

NGK INSULATORS, LTD. and Consolidated Subsidiaries

Consolidated Financial Statements
for the Year Ended March 31, 2021, and
Independent Auditor's Report

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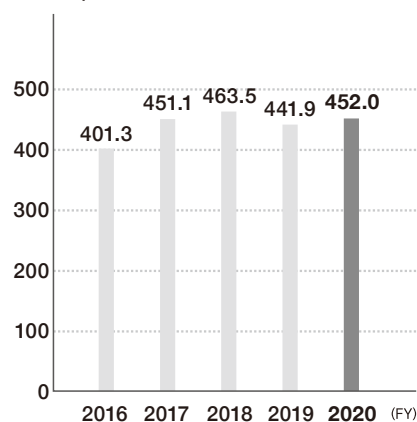
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Financial Highlights

The following data includes financial results of consolidated subsidiaries
(17 domestic, 30 overseas companies as of March 31, 2021)

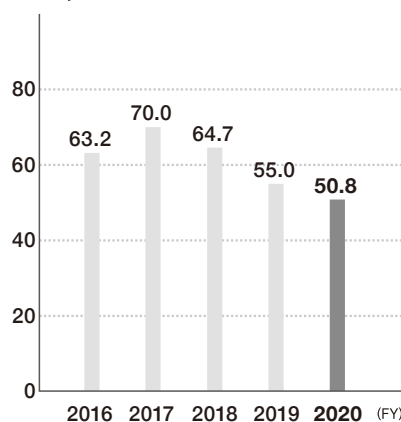
Net Sales

(Billions of yen)



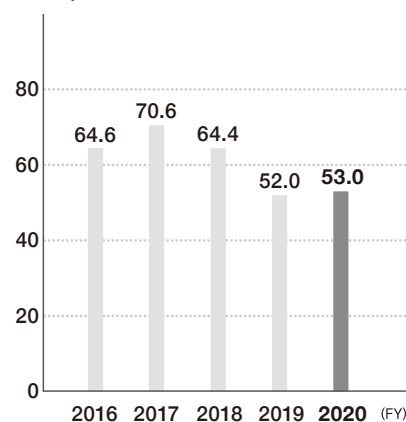
Operating Income

(Billions of yen)



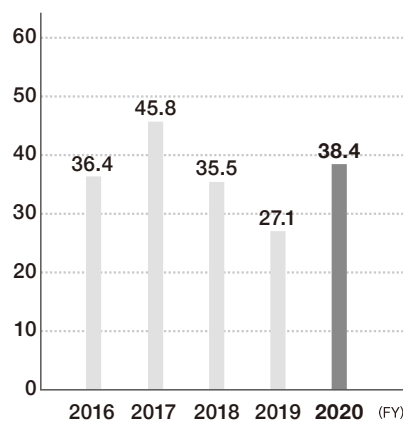
Ordinary Income

(Billions of yen)



Net Income

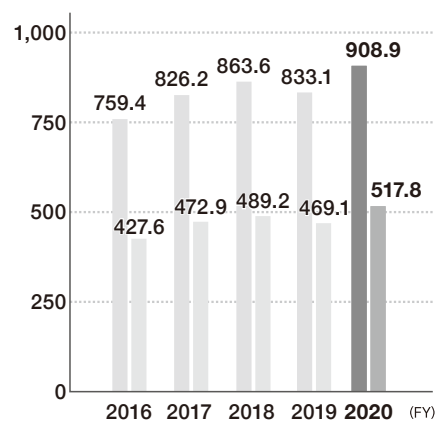
(Billions of yen)



Total Assets / Net Assets

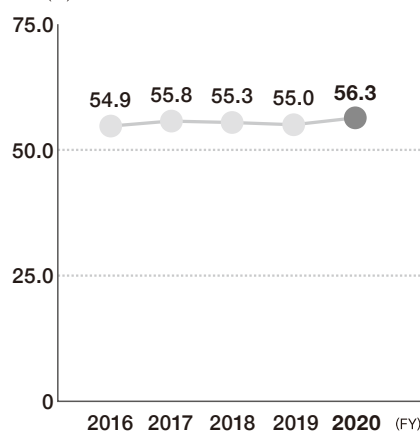
(Billions of yen)

■ Total Assets ■ Net Assets



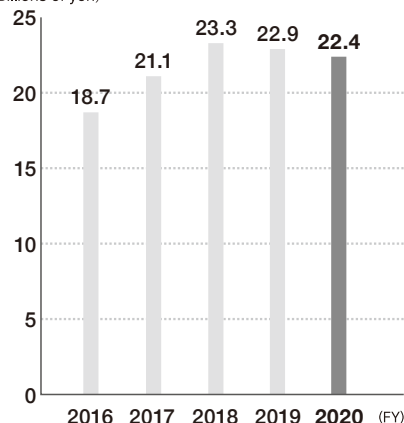
Equity Ratio

(%)

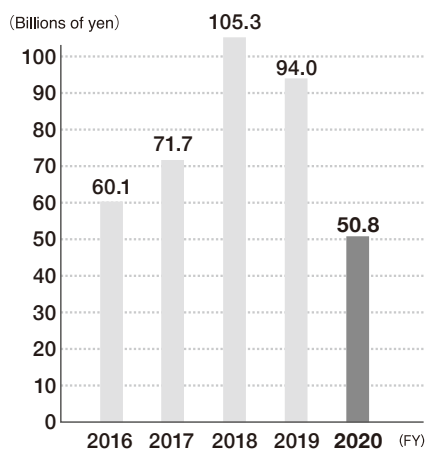


Research and Development Expenses

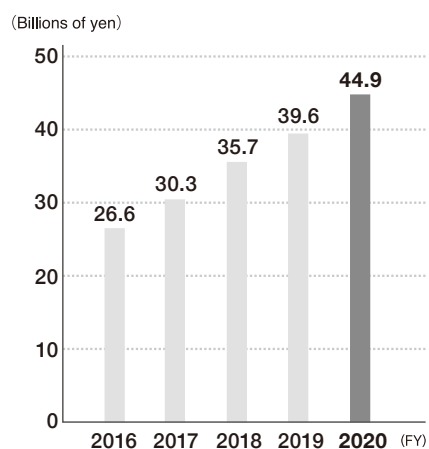
(Billions of yen)



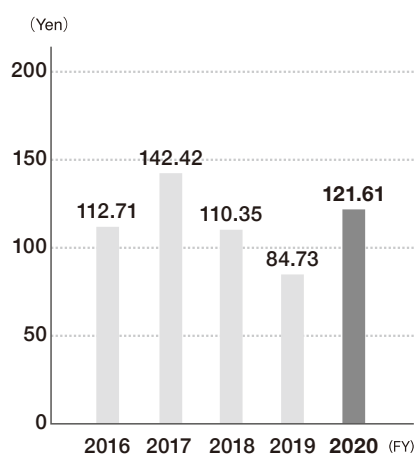
Capital Expenditures



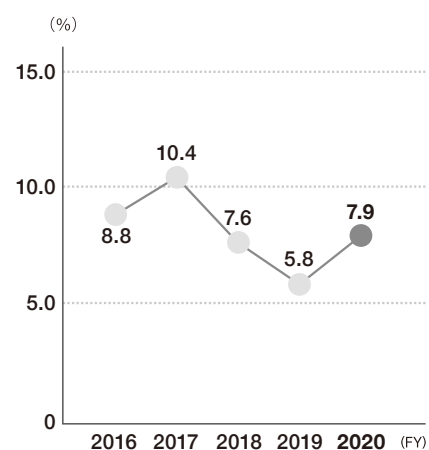
Depreciation and Amortization



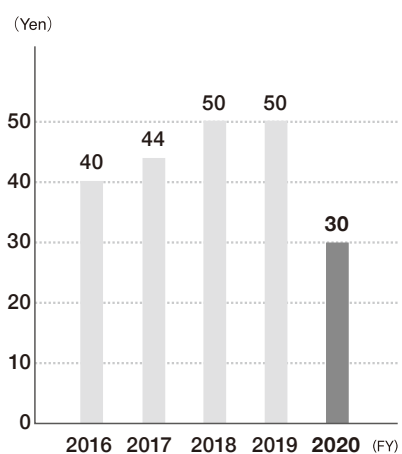
Net Income per share



Return on Equity



Dividends



Stock Price

FY	2016	2017	2018	2019	2020
Highest(Yen)	2,578	2,563	2,131	1,994	2,153
Lowest(Yen)	1,800	1,768	1,400	1,168	1,171

NGK INSULATORS, LTD. AND CONSOLIDATED SUBSIDIARIES

**CONSOLIDATED BALANCE SHEET
MARCH 31, 2021**

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
CURRENT ASSETS:			
Cash and cash equivalents (Note 14)	¥ 146,031	¥ 94,691	\$ 1,315,597
Time deposits (Note 14)	228	1,869	2,053
Marketable securities (Notes 4 and 14)	20,103	14,617	181,109
Notes and accounts receivable:			
Trade notes and accounts (Note 14)	114,497	101,378	1,031,504
Other	15,130	15,101	136,302
Allowance for doubtful accounts	(131)	(153)	(1,176)
Total	129,496	116,326	1,166,630
Inventories (Note 5)	150,472	157,390	1,355,603
Prepaid expenses and other current assets	11,610	13,482	104,595
Total current assets	457,940	398,375	4,125,587
PROPERTY, PLANT AND EQUIPMENT (Note 3.a and 6)			
Land	28,695	29,451	258,512
Buildings and structures	228,177	213,221	2,055,647
Machinery and equipment	576,876	527,626	5,197,082
Construction in progress	28,028	45,376	252,503
Other	3,408	2,286	30,703
Total	865,184	817,960	7,794,447
Accumulated depreciation	(492,973)	(458,552)	(4,441,196)
Net property, plant and equipment	372,211	359,408	3,353,251
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4 and 14)	44,670	33,971	402,433
Investments in unconsolidated subsidiaries and associated companies	16,491	16,026	148,566
Intangible assets	5,065	3,460	45,631
Net defined benefit assets (Note 3.b and 8)	4,815	6,387	43,375
Deferred tax assets (Note 3.c and 11)	5,473	12,766	49,304
Other assets	2,302	2,693	20,749
Total investments and other assets	78,816	75,303	710,058
TOTAL	¥ 908,967	¥ 833,086	\$ 8,188,896

(Continued)

NGK INSULATORS, LTD. AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEET MARCH 31, 2021

LIABILITIES AND EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
CURRENT LIABILITIES:			
Short-term borrowings (Notes 7 and 14)	¥ 18,046	¥ 6,407	\$ 162,579
Current portion of long-term debt (Notes 7 and 14)	21,927	9,219	197,542
Notes and accounts payable:			
Trade notes and accounts (Note 14)	42,241	42,690	380,553
Other	15,410	16,775	138,829
Total	57,651	59,465	519,382
Accrued expenses	20,732	19,836	186,772
Provision for NAS Battery safety measures	1,465	1,657	13,201
Provision for loss related to competition law	-	1,146	-
Income taxes payable (Notes 11 and 14)	9,098	12,226	81,965
Other current liabilities	7,074	4,334	63,718
Total current liabilities	135,993	114,290	1,225,159
LONG-TERM LIABILITIES:			
Long-term debt (Notes 7 and 14)	224,271	218,774	2,020,462
Net defined benefit liability (Note 3.b and 8)	21,758	21,012	196,019
Provision for product warranties	591	899	5,327
Deferred tax liabilities (Note 3.c and 11)	1,402	1,998	12,634
Other long-term liabilities	7,060	6,994	63,594
Total long-term liabilities	255,082	249,677	2,298,036
CONTINGENT LIABILITIES (Note 16)			
EQUITY (Note 9):			
Common stock:			
Authorized — 735,030 thousand shares			
Issued — 322,212 thousand shares			
at March 31, 2021 and 2020	69,849	69,849	629,272
Capital surplus	70,199	70,199	632,427
Stock acquisition rights (Note 10)	872	829	7,857
Retained earnings (Note 18)	372,641	345,689	3,357,122
Treasury stock — at cost: 5,639 thousand shares and 5,668 thousand shares			
at March 31, 2021 and 2020, respectively (Note 9.c)	(11,206)	(11,264)	(100,953)
Accumulated other comprehensive income			
Unrealized gain on available-for-sale securities	19,258	11,337	173,493
Deferred loss on derivatives under hedge accounting	(186)	(462)	(1,678)
Foreign currency translation adjustments	(4,919)	(21,390)	(44,313)
Defined retirement benefit plans	(3,633)	(5,406)	(32,726)
Total	512,875	459,381	4,620,501
Noncontrolling interests	5,017	9,738	45,200
Total equity	517,892	469,119	4,665,701
TOTAL	¥ 908,967	¥ 833,086	\$ 8,188,896

See notes to consolidated financial statements.

(Concluded)

NGK INSULATORS, LTD. AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME YEAR ENDED MARCH 31, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2020
NET SALES	¥ 452,044	¥ 441,956	\$ 4,072,466
COST OF SALES (Note 12)	329,062	313,459	2,964,516
Gross profit	122,982	128,497	1,107,950
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 12)	72,158	73,496	650,076
Operating income	50,824	55,001	457,874
OTHER INCOME (EXPENSES):			
Interest and dividends income	1,380	1,813	12,434
Interest expense	(3,438)	(3,025)	(30,975)
Loss on sales of and disposals of property, plant and equipment — net	(119)	(230)	(1,076)
Equity in earnings of unconsolidated subsidiary and associated company	1,622	1,352	14,616
Reversal of provision for product warranties	234	661	2,106
Foreign exchange gain (loss)	1,781	(3,072)	16,048
Loss on valuation of derivatives	(928)	-	(8,362)
Gain on sales of investment securities — net	620	4,081	5,589
Impairment loss on long-lived assets (Note 3.a and 6)	(2,267)	(12,559)	(20,422)
Subsidies for employment adjustment	1,014	-	9,131
Subsidy income	1,880	591	16,934
Other — net	518	(777)	4,667
Other income (expenses) — net	2,297	(11,165)	20,690
INCOME BEFORE INCOME TAXES	53,121	43,836	478,564
INCOME TAXES (Note 3.c and 11):			
Current	11,090	15,816	99,907
Refund	-	(426)	-
Deferred	3,375	1,956	30,401
Total income taxes	14,465	17,346	130,308
NET INCOME	38,656	26,490	348,256
NET INCOME (LOSS) ATTRIBUTABLE TO NONCONTROLLING INTERESTS	160	(645)	1,443
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 38,496	¥ 27,135	\$ 346,813
	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2.x and 18):			
Basic net income	¥ 121.61	¥ 84.73	\$ 1.096
Diluted net income	121.42	84.60	1.094
Cash dividends applicable to the year	30.00	50.00	0.270

See notes to consolidated financial statements.

NGK INSULATORS, LTD. AND CONSOLIDATED SUBSIDIARIES

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED MARCH 31, 2021**

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2020
NET INCOME	¥ 38,656	¥ 26,490	\$ 348,256
OTHER COMPREHENSIVE INCOME (LOSS) (Note 17):			
Unrealized gain (loss) on available-for-sale securities	7,918	(9,927)	71,334
Deferred gain (loss) on derivatives under hedge accounting	276	(314)	2,484
Foreign currency translation adjustments	16,985	(10,505)	153,012
Share of other comprehensive (loss) income in associated companies	(186)	82	(1,672)
Defined retirement benefit plans	1,915	(100)	17,256
Total other comprehensive income (loss)	26,908	(20,764)	242,414
COMPREHENSIVE INCOME	¥ 65,564	¥ 5,726	\$ 590,670
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:			
Owners of parent	¥ 64,937	¥ 6,727	\$ 585,025
Noncontrolling interests	627	(1,001)	5,645

See notes to consolidated financial statements.

NGK INSULATORS, LTD. AND CONSOLIDATED SUBSIDIARIES
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
YEAR ENDED MARCH 31, 2021**

	Thousands					
	Outstanding Number of Common Stock	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock
Balance at March 31, 2019	321,781	¥ 69,849	¥ 71,978	¥ 923	¥ 343,324	¥ (12,122)
Cumulative effects of accounting change	-	-	-	-	242	-
Net income attributable to owners of the parent	-	-	-	-	27,135	-
Cash dividends, ¥ 50 per share	-	-	-	-	(16,090)	-
Purchase of treasury stock	(5,351)	-	-	-	-	(10,004)
Disposal of treasury stock	114	-	(72)	-	-	234
Cancellation of treasury stock	-	-	(1,707)	-	(8,922)	10,629
Net change in the year	-	-	-	(94)	-	-
Balance at March 31, 2020	316,544	69,849	70,199	829	345,689	(11,264)
Net income attributable to owners of the parent	-	-	-	-	38,496	-
Cash dividends, ¥ 35 per share	-	-	-	-	(11,079)	-
Purchase of treasury stock	(2)	-	-	-	-	(3)
Disposal of treasury stock	31	-	(25)	-	-	61
Transfer of loss on disposal of treasury shares	-	-	25	-	(25)	-
Change in scope of consolidation	-	-	-	-	(440)	-
Net change in the year	-	-	-	43	-	-
Balance at March 31, 2021	316,573	¥ 69,849	¥ 70,199	¥ 872	¥ 372,641	¥ (11,206)

	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock
Balance at March 31, 2020	\$ 629,272	\$ 632,427	\$ 7,468	\$ 3,114,315	\$ (101,479)
Net income attributable to owners of the parent	-	-	-	346,813	-
Cash dividends, \$0.32 per share	-	-	-	(99,814)	-
Purchase of treasury stock	-	-	-	-	(29)
Disposal of treasury stock	-	(226)	-	-	555
Transfer of loss on disposal of treasury shares	-	226	-	(226)	-
Change in scope of consolidation	-	-	-	(3,966)	-
Net change in the year	-	-	389	-	-
Balance at March 31, 2021	\$ 629,272	\$ 632,427	\$ 7,857	\$ 3,357,122	\$ (100,953)

See notes to consolidated financial statements.

Millions of Yen

Accumulated Other Comprehensive Income						
Unrealized Gain on Available-for-Sale Securities	Deferred Loss on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling Interests	Total Equity
¥ 21,260	¥ (136)	¥ (11,056)	¥ (5,580)	¥ 478,439	¥ 10,806	¥ 489,245
-	-	-	-	242	-	242
-	-	-	-	27,135	-	27,135
-	-	-	-	(16,090)	-	(16,090)
-	-	-	-	(10,004)	-	(10,004)
-	-	-	-	161	-	161
-	-	-	-	-	-	-
(9,924)	(326)	(10,334)	174	(20,503)	(1,068)	(21,571)
11,337	(462)	(21,390)	(5,406)	459,381	9,738	469,119
-	-	-	-	38,496	-	38,496
-	-	-	-	(11,079)	-	(11,079)
-	-	-	-	(3)	-	(3)
-	-	-	-	36	-	36
-	-	-	-	-	-	-
-	-	-	-	(440)	-	(440)
7,921	276	16,471	1,773	26,484	(4,721)	21,763
¥ 19,258	¥ (186)	¥ (4,919)	¥ (3,633)	¥ 512,875	¥ 5,017	¥ 517,892

Thousands of U.S. Dollars (Note 1)

Accumulated Other Comprehensive Income						
Unrealized Gain on Available-for-Sale Securities	Deferred Loss on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling Interests	Total Equity
\$ 102,131	\$ (4,162)	\$ (192,702)	\$ (48,704)	\$ 4,138,566	\$ 87,729	\$ 4,226,295
-	-	-	-	346,813	-	346,813
-	-	-	-	(99,814)	-	(99,814)
-	-	-	-	(29)	-	(29)
-	-	-	-	329	-	329
-	-	-	-	-	-	-
-	-	-	-	(3,966)	-	(3,966)
71,362	2,484	148,389	15,978	238,602	(42,529)	196,073
\$ 173,493	\$ (1,678)	\$ (44,313)	\$ (32,726)	\$ 4,620,501	\$ 45,200	\$ 4,665,701

NGK INSULATORS, LTD. AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS **YEAR ENDED MARCH 31, 2021**

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
OPERATING ACTIVITIES:			
Income before income taxes	¥ 53,121	¥ 43,836	\$ 478,564
Adjustments for:			
Income taxes — paid	(13,347)	(15,032)	(120,246)
Depreciation and amortization	44,943	39,580	404,889
Impairment loss on fixed assets	2,267	12,559	20,422
Equity in earnings of unconsolidated subsidiary and associated company	(1,622)	(1,352)	(14,616)
Gain on sales of investment securities — net	(620)	(4,081)	(5,589)
Changes in assets and liabilities:			
(Increase) decrease in notes and accounts receivable — trade	(12,637)	2,520	(113,849)
Decrease (increase) in inventories	10,426	(13,966)	93,925
Decrease (increase) in other current assets	1,688	(2,410)	15,209
Decrease in net defined benefit assets	1,322	469	11,910
Decrease in notes and accounts payable — trade	(2,375)	(6,752)	(21,397)
Increase (decrease) in other current liabilities	3,199	(6,781)	28,818
Other — net	(723)	4,611	(6,493)
Total adjustments	32,521	9,365	292,983
Net cash provided by operating activities	85,642	53,201	771,547
INVESTING ACTIVITIES:			
Purchases of marketable securities	(41,399)	(34,749)	(372,966)
Proceeds from sales and redemption of marketable securities	36,672	54,532	330,376
Proceeds from sales and redemption of investment securities	2,910	12,662	26,214
Purchases of property, plant and equipment	(50,840)	(93,799)	(458,014)
Purchase of intangible assets	(2,503)	(1,573)	(22,553)
Decrease in time deposits	1,720	2,239	15,499
Proceeds from sale of shares of subsidiaries resulting in change in scope of consolidation	706	-	6,363
Other — net	1,009	(143)	9,094
Net cash used in investing activities	(51,725)	(60,831)	(465,987)
FINANCING ACTIVITIES:			
Increase in short-term borrowings — net	11,264	2,409	101,480
Proceeds from long-term debt	21,284	34,559	191,752
Repayments of long-term debt	(9,417)	(28,980)	(84,841)
Purchase of treasury stock	(3)	(10,004)	(29)
Cash dividends	(11,079)	(16,090)	(99,814)
Other — net	202	(690)	1,817
Net cash provided by (used in) financing activities	12,251	(18,796)	110,365
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	5,172	(2,867)	46,597
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	51,340	(29,293)	462,522
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	94,691	123,984	853,075
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 146,031	¥ 94,691	\$ 1,315,597

Additional Information

Cash proceeds and the breakdown of assets and liabilities of 8 subsidiaries excluded from consolidation as of the date of exclusion, as a result of sale of its shares, were as follows:

	2021	2020	2021
Current assets	¥ 7,114	¥ -	\$ 64,093
Fixed assets	5,719	-	51,524
Current liabilities	(1,521)	-	(13,707)
Long-term liabilities	(2,413)	-	(21,741)
Noncontrolling interests	(5,275)	-	(47,523)
Other	(472)	-	(4,251)
Loss on sale of shares	(594)	-	(5,354)
Sale price of shares	2,558	-	23,041
Cash and cash equivalents	(1,852)	-	(16,678)
Net Proceeds from sale of shares	¥ 706	¥ -	\$ 6,363

See notes to consolidated financial statements.

NGK INSULATORS, LTD. AND CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Financial Statements Year Ended March 31, 2021

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2020 consolidated financial statements to conform to the classifications used in 2021.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which NGK INSULATORS, Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥111 to \$1, the approximate rate of exchange at March 31, 2021. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation—The consolidated financial statements as of March 31, 2021 include the accounts of the Company and its 45 (55 in 2020) significant subsidiaries (together, the "Group"). SOSHIN ELECTRIC CO., LTD. ("SOSHIN") and its 7 consolidated subsidiaries have been excluded from consolidation as a result of sale of SOSHIN shares. In addition, NGK-LOCKE POLYMER INSULATORS INC and NGK CHEMITECH, LTD. have been excluded from consolidation as a result of two mergers: consolidated subsidiaries NGK-LOCKE, INC and NGK-LOCKE POLYMER INSULATORS INC were merged and consolidated subsidiaries IKEBUKURO HORO KOGYO CO., LTD and NGK CHEMITECH, LTD were merged. The statement of income of those subsidiaries have been consolidated until their exclusion from consolidation. IKEBUKURO HORO KOGYO CO., LTD changed its trade name to NGK CHEMITECH, LTD.

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in one unconsolidated subsidiary and one associated company are accounted for by the equity method.

Investments in the remaining unconsolidated subsidiaries and associated company are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

All significant intercompany balances and transactions have been eliminated in

consolidation. All material unrealized profit included in assets resulting from transactions within the Group is also eliminated. The fiscal years of subsidiaries are not necessarily the same as that of the Company. Eight foreign consolidated subsidiaries in China and Mexico, etc. have different fiscal years. Those subsidiaries prepared provisional financial information at March 31 for the consolidation.

- b. *Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements***— Under Accounting Standards Board of Japan ("ASBJ") Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements," the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards ("IFRS") or generally accepted accounting principles in the United States of America ("US GAAP") tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting; and (e) recording a gain or loss through profit or loss on the sale of an investment in an equity instrument for the difference between the acquisition cost and selling price, and recording impairment loss through profit or loss for other-than-temporary declines in the fair value of an investment in an equity instrument, where a foreign subsidiary elects to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument.
- c. *Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method***— ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments," requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method, unless it is impracticable to determine such adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either IFRS or US GAAP tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting; and (e) recording a gain or loss through profit or loss on the sale of an investment in an equity instrument for the difference between the acquisition cost and selling price, and recording impairment loss through profit or loss for other-than-temporary declines in the fair value of an investment in an equity instrument, where a foreign associate elects to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument.
- d. *Business Combinations***— Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the periods in which the costs are incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the

provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date. A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as capital surplus as long as the parent retains control over its subsidiary.

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

Cash equivalents include time deposits, certificates of deposit, and investment trusts that represent short-term investments, all of which mature or become due within three months of the date of acquisition.

- f. Inventories*—Inventories are stated at the lower of cost, determined principally by the average method for finished products, work in process, and raw materials, or net selling value (see Note 5). Write-downs of inventories in the amounts of ¥216 million (\$1,948 thousand) and ¥106 million for the years ended March 31, 2021 and 2020, respectively, were included in cost of sales. Costs of contracts in progress are stated at cost, determined by the specific identification method.

- g. Allowance for Doubtful Accounts*—To provide for the loss from doubtful accounts, the allowance for doubtful accounts is calculated using the historical rate of actual losses for normal receivables and the estimated nonrecoverable amount for specific doubtful receivables after considering the recoverability of each account.

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

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

- i. Property, Plant and Equipment*—Property, plant, and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated subsidiaries is computed by the straight-line method.

The range of useful lives is principally from 10 to 50 years for buildings and structures and from 3 to 12 years for machinery and equipment.

- j. Long-Lived Assets*—The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use

and eventual disposition of the asset, or the net selling price at disposition.

Intangible assets are amortized by the straight-line method.

- k. Retirement and Pension Plans**—Net defined benefit liability (asset) is accounted for based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a benefit-formula basis. Actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income) after adjusting for tax effects. Actuarial gains and losses are amortized and charged to expense on a straight-line basis over 10 years within the expected average remaining service period of the employees from the consolidated fiscal year following the year when they occur. Past service costs are amortized and charged to expense on a straight-line basis, mainly over 10 years, within the expected average remaining service period of the employees.

Certain domestic consolidated subsidiaries apply the simplified method to state the liability based on the amount that would be paid if employees retired at the consolidated balance sheet date.

- l. Stock Options**— The cost of employee stock options is measured based on the fair value at the date of grant and recognized as compensation expenses over the vesting period as consideration for receiving goods or services. In the consolidated balance sheet, stock options are presented as stock acquisition rights as a separate component of equity until exercised.
- m. Research and Development Costs**—Research and development costs are charged to income as incurred.
- n. Provision for Product Warranties Costs**—The Company and certain consolidated subsidiaries estimate and accrue the costs of warranty repair for products sold in reserve for future expenses.
- o. Provision for NAS Battery Safety Measures**—In September 2011, Company-manufactured NAS® (sodium-sulfur) batteries used for storing electricity caught fire. The Company, in connection with this incident, reserved an allowance as "Provision for NAS Battery safety measures" for anticipated future expenses related to safety measures necessary to expand the NAS battery business, to the extent that such amount can be reasonably estimated.
- p. Provision for Loss Related to Competition Law**—The Company estimated and recorded an allowance for estimated losses related to competition law.
- q. Revenue Recognition**—The Group recognizes revenue mainly upon the delivery of products, based on the contract terms and other relevant factors. Effective April 1, 2018, foreign consolidated subsidiaries, which apply IFRS, adopted IFRS 15, Revenue from Contracts with Customers. Effective April 1, 2019, foreign consolidated subsidiaries, which apply US GAAP, adopted Topic 606, Revenue from Contracts with Customers.
- r. Construction Contracts**—Construction revenue and construction costs are recognized by the percentage-of-completion method if the outcome of a construction contract can be estimated reliably. When total construction revenue, total construction costs, and the stage of completion of the contract at the balance sheet date can be reliably measured, the outcome of a construction contract is deemed to be estimated reliably. If the outcome of a construction contract cannot be reliably estimated, the completed-contract method should be applied. When it is probable that the total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for a loss

on such construction contracts.

- s. **Income Taxes**—The provision for current income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.
- t. **Leases**—Foreign consolidated subsidiaries, which apply IFRS, recognize all leases as both assets and liabilities on their balance sheets in principle. Effective April 1, 2019, these subsidiaries adopted IFRS16, Leases.
- u. **Foreign Currency Transactions**—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.
- v. **Foreign Currency Financial Statements**—The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.
- w. **Derivatives and Hedging Activities**—The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts, interest rate and currency swaps, and interest rate swaps are utilized by the Group to reduce foreign currency exchange and interest rate risks. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments are classified and accounted for as follows: (1) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statement of income; and (2) for derivatives used for hedging purposes, if such derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

Foreign currency forward contracts employed to hedge foreign exchange exposures for export sales and import purchases are measured at fair value and the unrealized gains/losses are recognized in income. Forward contracts applied for forecasted (or committed) transactions are also measured at fair value but the unrealized gains/losses are deferred until the underlying transactions are completed.

Interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense.

Long-term debt denominated in foreign currencies for which currency and interest rate swaps are used to hedge the foreign currency and interest rate fluctuations is also translated at the contracted rate and the differential paid or received under the swap agreements is recognized and included in interest expense when currency and interest swaps meet the above criteria.

- x. **Per Share Information**—Basic net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full exercise of outstanding stock acquisition rights.

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

y. **New Accounting Pronouncements**

Revenue recognition—The International Accounting Standards Board issued IFRS 15, Revenue from Contracts with Customers, together with the introduction of Topic 606 into the Financial Accounting Standards Board's Accounting Standards Codification. IFRS 15 is effective for annual reporting periods beginning after January 1, 2018, and Topic 606 is effective for annual reporting periods beginning after December 15, 2018. These are comprehensive accounting standards regarding revenue recognition. These require the entities to recognize revenue at the estimated transaction price when the entity satisfies a performance obligation.

In response to said issuance, on March 30, 2018, the ASBJ issued ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition," and ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition", which were revised on March 31, 2020. These establish a comprehensive framework for recognizing revenue from contracts with customers.

The main purpose for developing the accounting standards regarding revenue recognition by the ASBJ, was to enhance the comparability between financial statements under IFRS 15 and under ASBJ Statement No. 29 and Guidance No. 30; the accounting standards fundamentally incorporate the basic policies of IFRS 15, where there are items which should be considered according to business practices in Japan, and alternative policies will be added to the extent that difference between IFRS 15 and ASBJ Statement No. 29 and Guidance No. 30 is immaterial.

The Company and subsidiaries in Japan expect to apply ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition," and ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition." for annual periods beginning on or after April 1, 2021, and the effects of applying the accounting standard and guidance in future applicable periods are insignificant.

Fair value measurement — On July 4, 2019, the ASBJ issued ASBJ Statement No. 30, "Accounting Standard for Fair Value Measurement," ASBJ Guidance No. 31, "Implementation Guidance on Accounting Standard for Fair Value Measurement," ASBJ Statement No.9, "Accounting Standard for Valuation of Inventories," and ASBJ No. 10, "Accounting Standard for Financial Instruments," and on March 31, 2020, the ASBJ issued ASBJ Guidance No. 19, "Disclosure of Fair Value of Financial Instruments," These are established for developing accounting standards for fair value of financial instruments, valuation of inventories for trading purposes, and the disclosure of fair value of financial instruments by fair value hierarchy. The Group expects to apply the standards and guidance for annual periods beginning on or after April 1, 2021, and are in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

Leases—The Financial Accounting Standards Board issued Topic 842, Leases. The standard requires lessees to recognize all leases as both assets and liabilities on their balance sheets in principle. There are no significant changes in the accounting standards for lessors. Topic 842 is in effect for annual reporting periods beginning on or after April 1, 2022. The effects of applying Topic 842 are in the process of being measured.

3. SIGNIFICANT ACCOUNTING ESTIMATES

a. Impairment of long-lived assets

(1) Carrying amounts

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
	<u>2021</u>	<u>2021</u>
Impairment loss on long-lived assets	¥ 2,267	\$ 20,422

(2) Information on the significant accounting estimate

The Group reviews its long-lived assets for impairment in assessing whether there is any indication that the asset or asset group may be impaired. The Group classifies its long-lived assets into an asset or asset group mainly by business unit, which is used for internal management purpose, and idle assets are individually grouped as asset group for the purpose of assets impairment review. As a result, the Group recognizes an impairment loss as other expense, the carrying amounts of the relevant asset being written down to the recoverable amount, which is the higher of fair value less cost to sell or the value in use. The fair value less cost to sell is calculated by deducting the expected disposal cost from the appraisal value developed by a third-party expert. The value in use is calculated by discounting future cash flows based on weighted average cost of capital and business plan authorized by management. In the event of a decline in the market value of long-lived assets, fluctuations in interest rate and stock market, unforeseen change in business environment adversely affecting the valuation of long-lived assets, discount rates, and other assumptions for the valuation of assets or asset groups, additional impairment may be incurred.

For the year ended March 31, 2021, the Group determined there was an indication of impairment in the Insulator business based on consecutive operating losses from previous years which were due to decline in demand resulting from of investment restraints by major customers, such as electric power companies and railway companies. However, the Group did not recognize its impairment loss because the undiscounted future cash flows projected based on its fair value less cost to sell and business plan was higher than the carrying amount of long-lived assets in the Insulator business. The balance of tangible and intangible assets in the Insulator business is ¥7,988 million (\$71,967 thousand).

b. Retirement and Pension Plans

(1) Carrying amounts

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
	<u>2021</u>	<u>2021</u>
Net defined benefit assets	¥ 4,815	\$ 43,375
Net defined benefit liability	21,758	196,019

(2) Information on the significant accounting estimate

The Group accounts for net defined benefit liability (assets) by deducting the amount of plan assets from the projected benefit obligations (“PBO”). PBO is calculated by discounting projected contribution based on certain assumptions, such as turnover rate, mortality rate and salary increase rate. Plan assets are measured at fair value at the end of fiscal year. Significant assumptions in PBO, plan assets and pension cost are discount rate and expected

rate of return. Discount rate is based on a net yield of high-grade long-term bond. Expected rate of return is based on components of plan assets, result of return and change in interest market. Variety of the actuarial premise such as drastic fluctuation in interest market and unforeseen change in management environment may affect the amount of profit and loss.

c. Deferred Tax Accounting

(1) Carrying amounts

	Millions of Yen	Thousands of U.S. Dollars
	2021	2021
Deferred tax assets	¥ 5,473	\$ 49,304
Deferred tax liabilities	1,402	12,634

(2) Information on the significant accounting estimate

The Group accounts for deferred tax assets (liabilities) based on the temporary difference between the carrying amount of assets or liabilities in the consolidated balance sheet and their tax base, and tax loss carryforward. Deferred tax assets are recorded when the future taxable profit is sufficient enough to utilize the future deductible temporary differences and tax loss carryforward. Deferred tax liabilities are recognized for all future taxable temporary differences. Deferred tax assets (liabilities) for the current period are measured at the tax rates that are expected to apply to the period when the assets are realized or the liabilities are settled, based on tax laws and tax rates that have been enacted or substantively enacted by the end of the reporting period. The Group compares the deductible temporary differences with future taxable profit estimated based on business plan authorized by management, taxable income in prior years and tax planning opportunities available. Variety of the factors such as both unforeseen change in management environment and tax reform, which the Group considered in evaluating the recoverability of deferred tax assets, may provoke additional impact to taxable profit or the temporary difference, consequently it affects the profit and loss.

Accounting estimates relating to effect of the spread of COVID-19

The accounting estimates such as impairment of long-lived assets and the recoverability of deferred tax assets are based on available information to the Group at the end of fiscal year. Although the continued impact of the COVID-19 pandemic and the timing of when the pandemic will subside remain uncertain, the Group determined that the effect of the pandemic is insignificant as of the issuance date of the consolidated financial statements. Since there are many uncertainties related to the effect of the spread of COVID-19, it may affect the consolidated financial position and performance of the Group depending on when the COVID-19 pandemic will subside.

4. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Current:			
Investment trusts and other	¥ 11,103	¥ 9,617	\$ 100,028
Debt securities	9,000	5,000	81,081
Total	¥ 20,103	¥ 14,617	\$ 181,109
Noncurrent:			
Equity securities and other	¥ 44,070	¥ 33,971	\$ 397,028
Debt securities	600	—	5,405
Total	¥ 44,670	¥ 33,971	\$ 402,433

The costs and aggregate fair values of marketable and investment securities at March 31, 2021 and 2020, were as follows:

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2021				
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 15,285	¥ 27,705	¥ 948	¥ 42,042
Debt securities	600	—	—	600
Investment trusts and other	10,752	378	27	11,103
Held-to-maturity:				
Debt securities	9,000	0	1	8,999

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2020				
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 16,230	¥ 17,832	¥ 2,150	¥ 31,912
Investment trusts and other	9,571	284	238	9,617
Held-to-maturity:				
Debt securities	5,000	—	0	5,000

	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2021				
Securities classified as:				
Available-for-sale:				
Equity securities	\$ 137,705	\$ 249,586	\$ 8,537	\$ 378,754
Debt securities	5,405	—	—	5,405
Investment trusts and other	96,865	3,404	241	100,028
Held-to-maturity:				
Debt securities	81,081	—	5	81,076

Proceeds from sales of available-for-sale securities (including marketable securities and investment securities) for the years ended March 31, 2021 and 2020, were ¥5,705 million (\$51,397 thousand) and ¥4,805 million, respectively. Realized gains on these sales, computed on the moving-average cost basis, were ¥1,624 million (\$ 14,635 thousand) and ¥3,672 million for the years ended March 31, 2021 and 2020, respectively. Realized losses on these sales, computed on the moving-average

cost basis, were ¥321 million (\$ 2,895 thousand) and ¥73 million for the years ended March 31, 2021 and 2020, respectively.

5. INVENTORIES

Inventories at March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Finished products	¥ 60,301	¥ 64,125	\$ 543,253
Work in process	19,207	17,293	173,037
Raw materials and supplies	70,101	75,078	631,534
Cost of contracts in progress	863	894	7,779
Total	¥ 150,472	¥ 157,390	\$ 1,355,603

6. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of March 31, 2021. As a result, the Group recognized an impairment loss of ¥2,267 million (\$20,422 thousand) as other expense mainly in the following groups which deteriorated in profitability or in the groups which included idle assets. The carrying amounts of the relevant assets were written down to their recoverable value for the year ended March 31, 2021. The recoverable values of those assets were measured at their net selling values or the values in use, whichever were higher. Their net selling values were based on appraisal values assessed by a third party.

Groups	Asset Category	Location	Millions of Yen	Thousands of U.S. Dollars
			2021	2021
Insulator business (Partial withdrawal of business)	Buildings and structures, Machinery and equipment and other	Japan	¥ 666	\$ 6,003
Package business	Buildings and structures, Machinery and equipment, Construction in progress and other	Japan and Malaysia	1,243	11,200

The Group recognized impairment losses for the year ended March 31, 2021, as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2021	2021
Buildings and structures	¥ 584	\$ 5,265
Machinery and equipment	547	4,932
Construction in progress	673	6,054
Land	236	2,129
Other	227	2,042
Total	<u>¥ 2,267</u>	<u>\$ 20,422</u>

The Group reviewed its long-lived assets for impairment as of March 31, 2020. As a result, the Group recognized an impairment loss of ¥12,559 million (\$115,219 thousand) as other expense mainly in the following groups which deteriorated in profitability or in the groups which included idle assets. The carrying amounts of the relevant assets were written down to their recoverable value for the year ended March 31, 2020. The recoverable values of those assets were measured at their net selling values or the values in use, whichever were higher. Their net selling values were based on appraisal values assessed by a third party and the values in use calculated by discounting future cash flows with a discount rate of 9.4%. The Group calculated the discounted future cash flows assuming the recovery in global car sales and production for the period subsequent to the year ending March 31, 2022 while sales and production in the Ceramics business would continue to decline due to the spread of COVID-19 during for the year ended March 31, 2021 based on the market report of the independent research organization.

Groups	Asset category	Location	Millions of Yen
			2020
Ceramics business	Buildings and structures, Machinery and equipment, Construction in progress and other	Thailand	¥ 9,687
Package business	Buildings and structures, Machinery and equipment, Construction in progress and other	Japan and Malaysia	2,249
Industrial Process business	Machinery and equipment and other	China	311

The Group recognized impairment losses for the year ended March 31, 2020 as follows:

	Millions of Yen
	2020
Buildings and structures	¥ 2,867
Machinery and equipment	4,948
Construction in progress	3,279
Land	471
Other	994
Total	<u>¥ 12,559</u>

7. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at March 31, 2021 and 2020, consisted of notes to banks. The weighted-average interest rates on short-term borrowings as of March 31, 2021 and 2020, were 0.8% and 1.8% respectively.

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

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Borrowings from banks and other financial institutions due serially through 2036, with weighted-average interest rates of 1.4% (2021) and 1.6% (2020)	¥ 221,198	¥ 202,993	\$ 1,992,779
Unsecured 0.657% yen bonds due July 27, 2032	10,000	10,000	90,090
Unsecured 0.860% yen bonds due July 26, 2038	15,000	15,000	135,135
Total	246,198	227,993	2,218,004
Less: portion due within one year	(21,927)	(9,219)	(197,542)
Long-term debt, less current portion	¥ 224,271	¥ 218,774	\$ 2,020,462

Annual maturities of long-term debt at March 31, 2021, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2022	¥ 21,927	\$ 197,542
2023	31,115	280,320
2024	32,495	292,744
2025	36,436	328,251
2026	16,617	149,699
2027 and thereafter	<u>107,608</u>	<u>969,448</u>
Total	<u>¥246,198</u>	<u>\$ 2,218,004</u>

8. RETIREMENT AND PENSION PLANS

The Company and certain consolidated subsidiaries have severance payment plans for employees.

The Company and certain domestic subsidiaries have unfunded lump-sum payment plans, defined benefit pension plans, and other.

Furthermore, additional retirement benefits that are not included in net defined benefit liability are paid in certain cases.

As some of the domestic subsidiaries which participated in multiemployer contributory funded plans were excluded from consolidation as a result of sale of its shares for the year ended March 31, 2021, no subsidiary participated in multiemployer contributory funded plans at March 31, 2021.

Certain subsidiaries have defined contribution plans such as smaller enterprise retirement allowance mutual aid plans.

The simplified calculation method was applied to measure the liability and the cost of defined benefit plans and lump-sum payment plans for insignificant domestic subsidiaries.

a. Defined Benefit Pension Plans

- (1) The changes in defined benefit obligation for the years ended March 31, 2021 and 2020 (except for the plans to which the simplified method was applied), were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Balance at beginning of year	¥ 90,592	¥ 90,348	\$ 816,143
Current service cost	3,650	3,557	32,884
Interest cost	634	645	5,713
Actuarial losses	2,262	(83)	20,378
Benefits paid	(3,444)	(3,614)	(31,030)
Past service cost	—	(135)	—
Decrease associated with abolishment of retirement benefit plans	—	(25)	—
Decrease resulting from exclusion of subsidiaries from consolidation	(3,956)	—	(35,636)
Others	265	(101)	2,387
Balance at end of year	¥ 90,003	¥ 90,592	\$ 810,839

Note: "Decrease associated with abolishment of retirement benefit plans" accounts for the abolishment of the retirement benefit plan of the Company's subsidiary in the U.S.

- (2) The changes in plan assets for the years ended March 31, 2021 and 2020 (except for the plans to which the simplified method was applied), were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Balance at beginning of year	¥ 78,080	¥ 78,996	\$ 703,422
Expected return on plan assets	858	931	7,731
Actuarial losses	3,223	(1,117)	29,037
Contributions from the employer	2,615	2,515	23,555
Benefits paid	(3,003)	(3,233)	(27,058)
Decrease resulting from exclusion of subsidiaries from consolidation	(6,680)	—	(60,183)
Others	73	(12)	667
Balance at end of year	¥ 75,166	¥ 78,080	\$ 677,171

- (3) The changes in net defined benefit liability, where the simplified method was applied to measure the liability, for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Balance at beginning of year	¥ 2,112	¥ 2,115	\$ 19,030
Pension costs	312	281	2,811
Benefits paid	(157)	(222)	(1,410)
Contributions to pension plans	(87)	(62)	(784)
Decrease resulting from exclusion of subsidiaries from consolidation	(74)	—	(671)
Balance at end of year	¥ 2,106	¥ 2,112	\$ 18,976

- (4) Reconciliation between the asset and the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets as of March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Funded defined benefit obligation	¥ 72,651	¥ 74,291	\$ 654,512
Plan assets	(76,083)	(78,968)	(685,431)
	(3,432)	(4,677)	(30,919)
Unfunded defined benefit obligation	20,375	19,302	183,563
Net liability arising from defined benefit obligation	¥ 16,943	¥ 14,625	\$ 152,644

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Net defined benefit liability	¥ 21,758	¥ 21,012	\$ 196,019
Net defined benefit asset	(4,815)	(6,387)	(43,375)
Net liability arising from defined benefit obligation	¥ 16,943	¥ 14,625	\$ 152,644

- (5) The components of net periodic benefit costs for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Service cost	¥ 3,650	¥ 3,557	\$ 32,884
Interest cost	634	645	5,713
Expected return on plan assets	(858)	(931)	(7,731)
Recognized actuarial losses	1,670	960	15,050
Amortization of past service cost	(225)	(214)	(2,029)
Benefit costs measured by the simplified method	312	281	2,811
Other	—	(50)	—
Net periodic benefit costs	¥ 5,183	¥ 4,248	\$ 46,698

Note: In addition to the above, the Company recognized loss of the abolishment of the retirement benefit plan of the Company's consolidated subsidiary in the U.S. under other expenses as "Other—net" for the year ended March 31, 2020.

- (6) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Actuarial losses (gains)	¥ 2,954	¥ (100)	\$ 26,617
Prior service cost	(225)	(79)	(2,029)
Net periodic benefit costs	¥ 2,729	¥ (179)	\$ 24,588

- (7) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Unrecognized actuarial gains	¥ (6,109)	¥ (9,004)	\$ (55,029)
Unrecognized past service cost	1,209	1,434	10,889
Total	¥ (4,900)	¥ (7,570)	\$ (44,140)

- (8) Plan assets

- a. Components of plan assets

Plan assets as of March 31, 2021 and 2020, consisted of the following:

	2021	2020
Assets in an insurer's general account	43 %	41 %
Equity investments	14 %	12 %
Debt investments	32 %	34 %
Cash and cash equivalents	0 %	1 %
Others	11 %	12 %
Total	100 %	100 %

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

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

(9) Assumptions used for the years ended March 31, 2021 and 2020, were set forth as follows:

	2021	2020
Discount rate	Primarily 0.6%	Primarily 0.6%
Expected rate of return on plan assets	Primarily 1.0%	Primarily 1.0%
Expected rate of future salary increase	Primarily 3.3%—4.9%	Primarily 3.4%—4.6%

b. Funded Status of the Multiemployer Contributory Funded Pension Plans

Some subsidiaries participate in a multiemployer plan where the amount of plan assets corresponding to the contributions made by the subsidiaries cannot be reasonably calculated. Therefore, it is accounted for using the same method as a defined contribution plan.

The contributions to said multiemployer plan, which are accounted for using the same method as a defined contribution plan, were ¥74 million (\$665 thousand) and ¥103 million for the years ended March 31, 2021 and 2020, respectively. Information of the funded status of the multiemployer plan at March 31, 2021 was not applicable as subsidiaries participating in a multiemployer plan were excluded from the scope of consolidation.

(1) The funded status of the multiemployer plan as of March 31, 2021 and 2020, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2021	2020
Plan assets	—	¥ 127,217
Sum of actuarial liabilities of pension plan and minimum actuarial reserve	—	(141,569)
Net balance	—	¥ (14,352)

The net balance above is mainly a result of the following:

	Millions of Yen	Thousands of U.S. Dollars
	2021	2020
Prior service cost	—	¥ 16,887
Retained earnings	—	(828)
General reserve	—	3,363

Prior service cost under the plan is amortized on a straight-line basis over 20 years.

(2) The contribution ratios of the Group in the multiemployer plan for the years ended March 31, 2020 were 2.0%.

c. Defined Contribution Pension Plans

The Group's contributions to defined contribution pension plan funds for the years ended March 31, 2021 and 2020, were ¥417 million (\$3,757 thousand) and ¥268 million, respectively.

9. EQUITY

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

a. Dividends

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

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

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

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

c. Treasury Stock and Treasury Stock Acquisition Rights

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

10. STOCK OPTIONS

The stock options outstanding as of March 31, 2021 were as follows:

Stock Option Scheme	Persons Originally Granted	Number of Options Originally Granted	Date of Grant	Exercise Price	Exercise Period
2005 Stock Option Scheme	12 directors 2 full-time audit and supervisory board members 10 officers	Common shares 180,000 shares	August 5, 2005	¥1 (\$0.01)	From August 5, 2005 to June 30, 2035
2006 Stock Option Scheme (2-1)	12 directors 2 full-time audit and supervisory board members	Common shares 113,000 shares	August 11, 2006	¥1 (\$0.01)	From August 12, 2006 to June 30, 2036
2006 Stock Option Scheme (2-2)	10 officers	Common shares 41,000 shares	August 11, 2006	¥1 (\$0.01)	From August 12, 2006 to June 30, 2036
2007 Stock Option Scheme	12 directors 10 officers	Common shares 62,000 shares	August 30, 2007	¥1 (\$0.01)	From August 31, 2007 to June 30, 2037
2008 Stock Option Scheme	11 directors 9 officers	Common shares 57,000 shares	August 13, 2008	¥1 (\$0.01)	From August 14, 2008 to June 30, 2038
2009 Stock Option Scheme	12 directors 10 officers	Common shares 62,000 shares	August 17, 2009	¥1 (\$ 0.01)	From August 18, 2009 to June 30, 2039
2010 Stock Option Scheme	12 directors 11 officers	Common shares 64,000 shares	August 16, 2010	¥1 (\$0.01)	From August 17, 2010 to June 30, 2040
2011 Stock Option Scheme	11 directors 11 officers	Common shares 62,000 shares	August 15, 2011	¥1 (\$0.01)	From August 16, 2011 to June 30, 2041

Stock Option Scheme	Persons Originally Granted	Number of Options Originally Granted	Date of Grant	Exercise price	Exercise Period
2012 Stock Option Scheme	10 directors 14 officers	Common shares 66,000 shares	August 15, 2012	¥1 (\$0.01)	From August 16, 2012 to June 30, 2042
2013 Stock Option Scheme	9 directors 16 officers	Common shares 61,000 Shares	August 16, 2013	¥1 (\$0.01)	From August 17, 2013 to June 30, 2043
2014 Stock Option Scheme	10 directors 13 officers	Common shares 57,000 Shares	August 19, 2014	¥1 (\$0.01)	From August 20, 2014 to June 30, 2044
2015 Stock Option Scheme	10 directors 10 officers	Common shares 52,000 Shares	August 18, 2015	¥1 (\$0.01)	From August 19, 2015 to June 30, 2045
2016 Stock Option Scheme	10 directors 13 officers	Common shares 60,000 Shares	August 16, 2016	¥1 (\$0.01)	From August 17, 2016 to June 30, 2046
2017 Stock Option Scheme	10 directors 12 officers	Common shares 58,000 Shares	August 16, 2017	¥1 (\$0.01)	From August 17, 2017 to June 30, 2047
2018 Stock Option Scheme	9 directors 13 officers	Common shares 55,000 Shares	July 12, 2018	¥1 (\$0.01)	From July 13, 2018 to June 30, 2048
2019 Stock Option Scheme	10 directors 15 officers	Common shares 61,000 Shares	July 9, 2019	¥1 (\$0.01)	From July 10, 2019 to June 30, 2049
2020 Stock Option Scheme	10 directors 15 officers	Common shares 64,000 Shares	July 15, 2020	¥1 (\$0.01)	From July 16, 2020 to June 30, 2050

The stock option activity is as follows:

	2005 Stock Option	2006 Stock Option (2-1)	2006 Stock Option (2-2) (Shares)	2007 Stock Option	2008 Stock Option
<u>For the year ended March 31, 2020</u>					
<u>Non-vested</u>					
April 1, 2019					
— Outstanding	-	-	-	-	-
Granted	-	-	-	-	-
Canceled	-	-	-	-	-
Vested	-	-	-	-	-
March 31, 2020					
— Outstanding	-	-	-	-	-
<u>Vested</u>					
April 1, 2019					
— Outstanding	32,000	21,000	4,000	13,000	17,000
Vested	-	-	-	-	-
Exercised	20,000	16,000	-	5,000	7,000
Canceled	-	-	-	-	-
March 31, 2020					
— Outstanding	12,000	5,000	4,000	8,000	10,000
<u>For the year ended March 31, 2021</u>					
<u>Non-vested</u>					
March 31, 2020					
— Outstanding	-	-	-	-	-
Granted	-	-	-	-	-
Canceled	-	-	-	-	-
Vested	-	-	-	-	-
March 31, 2021					
— Outstanding	-	-	-	-	-
<u>Vested</u>					
March 31, 2020					
— Outstanding	12,000	5,000	4,000	8,000	10,000
Vested	-	-	-	-	-
Exercised	8,000	5,000	-	-	-
Canceled	-	-	-	-	-
March 31, 2021					
— Outstanding	4,000	-	4,000	8,000	10,000
Exercise price	¥1	¥1	¥1	¥1	¥1
	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)
Average stock price at exercise	¥1,419	¥1,456	N/A	N/A	N/A
	(\$12.78)	(\$13.12)			
Fair value price at grant date	-	¥1,506	¥1,506	¥3,658	¥1,434
		(\$13.57)	(\$13.57)	(\$32.95)	(\$12.92)

	2009 Stock Option	2010 Stock Option	2011 Stock Option	2012 Stock Option	2013 Stock Option
			(Shares)		
<u>For the year ended March 31, 2020</u>					
<u>Non-vested</u>					
April 1, 2019					
— Outstanding	-	-	-	-	-
Granted	-	-	-	-	-
Canceled	-	-	-	-	-
Vested	-	-	-	-	-
March 31, 2020					
— Outstanding	-	-	-	-	-
<u>Vested</u>					
April 1, 2019					
— Outstanding	25,000	34,000	33,000	39,000	40,000
Vested	-	-	-	-	-
Exercised	15,000	16,000	6,000	7,000	10,000
Canceled	-	-	8,000	8,000	-
March 31, 2020					
— Outstanding	10,000	18,000	19,000	24,000	30,000
<u>For the year ended March 31, 2021</u>					
<u>Non-vested</u>					
March 31, 2020					
— Outstanding	-	-	-	-	-
Granted	-	-	-	-	-
Canceled	-	-	-	-	-
Vested	-	-	-	-	-
March 31, 2021					
— Outstanding	-	-	-	-	-
<u>Vested</u>					
March 31, 2020					
— Outstanding	10,000	18,000	19,000	24,000	30,000
Vested	-	-	-	-	-
Exercised	-	3,000	2,000	3,000	4,000
Canceled	-	-	-	-	-
March 31, 2021					
— Outstanding	10,000	15,000	17,000	21,000	26,000
Exercise price	¥1	¥1	¥1	¥1	¥1
	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)
Average stock price at exercise	N/A	¥1,382	¥1,586	¥1,617	¥1,556
		(\$12.45)	(\$14.29)	(\$14.57)	(\$14.02)
Fair value price at grant date	¥2,072	¥1,289	¥1,100	¥923	¥1,276
	(\$18.67)	(\$11.61)	(\$9.91)	(\$8.32)	(\$11.50)

	2014 Stock Option	2015 Stock Option	2016 Stock Option	2017 Stock Option	2018 Stock Option
			(Shares)		
<u>For the year ended March 31, 2020</u>					
<u>Non-vested</u>					
April 1, 2019					
— Outstanding	-	-	-	-	-
Granted	-	-	-	-	-
Canceled	-	-	-	-	-
Vested	-	-	-	-	-
March 31, 2020					
— Outstanding	-	-	-	-	-
<u>Vested</u>					
April 1, 2019					
— Outstanding	47,000	52,000	60,000	58,000	55,000
Vested	-	-	-	-	-
Exercised	4,000	6,000	2,000	-	-
Canceled	-	-	-	-	-
March 31, 2020					
— Outstanding	43,000	46,000	58,000	58,000	55,000
<u>For the year ended March 31, 2021</u>					
<u>Non-vested</u>					
March 31, 2020					
— Outstanding	-	-	-	-	-
Granted	-	-	-	-	-
Canceled	-	-	-	-	-
Vested	-	-	-	-	-
March 31, 2021					
— Outstanding	-	-	-	-	-
<u>Vested</u>					
March 31, 2020					
— Outstanding	43,000	46,000	58,000	58,000	55,000
Vested	-	-	-	-	-
Exercised	6,000	-	-	-	-
Canceled	-	-	-	-	-
March 31, 2021					
— Outstanding	37,000	46,000	58,000	58,000	55,000
Exercise price	¥1	¥1	¥1	¥1	¥1
	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)
Average stock price at exercise	¥1,483	N/A	N/A	N/A	N/A
	(\$13.36)				
Fair value price at grant date	¥2,510	¥2,850	¥2,060	¥1,897	¥1,725
	(\$22.61)	(\$25.68)	(\$18.56)	(\$17.09)	(\$15.54)

	2019 Stock Option	2020 Stock Option
		(Shares)
<u>For the year ended March 31, 2020</u>		
<u>Non-vested</u>		
April 1, 2019		
—Outstanding	-	
Granted	61,000	
Canceled	-	
Vested	61,000	
March 31, 2020		
—Outstanding	-	
<u>Vested</u>		
April 1, 2019		
—Outstanding	-	
Vested	61,000	
Exercised	-	
Canceled	-	
March 31, 2020		
—Outstanding	61,000	
<u>For the year ended March 31, 2020</u>		
<u>Non-vested</u>		
March 31, 2020		
—Outstanding	-	-
Granted	-	64,000
Canceled	-	-
Vested	-	64,000
March 31, 2021		
—Outstanding	-	-
<u>Vested</u>		
March 31, 2020		
—Outstanding	61,000	-
Vested	-	64,000
Exercised	-	-
Canceled	-	-
March 31, 2021		
—Outstanding	61,000	64,000
Exercise price	¥1 (\$0.01)	¥1 (\$0.01)
Average stock price at exercise	N/A	N/A
Fair value price at grant date	¥1,362 (\$12.27)	¥1,246 (\$11.23)

The Assumptions Used to Measure the Fair Value of the 2020 Stock Option

Estimate method:	Black-Scholes option-pricing model
Volatility of stock price:	31.33%
Estimated remaining outstanding period:	Four and a half years
Estimated dividend:	¥50 per share
Risk-free interest rate:	(0.122%)

11. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 30.6% for the years ended March 31, 2021 and 2020.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Deferred tax assets:			
Inventories	¥ 6,304	¥ 8,483	\$ 56,789
Accounts payable and accrued expenses	2,897	3,013	26,097
Enterprise taxes payable	406	587	3,662
Property, plant and equipment	12,195	13,277	109,861
Pension and severance cost	6,304	6,271	56,797
Tax loss carryforwards	8,780	8,240	79,103
Investment securities	1,373	1,289	12,373
Tax deduction of foreign subsidiaries	949	1,241	8,548
Provision for NAS Battery safety measures	448	507	4,036
Provision for loss related to competition law	—	350	—
Provision for product warranties	235	373	2,118
Other	4,350	4,070	39,179
Total	44,241	47,701	398,563
Less: valuation allowance (Note)	(17,963)	(18,699)	(161,827)
Offset with deferred tax liabilities	(20,805)	(16,236)	(187,432)
Net deferred tax assets	¥ 5,473	¥ 12,766	\$ 49,304
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	¥ 7,836	¥ 4,274	\$ 70,598
Deferred gains on sales of property	1,185	1,081	10,672
Undistributed earnings of foreign subsidiaries	7,269	6,005	65,485
Fixed asset	2,935	3,203	26,442
Net defined benefit asset	1,461	1,943	13,166
Securities contributed to retirement benefit trust	1,082	1,274	9,751
Other	439	454	3,952
Total	22,207	18,234	200,066
Offset with deferred tax assets	(20,805)	(16,236)	(187,432)
Net deferred tax liabilities	¥ 1,402	¥ 1,998	\$ 12,634

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the year ended March 31, 2021, with the corresponding figures for 2020, is as follows:

	2021		2020
Normal effective statutory tax rate	30.6 %		30.6 %
Expenses not deductible for income tax purposes	1.0		2.4
Income excluded from income tax, such as dividends received	(0.9)		(1.6)
Change in valuation allowance	(2.1)		11.1
Undistributed earnings of foreign subsidiaries	2.4		(0.3)
Lower income tax rates applicable to income in certain foreign countries	(2.3)		(0.2)
Tax credit of foreign subsidiaries	(0.3)		(0.7)
Tax credit of research and development costs	(2.5)		(4.2)
Equity in earnings of unconsolidated subsidiaries and associated companies	(0.9)		(0.9)
Sales of shares of subsidiaries and associates	0.2		2.8
Effect of excluding subsidiaries from consolidation	1.2		—
Expire of tax loss carryforward	0.1		0.5
Other — net	0.7		0.1
Actual effective tax rate	<u>27.2 %</u>		<u>39.6 %</u>

Notes: Regarding filing action for the revocation of correction based on transfer pricing taxation

In March 2012, the Company received the correction based on transfer pricing taxation from the Nagoya Regional Taxation Bureau with respect to transactions with its subsidiary in Poland from the fiscal year ended March 31, 2007 through the fiscal year ended March 31, 2010. Although the Company paid an additional tax of approximately ¥ 6.2 billion, including local taxes, approximately ¥ 0.1 billion was refunded as decision of a request for re-examination with the Nagoya National Tax Tribunal, which the Company had filed an action with the Tokyo District Court for the revocation of the correction in December 2016. On November 26, 2020, after the subsequent proceedings, the Tokyo District Court rendered a judgment that granted most of the Company's claims and revoked the correction related to ¥ 5.8 billion in corporate and local taxes ("First Instance Judgment"). Dissatisfied with the First Instance Judgment described above, the national government filed an appeal with the Tokyo High Court on December 9, 2020. In response, the Company filed an incidental appeal with respect to the portions of the First Instance Judgment that did not grant its claims on December 23, 2020.

In June 2017, the Company received another correction from the Nagoya Regional Taxation Bureau regarding the transactions between the Company and its subsidiary in Poland from the fiscal year ended March 31, 2011 through the fiscal year ended March 31, 2015 based on transfer pricing taxation and the Company paid an additional tax of approximately ¥ 8.5 billion including local taxes. A request for re-examination was submitted to the Nagoya National Tax Tribunal in July 2018 requesting for cancellation of the correction, and the Company received a written determination that partially rescinded the correction in July 2019. However, the determination only provided refund of approximately ¥ 0.4 billion of corporate taxes and local taxes, etc. at this stage. Because the Company takes the position that the entire amount should be rescinded, it filed an action with the

Tokyo District Court for the revocation of correction in December 2019.

Based on above, the Company estimated tax amounts based on the premise that it would be subject to the corrections mentioned above for fiscal years subsequent to March 31, 2016 and recognized the amounts in the consolidated financial statements.

12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥22,449 million (\$202,243 thousand) and ¥22,929 million for the years ended March 31, 2021 and 2020, respectively, which included consigned research costs of ¥783 million (\$7,051 thousand) and ¥1,109 million for the years ended March 31, 2021 and 2020, respectively.

13. LEASES

The minimum rental commitments under noncancelable operating leases at March 31, 2021, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due within one year	¥ 174	\$ 1,563
Due after one year	323	2,908
Total	¥ 497	\$ 4,471

14. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group policy for financial instruments

The Group raises funds through borrowings from banks or other financial institutions. Temporary excess funds are invested mainly in low-risk financial assets. It is the Group's policy to use derivatives not for speculation, but for hedging the risks from operating receivables, payables, and borrowings.

(2) Nature and extent of risks arising from financial instruments and risk management for financial instruments

The credit risks from receivables, such as trade notes and trade accounts, are managed by each business unit according to the characteristics of the customers. Although receivables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, a certain percentage of the position, net of payables in foreign currencies, is hedged by using forward foreign currency contracts.

Marketable and investment securities, which consist mainly of held-to-maturity bonds and the capital stocks of customers or suppliers, are exposed to market risk. The risk is insignificant with respect to the held-to-maturity bonds because investments in bonds are limited to highly rated bonds. To manage the risk, the market price and the financial position of the issuers are reviewed constantly. Moreover, with respect to those other than held-to-maturity, the portfolio is constantly reviewed considering market circumstances and relationships with the issuers.

Payment terms of most trade payables, including notes and accounts, are less than four months.

The borrowings from banks, other financial institutions, and debenture bonds are principally raised for capital investment, and their maximum maturities do not exceed 17 years and 4 months after the balance sheet date.

Derivatives consist of forward currency contracts, which are for hedging currency risks from the trade receivables and payables denominated in foreign currencies; currency and interest rate swaps, which are for hedging foreign exchange risks from the borrowings denominated in foreign currencies and interest rate risk; and interest rate swaps, which are for reducing cash outflow from interest payments of borrowings. The Company's management believes that the credit risks from those transactions are not significant because the transactions are entered into only with highly rated financial institutions. Derivative transactions are strictly managed complying with internal policies for approval and reporting. For more details about hedge accounting, including hedging instruments, hedged items, hedge policies, and hedge effectiveness, please see Note 2.w.

(3) Supplemental remarks on fair values of financial instruments

The contract or notional amounts of derivatives that are shown in Note 15 do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

(a) Fair values of financial instruments

March 31, 2021	Millions of yen		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 146,031	¥ 146,031	-
Time deposits	228	228	-
Notes and accounts receivable:			
Trade notes and accounts	114,497	114,484	¥ (13)
Marketable and investment securities	78,746	86,290	7,544
Short-term borrowings	(18,046)	(18,046)	-
Notes and accounts payable:			
Trade notes and accounts	(42,241)	(42,241)	-
Income taxes payable	(9,098)	(9,098)	-
Long-term debt, including current portion	(246,198)	(249,315)	(3,117)
Derivatives	(1,107)	(1,107)	-

March 31, 2020	Millions of yen		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 94,691	¥ 94,691	-
Time deposits	1,869	1,869	-
Notes and accounts receivable:			
Trade notes and accounts	101,378	101,364	¥ (14)
Marketable and investment securities	62,078	67,786	5,708
Short-term borrowings	(6,407)	(6,407)	-
Notes and accounts payable:			
Trade notes and accounts	(42,690)	(42,690)	-
Income taxes payable	(12,226)	(12,226)	-
Long-term debt, including current portion	(227,993)	(232,756)	(4,763)
Derivatives	(465)	(465)	-

March 31, 2021	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	\$ 1,315,597	\$ 1,315,597	-
Time deposits	2,053	2,053	-
Notes and accounts receivable:			
Trade notes and accounts	1,031,504	1,031,390	\$ (114)
Marketable and investment securities	709,419	777,383	67,964
Short-term borrowings	(162,579)	(162,579)	-
Notes and accounts payable:			
Trade notes and accounts	(380,553)	(380,553)	-
Income taxes payable	(81,965)	(81,965)	-
Long-term debt, including current portion	(2,218,004)	(2,246,080)	(28,076)
Derivatives	(9,974)	(9,974)	-

Cash and cash equivalents and time deposits

The carrying values of cash and cash equivalents and time deposits approximate fair value because of their short maturities.

Notes and accounts receivable

The fair values of the majority of receivables are measured at the carrying amount because of their short maturities, while those of some receivables are measured at the amount to be received at maturity discounted at the Group's assumed discount rate determined considering credit risks.

Marketable and investment securities

The fair values of the majority of marketable and investment securities are measured at the quoted market price. The carrying amount of some securities represents the fair value because the fair value approximates such carrying amount. The fair value information for the marketable and investment securities by classification is included in Note 4.

Notes and accounts payable, short-term borrowings, and income taxes payable

The carrying amounts of these financial instruments approximate the fair values because of their short maturities.

Long-term debt, including current portion

The fair values of long-term debt, including the current portion, are determined by discounting the cash flows related to the debt at the Group's assumed corporate borrowing rate.

Some of the long-term debt with floating interest rates and related interest rate swaps and currency swaps are accounted for together, and the fair values of such debt are measured by discounting the total cash flows from the payables and hedging swaps at the Group's assumed corporate borrowing rate.

Derivatives

The fair value information for derivatives is included in Note 15.

(b) Financial instruments with fair values that cannot be reliably determined

	Millions of Yen		Thousands of U.S. Dollars	
	2021	2020	2021	
Investments in equity instruments that do not have a quoted market price in an active market				
Stock of associated companies	¥ 490	¥ 476	\$ 4,415	
Other	2,028	2,059	18,274	

(4) Maturity analysis for financial assets and securities with contractual maturities

Millions of Yen				
March 31, 2021	Due in one year or less	Due after one year through five years	Due after five years through 10 years	Due after 10 years
Cash and cash equivalents	¥ 146,031	-	-	-
Notes and accounts receivable:				
Trade notes and accounts	114,351	¥ 146	-	-
Held-to-maturity securities				
Debt securities	9,000	-	-	-
Available-for-sale securities				
Debt securities	-	600	-	-
Investment trusts and other	9,000	-	-	-
Total	¥ 278,382	¥ 746	-	-

Thousands of U.S. Dollars				
March 31, 2021	Due in one year or less	Due after one year through five years	Due after five years through 10 years	Due after 10 years
Cash and cash equivalents	\$ 1,315,597	-	-	-
Notes and accounts receivable:				
Trade notes and accounts	1,030,190	\$ 1,314	-	-
Held-to-maturity securities				
Debt securities	81,081	-	-	-
Available-for-sale securities				
Debt securities	-	5,405	-	-
Investment trusts and other	81,082	-	-	-
Total	\$ 2,507,950	\$ 6,719	-	-

Please see Note 7 for annual maturities of long-term debt.

15. DERIVATIVES

The Group enters into derivative financial instruments ("derivatives"), including foreign exchange forward contracts, interest rate and currency swaps, and interest rate swap contracts. The foreign exchange forward contracts are entered into in order to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. The interest rate and currency swaps are entered into as a means of managing interest rate risk and foreign exchange risk for loans denominated in foreign currencies. The interest rate swap contracts are entered into as a means of managing the interest rate risk for loans from financial institutions. The Group does not hold or issue derivatives for trading or speculative purposes.

Because the counterparties to these derivatives are limited to major international financial institutions, the Group does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Group have been made in accordance with internal policies that require approval and reporting of all derivative transactions.

Derivative transactions to which hedge accounting is not applied at March 31, 2021 and 2020, were as follows:

Millions of Yen				
March 31, 2021	Contract Amount	Contract Amount Due After One Year	Fair Value	Unrealized Gain/(Loss)
Foreign currency forward contracts:				
Selling U.S.\$	¥ 17,263	-	¥ (889)	¥ (889)
Selling Euro	831	-	(13)	(13)
Selling Swiss franc	7	-	(0)	(0)
Buying U.S.\$	110	-	(3)	(3)
Buying Euro	20	-	(0)	(0)
Buying Japanese yen	42	-	(6)	(6)
Total	¥ 18,273	-	¥ (911)	¥ (911)

Millions of Yen				
March 31, 2020	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/(Loss)
Foreign currency forward contracts:				
Selling U.S.\$	¥ 23,534	-	¥ (23)	¥ (23)
Selling Euro	3,393	-	53	53
Selling Swiss franc	22	-	0	0
Buying U.S.\$	465	-	3	3
Buying Euro	971	-	(7)	(7)
Buying Japanese yen	20	-	2	2
Total	¥ 28,405	-	¥ 28	¥ 28

Thousands of U.S. Dollars				
March 31, 2021	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/(Loss)
Foreign currency forward contracts:				
Selling U.S.\$	\$ 155,522	-	\$ (8,009)	\$ (8,009)
Selling Euro	7,488	-	(120)	(120)
Selling Swiss franc	67	-	(1)	(1)
Buying U.S.\$	991	-	(25)	(25)
Buying Euro	178	-	(2)	(2)
Buying Japanese yen	379	-	(52)	(52)
Total	\$ 164,625	-	\$ (8,209)	\$ (8,209)

The fair value of derivative transactions is measured at the quoted price obtained from the financial institutions.

Millions of Yen				
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/(Loss)
March 31, 2021				
Interest rate swaps: (Fixed rate payment, fixed rate receipt)	¥ 5,000	¥ 5,000	¥ (26)	¥ (26)
Total	¥ 5,000	¥ 5,000	¥ (26)	¥ (26)
Millions of Yen				
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/(Loss)
March 31, 2020				
Interest rate swaps: (Fixed rate payment, fixed rate receipt)	¥ 5,000	¥ 5,000	¥ (29)	¥ (29)
Total	¥ 5,000	¥ 5,000	¥ (29)	¥ (29)
Thousands of U.S. Dollars				
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/(Loss)
March 31, 2021				
Interest rate swaps: (Fixed rate payment, fixed rate receipt)	\$ 45,045	\$ 45,045	\$ (234)	\$ (234)
Total	\$ 45,045	\$ 45,045	\$ (234)	\$ (234)

The fair value of derivative transactions is measured at the quoted price obtained from the financial institutions.

Derivative transactions to which hedge accounting is applied at March 31, 2021 and 2020, were as follows:

		Millions of Yen		
		Contract Amount	Contract Amount Due after One Year	Fair Value
March 31, 2021	Hedged Item			
Interest rate swaps: (Fixed rate payment, floating rate receipt)	Long-term debt	¥ 8,836	¥ 8,506	¥ (85)
Interest rate swaps: (Fixed rate payment, floating rate receipt) (※)	Long-term debt	25,000	25,000	-
Total		¥ 33,836	¥ 33,506	¥ (85)

		Millions of Yen		
		Contract Amount	Contract Amount Due after One Year	Fair Value
March 31, 2020	Hedged Item			
Interest rate swaps: (Fixed rate payment, floating rate receipt)	Long-term debt	¥ 8,704	¥ 8,704	¥ (168)
Interest rate swaps: (Fixed rate payment, floating rate receipt) (※)	Long-term debt	25,000	25,000	-
Total		¥ 33,704	¥ 33,704	¥ (168)

		Thousands of U.S. Dollars		
		Contract Amount	Contract Amount Due after One Year	Fair Value
March 31, 2021	Hedged Item			
Interest rate swaps: (Fixed rate payment, floating rate receipt)	Long-term debt	\$ 79,607	\$ 76,629	\$ (767)
Interest rate swaps: (Fixed rate payment, floating rate receipt) (※)	Long-term debt	225,225	225,225	-
Total		\$304,832	\$301,854	\$ (767)

(※) The above interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not premeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income. In addition, the fair value of such interest rate swaps is included in that of hedged items (i.e., long-term debt) in Note 14.

		Millions of Yen		
			Contract Amount Due after One Year	Fair Value
March 31, 2021	Hedged Item	Contract Amount		
Currency swaps: (Japanese yen payment, U.S.\$ receipt) (※)	Long-term debt	¥ 6,500	¥ 6,500	-
Currency swaps: (U.S.\$ payment, Thai baht receipt)	Long-term debt	3,792	3,792	¥ (85)
Total		¥ 10,292	¥ 10,292	¥ (85)

		Millions of Yen		
			Contract Amount Due after One Year	Fair Value
March 31, 2020	Hedged Item	Contract Amount		
Currency swaps: (Japanese yen payment, U.S.\$ receipt) (※)	Long-term debt	¥ 6,500	¥ 6,500	-
Currency swaps: (U.S.\$ payment, Thai baht receipt)	Long-term debt	3,728	3,728	¥ (297)
Total		¥ 10,228	¥ 10,228	¥ (297)

		Thousands of U.S. Dollars		
			Contract Amount Due after One Year	Fair Value
March 31, 2021	Hedged Item	Contract Amount		
Currency swaps: (Japanese yen payment, U.S.\$ receipt) (※)	Long-term debt	\$ 58,559	\$ 58,559	-
Currency swaps: (U.S.\$ payment, Thai baht receipt)	Long-term debt	34,161	34,161	\$ (764)
Total		\$ 92,720	\$ 92,720	\$ (2,725)

(※) The above currency swaps that qualify for hedge accounting are not remeasured at market value, but the fair value of the swap is included in that of hedged items (i.e., long-term debt) in Note 14.

The fair value of derivative transactions is measured at the quoted price obtained from the financial institution.

The contract or notional amounts of derivatives which are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

Forward exchange contracted amounts, which are assigned to associated assets or liabilities and are reflected in the balance sheet at year-end, are not subject to the disclosure of market value information.

16. GUARANTEES OBLIGATION

Guarantee obligations

At March 31, 2021, the Group had guarantee obligations as follows:

	Millions of Yen	Thousands of U.S. Dollars
Guarantees for bank borrowings of employees	¥ 0	\$ 1
Guarantee for deposit of subsidiary	2,235	20,133
Guarantees for bank borrowings of a business-related company	109	982

17. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Unrealized gain(loss) on available-for-sale securities:			
Gains(losses) arising during the year	¥ 12,567	¥ (11,104)	\$ 113,217
Reclassification adjustments to profit or loss	(1,184)	(3,089)	(10,665)
Amount before income tax effect	11,383	(14,193)	102,552
Income tax effect	(3,465)	4,266	(31,218)
Total	¥ 7,918	¥ (9,927)	\$ 71,334
Deferred gain (loss) on derivatives under hedge accounting:			
Gains (losses) arising during the year	¥ 292	¥ (332)	\$ 2,634
Reclassification adjustments to profit or loss	-	-	-
Amount before income tax effect	292	(332)	2,634
Income tax effect	(16)	18	(150)
Total	¥ 276	¥ (314)	\$ 2,484
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ 16,942	¥ (10,577)	\$ 152,622
Reclassification adjustments to profit or loss	43	72	390
Total	¥ 16,985	¥ (10,505)	\$ 153,012
Share of other comprehensive (loss) income in associates—			
(Losses) gains arising during the year	¥ (186)	¥ 82	\$ (1,672)
Defined retirement benefit plans:			
Gains (losses) arising during the year	¥ 1,202	¥ (897)	\$ 10,828
Reclassification adjustments to profit or loss	1,527	718	13,760
Amount before income tax effect	2,729	(179)	24,588
Income tax effect	(814)	79	(7,332)
Total	¥ 1,915	¥ (100)	\$ 17,256
Total other comprehensive income (loss)	¥ 26,908	¥ (20,764)	\$ 242,414

18. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
	Net Income Attributable to Owners of the Parent	Weighted-Average Shares	EPS	
<u>Year Ended March 31, 2021</u>				
Basic EPS—Net income available to common shareholders	¥ 38,496	316,565	¥ 121.61	\$1.096
Effect of dilutive securities:				
Stock options	-	484		
Diluted EPS—Net income for computation	¥ 38,496	317,049	¥ 121.42	\$1.094
<u>Year Ended March 31, 2020</u>				
Basic EPS—Net income available to common shareholders	¥ 27,135	320,253	¥ 84.73	
Effect of dilutive securities:				
Stock options	-	509		
Diluted EPS—Net income for computation	¥ 27,135	320,762	¥ 84.60	

19. SUBSEQUENT EVENTS

a. Appropriation of Retained Earnings

The following appropriation of retained earnings at March 31, 2021, was approved at the Company's shareholders' meeting held on June 28, 2021:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Year-end cash dividends, ¥20 (\$0.18) per share	¥6,331	\$57,040

b. Acquisition of Own Shares and Cancellation of Treasury Stock

At the meeting of the Board of Directors held on April 28, 2021, the Company has resolved the acquisition of its own shares pursuant to the provisions of Article 156 of the Companies Act, applied by replacing terms pursuant to the provisions of Article 165, paragraph 3 of said Act, and has resolved the cancellation of treasury stock pursuant to the provisions of Article 178 of the Companies Act, and has completed acquiring its own shares, as described below.

1. Reasons for the acquisition of own shares and cancellation of treasury stock

To improve capital efficiency and enable the Company to flexibly exercise its capital policy in response to the changing managerial environment.

2. Details of matters pertaining to the acquisition of its own shares

- | | |
|---|---|
| (1) Types of shares to be acquired | Shares of common stock |
| (2) Total number of shares to be acquired | Up to 5 million shares |
| (3) Total value of shares to be acquired | Up to 10 billion yen |
| (4) Acquisition period | From April 30, 2021 to July 30, 2021 |
| (5) Acquisition method | Market purchases |
| (6) Plan for the acquired shares | All the acquired shares to be cancelled |

3. Details of matters pertaining to the cancellation of treasury stock

- | | |
|--|---|
| (1) Types of shares to be cancelled | Shares of common stock |
| (2) Total number of shares to be cancelled | All of the shares acquired as stated in 2 |
| (3) Schedule date of cancellation | September 10, 2021 |

4. Results of the acquisition of own shares

- | | |
|-------------------------------------|-------------------------------------|
| (1) Types of shares acquired | Shares of common stock |
| (2) Total number of shares acquired | 5,000,000 shares |
| (3) Total value of shares acquired | 9,696,884,078 yen |
| (4) Acquisition period | From April 30, 2021 to July 9, 2021 |
| (5) Acquisition method | Market purchases |

20. SEGMENT INFORMATION

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

(1) *Description of Reportable Segments*

The Group's reportable business segments are components of the Group for which separate financial information is available that is evaluated regularly by the Company's management in deciding how to allocate resources and in assessing performance. The Group develops and conducts its operations under four business segments: the Energy Infrastructure Business Segment, Ceramics Business Segment, Electronics Business Segment, and Process Technology Business Segment while planning a comprehensive strategy for domestic and overseas markets. Consequently, the Group defines those four business segments as its reportable business segments.

Business segment	Main products
Energy Infrastructure	Insulators, hardware for insulator assemblies, current limiting arching horn, bushing shells, fuse cut-outs, APM, line arrester and NAS [®] (sodium-sulfur) batteries
Ceramics	Automotive ceramics for exhaust gas purification and sensor
Electronics	Ceramic components for electronics, beryllium copper products, and molds
Process Technology	Components for semiconductor manufacturing equipment, corrosion-resistant ceramic apparatuses, for chemical industries, gas analyzer, industrial heating systems, refractory products and radioactive waste treatment systems

From the year ended March 31, 2021, the Group changed the name of a reportable segment from "Power Business" to "Energy Infrastructure Business." This change is only a name change and does not affect segment information. Segment information for the year ended March 31, 2020 is also presented under the new name.

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

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

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

Millions of Yen							
2021							
Reportable segments						Reconciliations	Consolidated
	Energy Infrastructure	Ceramics	Electronics	Process Technology	Total		
Sales							
Sales to customers	¥ 41,997	¥ 248,908	¥ 54,100	¥ 107,039	¥ 452,044	-	¥ 452,044
Intersegment sales or transfers	635	9	1	1,979	2,624	¥ (2,624)	-
Total	¥ 42,632	¥ 248,917	¥ 54,101	¥ 109,018	¥ 454,668	¥ (2,624)	¥ 452,044
Segment (loss) profit	¥ (3,978)	¥ 41,161	¥ 2,769	¥ 10,853	¥ 50,805	¥ 19	¥50,824
Segment assets	54,107	459,392	64,014	139,978	717,491	¥ 191,476	908,967
Other:							
Depreciation and amortization	1,871	31,798	3,068	8,206	44,943	-	44,943
Impairment losses on assets	786	-	1,292	25	2,103	164	2,267
Increase in property, plant, and equipment and intangible assets	1,524	23,607	7,511	12,100	44,742	6,089	50,831

Millions of Yen							
2020							
Reportable segments						Reconciliations	Consolidated
	Energy Infrastructure	Ceramics	Electronics	Process Technology	Total		
Sales							
Sales to customers	¥ 43,293	¥ 251,774	¥ 55,426	¥ 91,463	¥ 441,956	-	¥ 441,956
Intersegment sales or transfers	84	12	1	2,834	2,931	¥ (2,931)	-
Total	¥ 43,377	¥ 251,786	¥ 55,427	¥ 94,297	¥ 444,887	¥ (2,931)	¥ 441,956
Segment (loss) profit	¥ (4,916)	¥ 53,485	¥ 25	¥ 6,436	¥ 55,030	¥ (29)	¥55,001
Segment assets	56,637	423,998	68,669	132,908	682,212	¥ 150,874	833,086
Other:							
Depreciation and amortization	1,965	28,004	3,033	6,578	39,580	-	39,580
Impairment losses on assets	204	9,687	2,306	311	12,508	51	12,559
Increase in property, plant, and equipment and intangible assets	1,246	52,266	8,778	22,221	84,511	8,487	93,998

Thousands of U.S. Dollars							
2021							
	Reportable segments					Reconciliations	Consolidated
	Energy Infrastructure	Ceramics	Electronics	Process Technology	Total		
Sales							
Sales to customers	\$378,349	\$2,242,420	\$487,384	\$964,313	\$4,072,466	-	\$4,072,466
Intersegment sales or transfers	5,724	66	14	17,831	23,635	\$ (23,635)	-
Total	<u>\$384,073</u>	<u>\$2,242,486</u>	<u>\$487,398</u>	<u>\$982,144</u>	<u>\$4,096,101</u>	<u>\$ (23,635)</u>	<u>\$4,072,466</u>
Segment (loss) profit	\$(35,840)	\$370,817	\$ 24,950	\$97,778	\$457,705	\$ 169	\$457,874
Segment assets	487,453	4,138,672	576,703	1,261,062	6,463,890	1,725,006	8,188,896
Other:							
Depreciation and amortization	16,860	286,464	27,637	73,928	404,889	-	404,889
Impairment losses on assets	7,085	-	11,632	228	18,945	1,477	20,422
Increase in property, plant, and equipment and intangible assets	13,734	212,684	67,662	109,007	403,087	54,853	457,940

Notes:

1. Reconciliation of segment profit is the adjustment of intersegment transactions.
2. The amount of general corporate assets included in the reconciliation of segment assets was ¥198,256 million (\$1,786,089 thousand) and ¥158,885 million at March 31, 2021 and 2020, respectively, mainly consisting of surplus funds (cash and marketable securities), long-term investment funds (investment securities), and the assets of administrative departments.
3. The increase in property, plant, and equipment and intangible assets in reconciliations relates to the increase in corporate departments.

Information about Geographical Areas

(1) Sales

Millions of Yen								
2021								
Japan	North America		Europe		Asia		Other Areas	Total
	USA	Others	Germany	Others	China	Others		
¥127,526	¥85,739	¥3,439	¥25,649	¥70,215	¥80,644	¥49,622	¥9,210	¥452,044
Millions of Yen								
2020								
Japan	North America		Europe		Asia		Other Areas	Total
	USA	Others	Germany	Others	China	Others		
¥132,151	¥86,017	¥4,098	¥54,491	¥57,103	¥47,881	¥44,692	¥15,523	¥441,956
Thousands of U.S. Dollars								
2021								
Japan	North America		Europe		Asia		Other Areas	Total
	USA	Others	Germany	Others	China	Others		
\$1,148,882	\$772,423	\$30,980	\$231,075	\$632,564	\$726,524	\$447,042	\$82,976	\$4,072,466

Sales are attributed to countries based on the location of the customers.

(2) Property, plant, and equipment

Millions of Yen								
2021								
Japan	North America		Europe		Asia		Other Areas	Total
	USA	Others	Poland	Others	China	Others		
¥182,226	¥20,871	¥14,414	¥77,870	¥3,208	¥48,675	¥24,310	¥637	¥372,211

Millions of Yen								
2020								
Japan	North America		Europe		Asia		Other Areas	Total
	USA	Others	Poland	Others	China	Others		
¥175,756	¥19,133	¥14,993	¥77,241	¥3,144	¥43,954	¥24,648	¥539	¥359,408

Thousands of U.S. Dollars								
2021								
Japan	North America		Europe		Asia		Other Areas	Total
	USA	Others	Poland	Others	China	Others		
\$1,641,670	\$188,026	\$129,855	\$701,536	\$28,903	\$438,513	\$219,012	\$5,736	\$3,353,251

21. RELATED PARTY DISCLOSURES

Transaction with related parties

The Company had the following transaction with its related parties for the year ended March 31, 2020:

Category	Company name	Address	Capital	Content of business	Ratio of voting rights	Relationship	Summary of transaction	Amount	Account items	Balance at the end of fiscal year
Associated company	METAWATER Co. Ltd	Chiyoda-ku, Tokyo	¥ 11,947 million	Design and construction of equipment for water treatment plants, sewage treatment plants, and waste treatment facilities; design, manufacture, and sale of various devices; implementation of repair work; provision of services including operation management	(Held) Direct 25.3%	Sale of product and concurrent appointment of officer	Sales of shares of associates	(Gross—Proceeds from sales) ¥6,804 million (Net—Gain on sales of shares) ¥689 million	—	—

Note: Transaction terms and policy for determining transactions terms

The transaction stated above was determined through the subscription to the tender offer of treasury shares by METAWATER Co., Ltd.

There was no related party transaction to be disclosed for the year ended March 31, 2021.

* * * * *

Independent Auditor's Report



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of NGK INSULATORS, Ltd.:

Opinion

We have audited the consolidated financial statements of NGK INSULATORS, Ltd. and its consolidated subsidiaries (the "Group"), which comprise the consolidated balance sheet as of March 31, 2021, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

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

Basis for Opinion

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

Key Audit Matter

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

Member of
Deloitte Touche Tohmatsu Limited

Independent Auditor's Report

Impairment of Long-lived Assets	
Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
<p>The Group classifies its long-lived assets into an asset or asset group mainly by business unit, which is used for internal management purpose, and idle assets are individually grouped as asset group for the purpose of assets impairment review.</p> <p>The Group reviews the asset or asset group for indicators of impairment in accordance with "Accounting Standards for Impairment of Fixed Assets" issued by Accounting Standards Board of Japan. An example of an indicator of impairment is recurring operating losses recorded or expected for the asset or asset group.</p> <p>Among the asset group, the Insulator business in the Power business segment has recorded consecutive operating losses from previous years. Management of the Group determined that those losses were mainly due to decreases in demand resulting from investment restraints by major customers, such as railway companies and electric power companies, and that there was an indication of impairment in the Insulator business.</p> <p>Long-lived assets of the Insulator business amounted to 7,988 million yen on the consolidated balance sheet as of March 31, 2021, of which 4,235 million yen was recorded at NGK INSULATORS, Ltd., which was particularly significant.</p> <p>Long-lived assets are tested for impairment by comparing the carrying amount of an asset or asset group with the recoverable amount determined based on the estimated undiscounted future cash flows. The undiscounted future cash flows of the Insulator business consist of the cash flows from business activities and the fair value less cost to sell of owned real estate. The cash flows from business activities are estimated based on the business plan and involve estimation by management. The fair value less cost to sell of owned real estate is calculated by deducting the expected disposal cost from the appraisal value developed by a third-party expert, which involves professional judgment.</p> <p>The Group concluded that it was not necessary to recognize impairment losses considering the forecast of future demand for the Insulator business products and the unrealized gain on owned real estate.</p> <p>Based on above, we identified the impairment of long-lived assets in the Insulator business as a key audit matter.</p>	<p>Our audit procedures related to management's evaluation of long-lived assets for possible impairment losses included the following, among others:</p> <ul style="list-style-type: none"> • We tested the design and operating effectiveness of controls over management's evaluation of impairment losses for long-lived assets. • We evaluated the results of work by management's expert, a third-party real estate appraiser, and assessed the competency, capability, and objectivity of the expert. • With the assistance of our valuation specialists, we evaluated the reasonableness of the fair value of owned real estate determined based on the appraisal value. • For estimates of the undiscounted future cash flows, we held discussions with management of the Group and personnel responsible for the business plans, and evaluated whether the business plans were consistent with underlying information inspected and were appropriately approved.

Independent Auditor's Report

Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

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

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

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

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

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

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

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

Independent Auditor's Report

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Audit & Supervisory Board members and the Audit & Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Deloitte Touche Tohmatsu LLC

June 28, 2021
(July 30, 2021 as to Note 19)

Subsidiaries and Affiliated Companies

As of March 31, 2021

JAPAN

	Company's Direct and Indirect Ownership (%)	Principal Products and Services
■ ENERGY SUPPORT CORPORATION	100	Power distribution equipment
■ AKECHI INSULATORS, LTD.	100	Electrical insulators
■ NGK CHEM-TECH, LTD.	100	Chemical equipment and maintenance
■ NGK FILTECH, LTD.	100	Membrane separation systems
■ NGK ADREC CO., LTD.	100	Refractories/kiln furniture
■ NGK KILNTECH CORPORATION	100	Thermal process engineering & products
■ NGK OKHOTSK, LTD.	100	Jig for ceramics production
■ NGK METEX CORPORATION	100	Beryllium copper wrought products
■ NGK FINE MOLDS, LTD.	100	Molds
■ NGK CERAMIC DEVICE CO., LTD.	100	Ceramic electronic components
■ NGK ELECTRONICS DEVICES, INC.	100	Ceramic packages for semiconductors and ceramic electronic components
● METAWATER CO., LTD.	24.4	Environmental protection systems
● NGK LIFE CO., LTD.	100	Insurance agency service and golf cours management

Other Group Companies

■ HOKURIKU ENERGYS CORPORATION	■ KYUSYU ENERGYS CORPORATION	NGK TECHNICA, LTD.
■ ENERGYS SANGYO CORPORATION	NGK SPORTS PLANNING CO., LTD.	NGK LOGISTICS, LTD.
■ KANSAI ENERGYS CORPORATION	NGK YU-SERVICE CO., LTD.	

NORTH AMERICA

	Company's Direct and Indirect Ownership (%)	Principal Products and Services
■ NGK NORTH AMERICA, INC.	100	Holding company
■ NGK-LOCKE, INC.	100	Electrical insulators
■ NGK INSULATORS OF CANADA, LTD.	100	Electrical insulators and ceramic products
■ NGK CERAMICS USA, INC.	100	Automotive ceramics
■ NGK AUTOMOTIVE CERAMICS USA, INC.	100	Automotive ceramics
■ NGK CERAMICS MEXICO, S. DE R.L. DE C.V.	95	Automotive ceramics
■ NGK METALS CORPORATION	100	Beryllium copper products
■ NGK ELECTRONICS USA, INC.	100	Ceramics for semiconductor manufacturing equipment
■ FM INDUSTRIES, INC.	100	Modules for semiconductor production equipment

EUROPE AND AFRICA

	Company's Direct and Indirect Ownership (%)	Principal Products and Services
■ NGK CERAMICS EUROPE S.A.	100	Automotive ceramics
■ NGK EUROPE GMBH	100	Ceramic products
■ NGK CERAMICS POLSKA SP. Z O.O.	95	Automotive ceramics
■ NGK CERAMICS SOUTH AFRICA (PTY) LTD.	100	Automotive ceramics
■ NGK BERYLCO FRANCE	100	Beryllium copper products
■ NGK BERYLCO U.K. LTD.	100	Beryllium copper products
■ NGK DEUTSCHE BERYLCO GMBH	100	Beryllium copper products

ASIA PACIFIC

	Company's Direct and Indirect Ownership (%)	Principal Products and Services
■ NGK STANGER PTY. LTD.	100	Power distribution equipment
■ NGK INSULATORS (CHINA) INVESTMENT CO., LTD.	100	Electrical insulators and beryllium copper products
■ P.T. NGK CERAMICS INDONESIA	97.8	Automotive ceramics
■ SIAM NGK TECHNOCERA CO., LTD.	100	Refractories/kiln furniture
■ NGK CERAMICS (THAILAND) CO., LTD.	95	Automotive ceramics
■ NGK CERAMICS SUZHOU CO., LTD.	100	Automotive ceramics
■ NGK TECHNOCERA SUZHOU CO., LTD.	100	Thermal process engineering & products, refractories/kiln furniture

Other Group Companies

■ ENERGY ELECTRIC (SHANGHAI) CORPORATION	NGK AUTOMOTIVE CERAMICS KOREA CO., LTD.
■ NGK MATERIAL USA, INC.	NGK TECHNOLOGIES INDIA PVT. LTD.
■ NGK AUTOMOTIVE CERAMICS MEXICO, S. DE R.L. DE C.V.	NGK ITALY S.R.L.
■ NGK ELECTRONICS DEVICES (M) SDN. BHD.	NGK ELECTRONICS DEVICES ASIA SDN. BHD.
■ NGK GLOBETRONICS TECHNOLOGY SDN. BHD.	NGK ENERGYS MYANMAR CO., LTD.
■ NGK INSULATORS TANGSHAN CO., LTD..	FM INDUSTRIES (MALAYSIA) SDN. BHD.
■ LOCKE INSULATORS, INC.	

- Consolidated companies
- Affiliated companies accounted for by the equity method

