrowings included)	1,482	1,482	0
Total liabilities	1,482	1,482	0

(*1) Notes on cash are omitted, and notes to deposits, notes and accounts receivable - trade, and contract assets, income taxes refund receivable, notes and accounts payable - trade, notes payable - facilities, advances received, short-term borrowings, and income taxes payable are omitted since they are scheduled to be settled in a short period of time, causing the fair value to approximate the book value.

(*2) Equity securities, etc. without market value are not included in “(1) Investment securities.” Carrying amount of such financial instruments on the consolidated balance sheet is as follows:

(Millions of yen)

Category	As of December 31, 2021
Unlisted shares	
Shares of subsidiaries and associates	1,147
Available-for-sale securities	24

(Note 1) Expected redemption amounts of monetary claims and securities with maturity after the consolidated balance sheet date

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	–	–	–

As of December 31, 2022

(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	18,322	–	–	–
Notes receivable - trade	2,465	–	–	–
Accounts receivable - trade	9,349	–	–	–
Total	30,137	–	–	–

(Note 2) Repayment schedule of short-term borrowings and long-term borrowings after the consolidated balance sheet date

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	–

As of December 31, 2022

(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	7,610	–	–	–	–	–
Long-term borrowings	1,282	80	70	35	15	–

3. Breakdown, etc. by level of fair values of financial instruments

The fair values of financial instruments are classified into the following three levels depending on the observability and significance of the input used in the fair value measurement.

Level 1: Fair value measured by the market price of an asset or liability in active markets among the observable inputs

Level 2: Fair value measured by the observable inputs other than the Level 1 inputs

Level 3: Fair value measured by unobservable inputs

If multiple inputs are used with a significant impact on fair value measurement, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input.

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

As of December 31, 2022

(Millions of yen)

Category	Fair value			
	Level 1	Level 2	Level 3	Total
Investment securities				
Available-for-sale securities				
Shares	3,394	–	–	3,394
Total assets	3,394	–	–	3,394

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

As of December 31, 2022

(Millions of yen)

Category	Fair value			
	Level 1	Level 2	Level 3	Total
Long-term borrowings	–	1,482	–	1,482
Total liabilities	–	1,482	–	1,482

(3) Description of the valuation techniques and inputs used in the fair value measurement

Investment securities

The fair value of listed shares is measured using quoted prices. Listed shares are traded in active markets and their fair value is categorized within Level 1.

Long-term borrowings

The fair value of long-term borrowings is determined by using discounted cash flow based on the total amount of the principal and interest and an interest rate that takes into consideration the remaining tenor of the relevant debt and credit spread, and is classified into Level 2 fair value.

Securities

1. Available-for-sale securities with market value

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

As of December 31, 2022

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	3,329	1,153	2,175
Subtotal		3,329	1,153	2,175
Items whose carrying amount does not exceed acquisition cost	Shares	65	81	(16)
Subtotal		65	81	(16)
Total		3,394	1,235	2,159

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

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	(0)

Fiscal year ended December 31, 2022

(Millions of yen)

Category	Sale proceeds	Total gain on sale	Total loss on sale
(1) Shares	247	183	—
(2) Other	—	—	—
Total	247	183	—

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, 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.

As of December 31, 2022

(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	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, 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)
<hr/> Balance of retirement benefit obligations at end of period	<hr/> 1,726

(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)
<hr/> Balance of plan assets at end of period	<hr/> 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)
<hr/> Retirement benefit liability at end of period	<hr/> 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
Total	34

- (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
Total	86

(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%

Fiscal year ended December 31, 2022

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	1,726
Service cost	110
Interest cost	6
Actuarial gains and losses accrued	7
Retirement benefits paid	(174)
<u>Balance of retirement benefit obligations at end of period</u>	<u>1,676</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	1,325
Expected return on plan assets	26
Actuarial gains and losses accrued	(56)
Contribution from employer	60
Retirement benefits paid	(112)
Balance of plan assets at end of period	1,243

- (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	374
Retirement benefit expenses	51
Retirement benefits paid	(55)
Contribution to plans	(20)
Retirement benefit liability at end of period	350

- (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	1,676
Plan assets	(1,243)
	433
Retirement benefit obligations of unfunded plans	350
Net amount of liabilities and assets recorded in the consolidated balance sheet	784
Retirement benefit liability	784
Net amount of liabilities and assets recorded in the consolidated balance sheet	784

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

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

	(Millions of yen)
Service cost	110
Interest cost	6
Expected return on plan assets	(26)
Amortization of actuarial gains and losses	15
Amortization of past service cost	0
Retirement benefit expenses applying simplified method	51
Retirement benefit expenses under defined benefit plans	157

(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	17
Actuarial gains and losses	(65)
<u>Total</u>	<u>(48)</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	7
Unrecognized actuarial gains and losses	(142)
<u>Total</u>	<u>(134)</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)	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%

Deferred Tax Accounting

1. Major components of deferred tax assets and liabilities

(Millions of yen)

	As of December 31, 2021	As of December 31, 2022
Deferred tax assets		
Excess of allowance for doubtful accounts	0	0
Retirement benefit liability	240	248
Loss on valuation of inventories	241	491
Enterprise taxes payable	68	78
Excess of provision for bonuses	73	79
Impairment losses	465	422
Tax effects relating to unrealized profit	134	166
Accrued expenses	14	4
Other	578	766
Subtotal	1,813	2,254
Valuation allowance	(1,180)	(1,196)
Total	633	1,058
Deferred tax liabilities		
Valuation difference on available-for-sale securities	(666)	(661)
Tax effects relating to undistributed profit of overseas consolidated subsidiaries	(113)	(135)
Other	(109)	(102)
Total	(888)	(898)
Net deferred tax assets (liabilities)	(255)	160

(Note) Net deferred tax assets as of December 31, 2021 and December 31, 2022 are included in the following items on consolidated balance sheets.

	(Millions of yen)	
	As of December 31, 2021	As of December 31, 2022
Non-current assets - deferred tax assets	378	434
Non-current liabilities - deferred tax liabilities	(633)	(274)

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, 2021	As of December 31, 2022
	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.

Revenue Recognition

Notes to revenue recognition

1. Information on the breakdown of revenue from contracts with customers

It is as per the description in “Notes to Consolidated Financial Statements, Segment Information, Etc., 3. Disclosure of sales, profit (loss), asset, liability, and other items for each reportable segment and information on disaggregation of revenue.”

2. Underlying information to understand revenue from contracts with customers

It is as per the description in “Notes to Consolidated Financial Statements, Basis of Preparation of Consolidated Financial Statements, 4. Accounting policies, (5) Accounting policy for recognition of significant revenues and expenses.”

3. Information on the relationship between the satisfaction of performance obligations pursuant to contracts with customers and the cash flows arising from relevant contracts, as well as the amount and timing of revenues expected to be recognized in the following fiscal years from contracts with customers that exist at the end of the fiscal year ended December 31, 2022

(1) Balance, etc. of contract assets and contract liabilities

(Millions of yen)

	As of the end of the current fiscal year (December 31, 2022)
Claims arising from contracts with customers (Balance at beginning of period)	11,500
Claims arising from contracts with customers (Balance at end of period)	11,814
Contract assets (Balance at beginning of period)	94
Contract assets (Balance at end of period)	108

Contract assets are claims that are recognized as performance obligations under construction work contracts are satisfied with progresses in construction work.

(2) Transaction price allocated to remaining performance obligations

Since the initially planned term of contracts with customers at the Group is one year or less, information on transaction price allocated to remaining performance obligations is omitted.

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.

Application of accounting standard, etc. for revenue recognition

The Company has applied the Revenue Recognition Accounting Standard and others from the beginning of the fiscal year ended December 31, 2022, as described in “Notes to Consolidated Financial Statements, Changes in Accounting Policies, Application of accounting standard for revenue recognition, etc.” to change the accounting method for revenue recognition. The method for determining profit of a business segment has been changed accordingly. The change caused net sales of Carbon product business and Other businesses to increase by 92 million yen and 4 million yen, respectively, compared to those under the previous method. Segment profit also increased by 46 million yen.

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

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.

Fiscal year ended December 31, 2022

(Millions of yen)

	Reportable segment				Adjustment (Notes) 1.	Carrying amount (Notes) 2.
	Carbon product business	Silicon carbide product business	Other	Total		
Net sales						
Fine carbon-related products	21,715	–	–	21,715	–	21,715
Electrode-related products	11,131	–	–	11,131	–	11,131
Silicon carbide-related products	–	2,045	–	2,045	–	2,045
Other	–	–	906	906	–	906
Revenue from contracts with customers	32,847	2,045	906	35,799	–	35,799
Other revenue	–	–	–	–	–	–
Revenues from external customers	32,847	2,045	906	35,799	–	35,799
Transactions with other segments	0	6	668	675	(675)	–
Total	32,847	2,052	1,574	36,474	(675)	35,799
Segment profit	4,422	140	210	4,773	18	4,791
Segment assets	45,776	5,549	1,111	52,437	21,743	74,181
Other items						
Depreciation	1,838	642	44	2,526	(41)	2,484
Increase in property, plant and equipment and intangible assets	2,472	29	0	2,502	(38)	2,463

(Notes) 1. Adjustments are as follows.

- (1) The adjustment to segment assets of 21,743 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 (41) million yen and the adjustment to increase in property, plant and equipment and intangible assets of (38) 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, 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	China	Other	Total
19,304	2,695	9,578	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.

Fiscal year ended December 31, 2022

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	China	Other	Total
19,745	3,725	12,328	35,799

(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, 2021

Not applicable

Fiscal year ended December 31, 2022

Not applicable

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

Fiscal year ended December 31, 2021

Not applicable

Fiscal year ended December 31, 2022

Not applicable

[Information about gain on bargain purchase by reportable segment]

Fiscal year ended December 31, 2021

Not applicable

Fiscal year ended December 31, 2022

Not applicable

Related Party Information

Fiscal year ended December 31, 2021

Not applicable

Fiscal year ended December 31, 2022

Not applicable

Per Share Information

(Yen)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Net assets per share	4,073.56	4,125.77
Basic earnings per share	247.00	289.24

- (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 558 hundred shares for the fiscal year ended December 31, 2021 and 609 hundred shares for the fiscal year ended December 31, 2022, 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, 2021	As of December 31, 2022
Total net assets (Millions of yen)	52,257	53,210
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)	7,270	7,647
[Of which, non-controlling interests (Millions of yen)]	[7,270]	[7,647]
Net assets attributable to common shares (Millions of yen)	44,987	45,562
Number of common shares as of the fiscal year-end used in the calculation of net assets per share (hundreds of shares)	110,437	110,434

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

Item	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Profit attributable to owners of parent (Millions of yen)	2,729	3,194
Profit attributable to owners of parent attributable to common shares (Millions of yen)	2,729	3,194
Profit (loss) not attributable to common shareholders (Millions of yen)	–	–
Average number of outstanding common shares during the period (hundreds of shares)	110,490	110,436

Subsequent Events

The Company acquired the following shares pursuant to the capital and business alliance agreement with SEC CARBON, LIMITED dated October 7, 2022 which is described in “II. Business Overview, 4. Material Agreements, etc.”

Name of the company whose shares were acquired	Date of acquisition	Number of shares	Acquisition value (Millions of yen)	Payment method
SEC CARBON, LIMITED	March 7, 2023	41,400	356	Funded by own funds
	March 8, 2023	80,000	575	Funded by own funds

(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	7,910	7,610	0.45	–
Current portion of long-term borrowings	1,270	1,282	0.68	–
Current portion of lease liabilities	–	–	–	–
Long-term borrowings (excluding current portion)	1,387	200	0.66	2024 to 2027
Lease liabilities (excluding current portion)	–	–	–	–
Other interest-bearing debt	–	–	–	–
Total	10,567	9,092	–	–

(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	80	70	35	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	Second quarter	Nine months ended September 30, 2021	Fiscal year ended December 31, 2021
Net sales (Millions of yen)	7,812	18,376	26,683	35,799
Profit before income taxes (Millions of yen)	1,127	3,088	4,685	5,225
Profit attributable to owners of parent (Millions of yen)	766	1,885	2,951	3,194
Basic earnings per share (Yen)	69.36	170.77	267.23	289.24

Accounting period	First quarter	Second quarter	Third quarter	Fourth quarter
Basic earnings per share (Yen)	69.36	101.41	96.46	22.01

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, 2021	As of December 31, 2022
Assets		
Current assets		
Cash and deposits	13,646	13,380
Notes receivable - trade	*1, *3 959	*1, *3 854
Accounts receivable - trade	*1 6,843	*1 7,115
Merchandise and finished goods	4,983	5,959
Work in process	745	817
Raw materials and supplies	1,353	1,616
Prepaid expenses	119	122
Short-term loans receivable	314	310
Other	95	662
Total current assets	29,063	30,840
Non-current assets		
Property, plant and equipment		
Buildings	*2 2,235	*2 2,174
Structures	*2 532	*2 509
Machinery and equipment	*2 4,386	*2 5,262
Vehicles	*2 19	*2 12
Tools, furniture and fixtures	*2 207	*2 266
Land	*2 3,166	*2 3,166
Construction in progress	75	95
Total property, plant and equipment	10,624	11,488
Intangible assets		
Software	166	131
Other	7	7
Total intangible assets	173	138
Investments and other assets		
Investment securities	3,979	3,386
Shares of subsidiaries and associates	3,116	3,116
Long-term loans receivable	*1 2,000	*1 2,000
Long-term prepaid expenses	117	54
Other	1,806	1,797
Allowance for doubtful accounts	(2)	(2)
Total investments and other assets	11,018	10,353
Total non-current assets	21,816	21,979
Total assets	50,879	52,820

(Millions of yen)

	As of December 31, 2021	As of December 31, 2022
Liabilities		
Current liabilities		
Notes payable - trade	416	577
Accounts payable - trade	*1 2,867	*1 4,090
Short-term borrowings	*2 3,640	*2 3,542
Accounts payable - other	*1 631	*1 1,270
Accrued expenses	*1 202	*1 265
Income taxes payable	752	822
Notes payable - facilities	52	154
Advances received	213	552
Provision for bonuses	128	135
Provision for bonuses for directors (and other officers)	50	58
Other	*1 89	*1 77
Total current liabilities	9,045	11,547
Non-current liabilities		
Long-term borrowings	237	200
Deferred tax liabilities	681	345
Provision for retirement benefits	314	298
Provision for share awards for directors (and other officers)	89	85
Provision for environmental measures	0	0
Long-term guarantee deposits	262	261
Asset retirement obligations	60	60
Other	66	65
Total non-current liabilities	1,712	1,316
Total liabilities	10,758	12,864
Net assets		
Shareholders' equity		
Share capital	7,402	7,402
Capital surplus		
Legal capital surplus	1,851	1,851
Other capital surplus	6,006	6,007
Total capital surplus	7,857	7,858
Retained earnings		
Other retained earnings		
Retained earnings brought forward	25,012	25,218
Total retained earnings	25,012	25,218
Treasury shares	(2,011)	(2,012)
Total shareholders' equity	38,261	38,466
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	1,860	1,488
Total valuation and translation adjustments	1,860	1,488
Total net assets	40,121	39,955
Total liabilities and net assets	50,879	52,820

(ii) Non-consolidated Statements of Income

(Millions of yen)

	Fiscal year ended December 31, 2021		Fiscal year ended December 31, 2022	
Net sales	*1	19,770	*1	21,979
Cost of sales		14,303		15,599
Gross profit		5,466		6,379
Selling, general and administrative expenses	*2	3,025	*2	3,489
Operating profit		2,441		2,890
Non-operating income				
Interest income		20		20
Dividend income	*1	239	*1	302
Insurance claim income		191		216
Foreign exchange gains		137		226
Miscellaneous income		220		74
Total non-operating income		809		840
Non-operating expenses				
Interest expenses		19		18
Loss on retirement of non-current assets	*3	10	*3	137
Loss on disaster		59		94
Commission fee		–		45
Miscellaneous expenses		67		92
Total non-operating expenses		156		388
Ordinary profit		3,094		3,342
Extraordinary income				
Gain on sale of investment securities		179		183
Total extraordinary income		179		183
Extraordinary losses				
Loss on fire	*4	97		–
Plant relocation related expense	*5	95		–
Loss on valuation of shares of subsidiaries and associates	*6	85		–
Total extraordinary losses		277		–
Profit before income taxes		2,996		3,526
Income taxes - current		848		1,183
Income taxes - deferred		44		(171)
Total income taxes		893		1,011
Profit		2,103		2,514

(iii) Non-consolidated Statements of Changes in Equity

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
Cumulative effects of changes in accounting policies				-		-
Restated balance	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				-		-
Disposal 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
Cumulative effects of changes in accounting policies		-		-	-
Restated balance	(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)
Disposal of treasury shares		-		-	-
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

Fiscal year ended December 31, 2022

(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	25,012	25,012
Cumulative effects of changes in accounting policies				–	(100)	(100)
Restated balance	7,402	1,851	6,006	7,857	24,912	24,912
Changes during period						
Dividends of surplus				–	(2,208)	(2,208)
Profit				–	2,514	2,514
Purchase of treasury shares				–		–
Disposal of treasury shares			0	0		–
Net changes in items other than shareholders' equity				–		–
Total changes during period	–	–	0	0	305	305
Balance at end of period	7,402	1,851	6,007	7,858	25,218	25,218

	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	(2,011)	38,261	1,860	1,860	40,121
Cumulative effects of changes in accounting policies		(100)		–	(100)
Restated balance	(2,011)	38,161	1,860	1,860	40,021
Changes during period					
Dividends of surplus		(2,208)		–	(2,208)
Profit		2,514		–	2,514
Purchase of treasury shares	(1)	(1)		–	(1)
Disposal of treasury shares	0	0		–	0
Net changes in items other than shareholders' equity		–	(371)	(371)	(371)
Total changes during period	(0)	305	(371)	(371)	(66)
Balance at end of period	(2,012)	38,466	1,488	1,488	39,955

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 other than equity securities, etc. without market value
Stated at fair value.
(Valuation differences are booked directly in a separate component of net assets, and cost of securities sold is determined by the moving average method)

Equity securities, etc. 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 policy for recognition of revenues and expenses

Revenues of the Company primarily come from the sale of its products. The performance obligations are fully satisfied when goods or services are delivered. For transactions in Japan, paragraph 98 of the "Implementation Guidance on Accounting Standard for Revenue Recognition" is applied to recognize revenue at the time of shipment of products. As for export transactions, revenue is recognized at the time of transfer of risks to customers based on the trade terms provided in the Incoterms and others.

8. 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.

9. 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, 2022, the number of such treasury shares was 609 hundred shares, amounting to the book value of 213 million yen. The average number of such shares for the fiscal year ended December 31, 2022 was 609 hundred 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: ¥5,959 million

Cost of sales (loss on valuation of inventories): ¥699 million

Loss on valuation of inventories is stated at a net amount reflecting reversals.

- (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 Accounting Policies

Application of accounting standard, etc. for revenue recognition

The Company has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020; hereinafter referred to as the “Revenue Recognition Accounting Standard”) and others from the beginning of the fiscal year ended December 31, 2022, to recognize revenue in an amount expected to be received in exchange for a promised good or service upon the transfer of the control of the relevant good or service to a customer. As a result, for contracts where risks are not transferred at the time of lading among export sales to which the lading basis was previously applied, revenue is now recognized upon the transfer of risks to customers based on trade terms provided in the Incoterms and others.

The Revenue Recognition Accounting Standard and others are applied in accordance with the transitional treatment set forth in Paragraph 84, proviso of the Revenue Recognition Accounting Standard. Accordingly, retained earnings at the beginning of the current fiscal year have been adjusted for cumulative effects of applying the new accounting policy retrospectively to periods prior to the beginning of the current fiscal year, and the new accounting policy is applied from such beginning balance. However, the new accounting policy is not retrospectively applied to contracts for which revenue was recognized almost in full before the beginning of the current fiscal year, in accordance with the method provided for in paragraph 86 of the Revenue Recognition Accounting Standard.

As a result, compared to the previous method, net sales during the current period ended December 31, 2022 increased 23 million yen. Cost of sales decreased 4 million yen, and gross profit and operating profit increased 27 million yen. Further, foreign exchange gains increased 6 million yen, and ordinary profit and profit before income taxes increased 33 million yen. Further, the balance of retained earnings at the beginning of the current fiscal year decreased 100 million yen.

Application of Accounting Standard for Fair Value Measurement, etc.

The Company has applied “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019; hereinafter referred to as the “Fair Value Measurement Accounting Standard”) and others from the beginning of the fiscal year ended December 31, 2022. Further, in accordance with the transitional treatment set forth in paragraph 19 of the Fair Value Measurement Accounting Standard and paragraph 44-2 of “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019), the Company has prospectively applied a new accounting policy prescribed by the Fair Value Measurement Accounting Standard and others. This has no impact on the non-consolidated financial statements.

Changes in Presentation

Non-consolidated Balance Sheets

“Advances received,” which was included in “Other” under “Current liabilities” in the fiscal year ended December 31, 2021, is now presented separately due to the increased importance of the item as a result of the Revenue Recognition Accounting Standard applied from the fiscal year ended December 31, 2022. To reflect this change in presentation, reclassification has been made for the previous fiscal year.

As a result, 303 million yen presented as “Other” under “Current liabilities” in the non-consolidated balance sheets for the previous fiscal year has been reclassified as “Advances received” of 213 million yen and “Other” of 89 million yen.

Notes to Non-consolidated Balance Sheet

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

(Millions of yen)

	As of December 31, 2021	As of December 31, 2022
Short-term monetary receivables	2,658	3,767
Long-term monetary receivables	2,000	2,000
Short-term monetary payables	631	989

*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, 2021	As of December 31, 2022
Toyama Plant	4,112	4,827
Shiga Plant	2,735	2,851
Total	6,848	7,679

[Obligations]

(Millions of yen)

	As of December 31, 2021	As of December 31, 2022
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, 2022 was a non-business day for financial institutions.

(Millions of yen)

	As of December 31, 2021	As of December 31, 2022
Notes receivable - trade	59	85

*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, 2021	As of December 31, 2022
NGS Advanced Fibers Co., Ltd.	1,095	NGS Advanced Fibers Co., Ltd. 575

Notes to Non-consolidated Statement of Income

*1 Items related to subsidiaries and associates

(Millions of yen)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Net sales	4,440	6,421
Dividend income	140	186

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

(Millions of yen)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Depreciation	25	27
Packing cost	281	327
Freight costs	377	749
Sales commission	227	238
Salaries	416	390
Retirement benefit expenses	38	35
Provision for share awards for directors (and other officers)	19	15
Provision for bonuses	78	78
Provision for bonuses for directors (and other officers)	50	58
Research and development expenses	297	276

Approximate ratio

Selling expenses:	37%	43%
General and administrative expenses:	63%	57%

*3 The breakdown of loss on retirement of non-current assets is as follows:

(Millions of yen)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Facilities related to electrodes and fine carbon	10	133
Other	0	4
Total	10	137

*4 Loss on fire

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, 2021

The Company 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

As of December 31, 2021

Carrying amounts of shares of subsidiaries and affiliates whose fair values are deemed extremely difficult to determine

(Millions of yen)

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

As of December 31, 2022

Carrying amounts of equity securities, etc. without market value whose fair values are deemed extremely difficult to determine

(Millions of yen)

Category	As of December 31, 2022
(1) Shares of subsidiaries	1,639
(2) Share of associates	1,477
Total	3,116

Deferred Tax Accounting

1. Major components of deferred tax assets and liabilities

(Millions of yen)

	As of December 31, 2021	As of December 31, 2022
Deferred tax assets		
Excess of allowance for doubtful accounts	0	0
Provision for retirement benefits	96	91
Loss on valuation of inventories	38	239
Enterprise taxes payable	45	49
Undeducted portion of disaster restoration expenses	9	–
Provision for bonuses	56	41
Gain on sale of businesses	306	306
Impairment losses	465	422
Other	195	215
Subtotal	1,213	1,367
Valuation allowance	(967)	(954)
Total	246	412
Deferred tax liabilities		
Valuation difference on available-for-sale securities	(820)	(657)
Other	(106)	(100)
Total	(927)	(758)
Net deferred tax liabilities	(681)	(345)

(Note) Net deferred tax assets as of December 31, 2021 and December 31, 2022 are included in the following items on non-consolidated balance sheets.

(Millions of yen)

	As of December 31, 2021	As of December 31, 2022
Non-current liabilities - deferred tax liabilities	(681)	(345)

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, 2021	As of December 31, 2022 (%)
Statutory effective tax rate	The note is omitted, because the	30.6
(Adjustments)	difference between the statutory	
Income not taxable permanently, such as dividend income	effective tax rate and the actual	(1.8)
Expenses not deductible permanently, such as entertainment expenses	effective rate of income taxes after	
Expenses not deductible permanently, such as bonuses for directors (and other officers)	application of deferred tax accounting	1.0
Increase (decrease) of valuation allowance	is less than 5% of statutory effective	
Tax credits	tax rate.	0.4
Other		(0.4)
Effective rate of income taxes after application of deferred tax accounting		28.7

Revenue Recognition

The note for underlying information to understand revenue from contracts with customers is omitted, because the same information is provided in “Notes to Non-consolidated Financial Statements, Changes in Accounting Policies, Application of accounting standard for revenue recognition, etc.”

Subsequent Events

The information is omitted because the same information is provided in “Notes to Consolidated Financial Statements, Subsequent Events.”

(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	8,595	94	41	8,647	6,472	148	2,174
Structures	1,516	30	23	1,524	1,014	53	509
Machinery and equipment	29,241	1,602	1,054	29,788	24,526	712	5,262
Vehicles	120	1	3	118	105	8	12
Tools, furniture and fixtures	1,248	128	97	1,279	1,012	61	266
Land	3,166	–	–	3,166	–	–	3,166
Construction in progress	75	1,849	1,829	95	–	–	95
Total	43,963	3,706	3,050	44,619	33,130	984	11,488
Intangible assets							
Software	–	–	–	184	–	53	131
Other	–	–	–	7	–	–	7
Total	–	–	–	191	–	53	138
Long-term prepaid expenses	283	2	31	254	200	66	54

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

(Millions of yen)

Toyama Plant	Upgrades to electrode production facilities	1,249
Shiga Plant	Enhancement of and upgrades to carbon fiber production facilities	506

- 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	128	135	128	135
Provision for bonuses for directors (and other officers)	50	58	50	58
Provision for share awards for directors (and other officers)	89	15	19	85
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.
 3. The decrease in provision for share awards for directors (and other officers) was due to the reversal of points scheduled to be granted that were accumulated in prior years.

(2) Components of major assets and liabilities

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

(3) Other

Not applicable