Transform
Tomorrow
Today

UBE Corporation

Integrated Report

2022

Financial Section

Contents

Consolidated Balance Sheet

UBE Corporation and Consolidated Subsidiaries
March 31, 2022 and 2021

Assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Current assets:			
Cash and cash equivalents (Note 5)	¥ 78,761	¥ 79,646	$ 645,582
Time deposits (Note 5)	731	658	5,992
Receivables (Notes 5 and 23):			
Notes and accounts - trade	—	149,615	—
Notes - trade	18,090	—	148,279
Accounts - trade	137,518	—	1,127,197
Contract assets	15,750	—	129,098
Others	11,546	6,696	94,639
Allowance for doubtful accounts	(259)	(562)	(2,123)
Inventories (Note 7)	124,709	87,834	1,022,205
Other current assets	7,843	7,840	64,287
Total current assets	394,689	331,727	3,235,156
Property, plant and equipment (Notes 9, 15 and 21)**:**			
Land	75,816	76,110	621,442
Buildings and structures	286,028	280,783	2,344,492
Machinery and equipment	761,152	742,334	6,238,951
Construction in progress	14,113	12,551	115,680
Accumulated depreciation	(804,352)	(780,555)	(6,593,049)
Total property, plant and equipment, net	332,757	331,223	2,727,516
Investments and other assets:			
Investment securities (Notes 5 and 6)	61,808	59,484	506,623
Long-term loans receivable	303	296	2,484
Long-term deferred tax assets (Note 16)	16,452	16,263	134,852
Net defined benefit asset (Note 20)	10,382	10,024	85,098
Other non-current assets	22,103	21,401	181,172
Allowance for doubtful accounts	(540)	(708)	(4,426)
Total investments and other assets	110,508	106,760	905,803
Total assets	¥ 837,954	¥ 769,710	$ 6,868,475

See accompanying notes.

Liabilities and Net Assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Current liabilities:			
Short-term loans payable (Notes 5, 8 and 9)	¥ 24,686	¥ 23,372	$ 202,344
Commercial paper (Note 5)	17,000	—	139,344
Current portion of long-term debt (Notes 5, 8 and 9)	29,820	24,659	244,426
Payables (Note 5):			
Notes and accounts - trade	110,766	90,831	907,918
Others	34,292	30,718	281,082
Provision for bonuses	6,951	6,446	56,976
Income taxes payable (Note 5)	5,890	3,196	48,279
Contract liabilities	6,595	—	54,057
Other current liabilities	13,174	21,218	107,984
Total current liabilities	249,174	200,440	2,042,410
Long-term liabilities:			
Long-term debt less current portion (Notes 5, 8 and 9)	164,670	161,245	1,349,754
Net defined benefit liability (Note 20)	7,292	7,745	59,770
Long-term deferred tax liabilities (Note 16)	1,932	779	15,836
Other long-term liabilities	20,851	18,866	170,910
Total long-term liabilities	194,745	188,635	1,596,270
Contingent liabilities (Note 10)			
Net assets (Note 11)**:**			
Capital stock, without par value: Authorized — 330,000,000 shares Issued —106,200,107 shares at March 31, 2022 and 2021	58,435	58,435	478,975
Capital surplus	40,623	40,659	332,975
Retained earnings	274,725	259,806	2,251,844
Treasury shares 9,392,743 shares at March 31, 2022 and 5,056,029 shares at March 31, 2021	(22,234)	(12,380)	(182,245)
Valuation difference on available-for-sale securities	3,680	4,080	30,164
Deferred gains (losses) on hedges	(70)	3	(573)
Foreign currency translation adjustment	13,218	7,720	108,344
Remeasurements of defined benefit plans	765	690	6,270
Share acquisition rights (Note 22)	510	547	4,180
Non-controlling interests	24,383	21,075	199,861
Total net assets	394,035	380,635	3,229,795
Total liabilities and net assets	¥837,954	¥769,710	$6,868,475

Consolidated Statement of Income

UBE Corporation and Consolidated Subsidiaries
For the years ended March 31, 2022 and 2021

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Net sales (Note 23)	¥655,265	¥613,889	$5,371,024
Cost of sales	527,346	509,327	4,322,508
Gross profit	127,919	104,562	1,048,516
Selling, general and administrative expenses (Notes 12, 13 and 22)	83,881	78,660	687,549
Operating profit	44,038	25,902	360,967
Other income (expenses):			
Interest and dividend income	1,247	1,018	10,221
Amortization of negative goodwill	52	28	426
Interest expense	(898)	(931)	(7,360)
Share of profit (loss) of entities accounted for using equity method	(1,942)	1,103	(15,918)
Others, net (Note 14)	(5,703)	(4,687)	(46,746)
	(7,244)	(3,469)	(59,377)
Profit before income taxes	36,794	22,433	301,590
Income taxes (Note 16)**:**			
Current	9,593	5,183	78,631
Deferred	1,355	(5,272)	11,107
	10,948	(89)	89,738
Profit	25,846	22,522	211,852
Loss attributable to non-controlling interests	1,346	(414)	11,033
Profit attributable to owners of parent	¥ 24,500	¥ 22,936	$ 200,819

	Yen		U.S. dollars (Note 1)
	2022	2021	2022
Per share:			
Net income:			
Basic	¥249.31	¥226.79	$2.044
Diluted	248.56	226.14	2.037
Cash dividends applicable to the period	100.00	90.00	0.820

See accompanying notes.

Consolidated Statement of Comprehensive Income

UBE Corporation and Consolidated Subsidiaries
For the years ended March 31, 2022 and 2021

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Profit	¥25,846	¥22,522	$211,852
Valuation difference on available-for-sale securities	(390)	2,043	(3,197)
Deferred gains (losses) on hedges	(73)	(6)	(598)
Foreign currency translation adjustment	5,694	6,501	46,672
Remeasurements of defined benefit plans, net of tax	33	4,443	270
Share of other comprehensive income of entities accounted for using equity method	527	95	4,320
Total other comprehensive income	5,791	13,076	47,467
Comprehensive income	¥31,637	¥35,598	$259,319
Attributable to:			
Owners of parent	¥29,600	¥35,104	$242,623
Non-controlling interests	2,037	494	16,696

See accompanying notes.

Consolidated Statement of Changes in Net Assets

UBE Corporation and Consolidated Subsidiaries

						Millions of yen					
For the year ended March 31, 2022	Number of shares issued (thousands)	Capital stock	Capital surplus	Retained earnings	Treasury shares	Valuation difference on available-for- sale securities	Deferred gains (losses) on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Share acquisition rights	Non-controlling interests
Opening balance	106,200	¥58,435	¥40,659	¥259,806	¥(12,380)	¥4,080	¥ 3	¥ 7,720	¥ 690	¥547	¥21,075
Cumulative effects of changes in accounting policies	—	—	—	(648)	—	—	—	—	—	—	—
Restated balance	106,200	58,435	40,659	259,158	(12,380)	4,080	3	7,720	690	547	21,075
Cash dividends at ¥90.00 per share	—	—	—	(8,944)	—	—	—	—	—	—	—
Profit attributable to owners of parent	—	—	—	24,500	—	—	—	—	—	—	—
Purchase of treasury shares	—	—	—	—	(10,006)	—	—	—	—	—	—
Disposal of treasury shares	—	—	(34)	—	152	—	—	—	—	—	—
Change in scope of consolidation	—	—	—	11	—	—	—	—	—	—	—
Purchase of shares of consolidated subsidiaries	—	—	(2)	—	—	—	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	(400)	(73)	5,498	75	(37)	3,308
Closing balance	106,200	¥58,435	¥40,623	¥274,725	¥(22,234)	¥3,680	¥(70)	¥13,218	¥765	¥510	¥24,383

						Millions of yen					
For the year ended March 31, 2021	Number of shares issued (thousands)	Capital stock	Capital surplus	Retained earnings	Treasury shares	Valuation difference on available-for- sale securities	Deferred gains (losses) on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Share acquisition rights	Non-controlling interests
Opening balance	106,200	¥58,435	¥40,300	¥245,980	¥(12,645)	¥1,984	¥ 9	¥2,122	¥(3,790)	¥573	¥21,479
Cash dividends at ¥90.00 per share	—	—	—	(9,110)	—	—	—	—	—	—	—
Profit attributable to owners of parent	—	—	—	22,936	—	—	—	—	—	—	—
Purchase of treasury shares	—	—	—	—	(5)	—	—	—	—	—	—
Disposal of treasury shares	—	—	(179)	—	270	—	—	—	—	—	—
Change in scope of consolidation	—	—	—	—	—	—	—	—	—	—	—
Purchase of shares of consolidated subsidiaries	—	—	538	—	—	—	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	2,096	(6)	5,598	4,480	(26)	(404)
Closing balance	106,200	¥58,435	¥40,659	¥259,806	¥(12,380)	¥4,080	¥ 3	¥7,720	¥ 690	¥547	¥21,075

						Thousands of U.S. dollars (Note 1)					
For the year ended March 31, 2022	Number of shares issued (thousands)	Capital stock	Capital surplus	Retained earnings	Treasury shares	Valuation difference on available-for- sale securities	Deferred gains (losses) on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Share acquisition rights	Non-controlling interests
Opening balance	106,200	$478,975	$333,270	$2,129,557	$(101,475)	$33,443	$ 25	$ 63,279	$5,655	$4,484	$172,746
Cumulative effects of changes in accounting policies	—	—	—	(5,311)	—	—	—	—	—	—	—
Restated balance	106,200	478,975	333,270	2,124,246	(101,475)	33,443	25	63,279	5,655	4,484	172,746
Cash dividends at ¥90.00 per share	—	—	—	(73,311)	—	—	—	—	—	—	—
Profit attributable to owners of parent	—	—	—	200,819	—	—	—	—	—	—	—
Purchase of treasury shares	—	—	—	—	(82,016)	—	—	—	—	—	—
Disposal of treasury shares	—	—	(279)	—	1,246	—	—	—	—	—	—
Change in scope of consolidation	—	—	—	90	—	—	—	—	—	—	—
Purchase of shares of consolidated subsidiaries	—	—	(16)	—	—	—	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	(3,279)	(598)	45,065	615	(304)	27,115
Closing balance	106,200	$478,975	$332,975	$2,251,844	$(182,245)	$30,164	$(573)	$108,344	$6,270	$4,180	$199,861

See accompanying notes.

Consolidated Statement of Cash Flows

UBE Corporation and Consolidated Subsidiaries
For the years ended March 31, 2022 and 2021

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Cash flows from operating activities:			
Profit before income taxes	¥ 36,794	¥ 22,433	$ 301,590
Depreciation and amortization	36,506	36,382	299,230
Loss on impairment of fixed assets	771	55	6,320
Interest and dividend income	(1,247)	(1,018)	(10,221)
Interest expense	898	931	7,360
Loss (gain) on sales of property, plant and equipment	17	(150)	139
Gain on sales of investment securities	(367)	(483)	(3,008)
Decrease in notes and accounts receivable - trade	(21,204)	10,479	(173,803)
Decrease in inventories	(34,908)	7,287	(286,131)
Decrease in notes and accounts payable - trade	15,609	(3,028)	127,943
Changes in net defined benefit asset and liability	(781)	(5,423)	(6,402)
Others, net	3,559	4,881	29,172
Subtotal	35,647	72,346	292,189
Interest and dividend income received	2,610	2,073	21,393
Interest expenses paid	(956)	(868)	(7,836)
Proceeds from subsidy income	836	21	6,852
Income taxes paid	(5,426)	(7,518)	(44,475)
Net cash provided by operating activities	32,711	66,054	268,123
Cash flows from investing activities:			
Proceeds from sales of property, plant and equipment	398	460	3,262
Purchase of property, plant and equipment and intangible assets	(36,379)	(38,208)	(298,189)
Proceeds from sales of investment securities	995	633	8,156
Purchase of investment securities	(192)	(261)	(1,574)
Proceeds from sales of shares of subsidiaries and affiliates	78	119	639
Payments for investments in capital of subsidiaries and associates	(2,244)	—	(18,393)
Purchase of shares of subsidiaries and affiliates	(192)	(1,613)	(1,574)
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	—	66	—
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	(563)	—	(4,614)
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	315	—	2,582
Net decrease (increase) in loans receivable	(5,241)	(506)	(42,959)
Others, net	(348)	(123)	(2,852)
Net cash used in investing activities	(43,373)	(39,433)	(355,516)
Cash flows from financing activities:			
Proceeds from long-term borrowings	34,720	31,590	284,590
Proceeds from issuance of bonds	—	9,950	—
Repayments of long-term borrowings	(16,024)	(17,657)	(131,344)
Redemption of bonds	(10,000)	—	(81,967)
Net decrease in short-term borrowings	1,262	(2,664)	10,344
Increase (decrease) in commercial paper	17,000	—	139,344
Cash dividends paid	(8,923)	(9,089)	(73,139)
Dividends paid to non-controlling interests	(242)	(269)	(1,983)
Proceeds from share issuance to non-controlling shareholders	2,279	—	18,680
Payments from changes in ownership interest in subsidiaries that do not result in change in scope of consolidation	(733)	(41)	(6,008)
Others, net	(10,968)	(968)	(89,902)
Net cash provided by (used in) financing activities	8,371	10,852	68,615
Effect of exchange rate change on cash and cash equivalents	1,349	1,093	11,057
Net increase in cash and cash equivalents	(942)	38,566	(7,721)
Cash and cash equivalents at beginning of the year	79,646	40,609	652,836
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	57	471	467
Cash and cash equivalents at end of the year	¥ 78,761	¥ 79,646	$ 645,582

See accompanying notes.

Notes to Consolidated Financial Statements

UBE Corporation and Consolidated Subsidiaries
For the years ended March 31, 2022 and 2021

1

Basis of presenting consolidated financial statements

(a) UBE Corporation (the "Company") and its consolidated subsidiaries (collectively, the "Group") maintain their accounting records and prepare their financial statements in accordance with accounting principles generally accepted in Japan. The accompanying consolidated financial statements have been compiled from the consolidated financial statements prepared by the Company as required under the Financial Instruments and Exchange Act of Japan and, accordingly, have been prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

Certain modifications have been made to the accompanying financial statements in order to present them in a form which is more familiar to readers outside Japan.

(b) The accompanying financial statements are expressed in Japanese yen and, solely for the convenience of the reader, have been translated into U.S. dollars at ¥122=US$1, the approximate rate of exchange on March 31, 2022. The translation should not be construed as a representation that Japanese yen have been, could have been, or could in the future be converted into U.S. dollars at the above or any other rate.

2

Significant accounting policies

(a) Basis of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

The accompanying consolidated financial statements include the accounts of the Company and significant companies controlled directly or indirectly by the Company (65 and 66 companies for the years ended March 31, 2022 and 2021, respectively). Significant companies over which the Company exercises significant influence in terms of their operating and financial policies are included in the consolidated financial statements by the equity method (26 companies for the years ended March 31, 2022 and 2021). All significant intercompany balances and transactions are eliminated in consolidation.

Certain subsidiaries are consolidated using their financial statements as of their respective fiscal year end, which falls on December 31, and necessary adjustments are made to their financial statements to reflect any significant transactions occurring during the January 1 to March 31 period.

In the initial consolidation, assets and liabilities of subsidiaries including those attributable to non-controlling interests are recorded based on fair value in the consolidated financial statements.

The difference between acquisition cost and the underlying net assets at fair value at the date of acquisition is amortized over a period of 20 years on a straight-line basis. Goodwill in the amount of ¥857 million (US$7,025 thousand) and ¥720 million is included in "Other non-current assets" on the consolidated balance sheet at March 31, 2022 and 2021, respectively.

Investments in subsidiaries and affiliates which are not consolidated or accounted for by the equity method are carried at cost.

(b) Accounting for income taxes

Deferred tax assets and liabilities are recognized in the consolidated financial statements with respect to the differences between the financial reporting and the tax bases of the assets and liabilities.

Deferred tax assets and liabilities are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Valuation allowance is provided for the deferred tax assets that are not realizable within a reasonable period.

(c) Securities

Securities other than equity securities issued by subsidiaries and affiliates are classified into three categories: "Trading," "Held-to-maturity" and "Others." The Company and its consolidated subsidiaries have no trading securities and held-to-maturity securities. Marketable securities classified as other securities are carried at fair value with changes in the valuation difference, net of the applicable income taxes, included directly in net assets. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving-average method.

(d) Derivatives and hedge accounting

All derivatives are stated at fair value, with changes in fair value recorded as gain or loss for the period in which they arise.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Group defers the recognition of gains or losses resulting from changes in the fair value of the derivative financial instruments until the related losses or gains on the hedged items are recognized.

If interest rate swap contracts meet certain hedging criteria, the net amount to be paid or received under these swap contracts is added to or deducted from the interest on the assets or liabilities for which the swap contracts were executed ("Short-cut method").

Summarized in the table below are hedging instruments and items hedged.

Hedging instruments	Items hedged
Interest rate swaps	Loans
Interest rate options	Loans
Forward foreign exchange contracts	Foreign currency receivables and payables Forecasted foreign currency transactions
Currency options	Foreign currency receivables and payables Forecasted foreign currency transactions
Currency swaps	Foreign currency loans
Coal price swaps	Coal purchased at market linked price

The Company and its consolidated subsidiaries use hedging instruments for the purpose of reducing the fluctuation risk of interest rates, foreign exchange and coal prices in accordance with the Company's policies.

The effectiveness of hedging activities is assessed by confirming whether each hedging instrument corresponds to the item hedged.

Additional information on derivatives is presented in Note 17. Derivative financial instruments.

(e) Retirement and pension plan

The Company attributes projected benefits based on a flat benefit formula.

Actuarial gain or loss is amortized in the following year in which the gain or loss is incurred mainly by the declining-balance method over 10-14 years, which are shorter than the average remaining service years of employees.

Prior service cost is amortized as incurred mainly by the straight-line method over 5-14 years, which are shorter than the average remaining service years of the employees.

Many consolidated subsidiaries adopt a simplified method to calculate net defined benefit liability and retirement benefit expenses based on the assumption that the benefits payable, which are calculated as if all eligible employees voluntarily terminate their employment at fiscal year end, approximates the retirement benefit obligations at year end.

(f) Allowance for doubtful accounts

Allowance for doubtful accounts is provided at an amount estimated with reference to individual uncollectible accounts plus an amount calculated using a historical rate determined based on the actual uncollectible amounts incurred in prior years.

(g) Inventories

Inventories are stated at the lower of cost or market, cost being determined principally by the weighted-average method.

(h) Property, plant and equipment (except for leased assets) and depreciation

Property, plant and equipment is stated at cost. Depreciation of property, plant and equipment is computed principally by the straight-line method for the Company and by the declining-balance method for some consolidated subsidiaries, except for certain buildings of domestic consolidated subsidiaries acquired on or after April 1, 1998, and except for certain building facilities and structures of domestic consolidated subsidiaries acquired on or after April 1, 2016, which are depreciated by the straight-line method, at rates based on the estimated useful lives of the respective assets.

The estimated useful lives of the assets are as follows:

Buildings and structures: 2 to 75 years

Machinery and equipment: 2 to 30 years

(i) Intangible assets (except for leased assets)

Mining rights are amortized by the unit-of-production method and patent rights, software and others are amortized by the straight-line method over their estimated useful lives.

(j) Leased assets

Leased property under finance leases which does not transfer ownership of the leased property to lessees is depreciated or amortized by the straight-line method over the lease terms assuming no residual value.

(k) Research and development costs

Research and development costs are charged to income when incurred.

(l) Net income per share

Basic net income per share is computed based on net income available for distribution to stockholders of common stock and the weighted average number of shares of common stock outstanding during each year (98,272 thousand shares and 101,134 thousand shares for the years ended March 31, 2022 and 2021, respectively). Diluted net income per share is computed based on net income available for distribution to the stockholders and the weighted average number of shares of common stock outstanding during each year assuming full exercise of share subscription rights (296 thousand shares and 290 thousand shares for the years ended March 31, 2022 and 2021, respectively).

(m) Provision for bonuses

Provision for bonuses is provided for payments to employees at the estimated amount incurred attributable to the current fiscal year.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and short-term investments. Short-term investments included here are readily convertible into cash, exposed to insignificant risk of changes in value and mature or become due within three months of the date of acquisition.

(o) Provision for loss on order received

Provision for loss on order received is provided to cover the losses that are highly likely to be incurred and the amounts of which can be reasonably estimated.

These provision for loss on order received in the amounts of ¥321 million (US$2,631 thousand) and ¥378 million are included in “Other current liabilities” on the consolidated balance sheet at March 31, 2022 and 2021, respectively.

(p) Provision for directors retirement benefits

Consolidated subsidiaries provide for retirement allowances for directors and audit & supervisory board members at the necessary amount at the year end based on their internal policies.

Retirement allowances of ¥422 million (US$3,459 thousand) and ¥497 million are included in “Other long-term liabilities” on the consolidated balance sheet at March 31, 2022 and 2021, respectively.

(q) Provision for loss on business restructuring

Provision for loss on business restructuring is provided to cover the losses, which are highly likely to be incurred and the amounts of which can be reasonably estimated, related to certain businesses of the Company and its consolidated subsidiaries.

These provision for losses on business restructuring in the amounts of ¥109 million (US$893 thousand) and ¥75 million are included in “Other long-term liabilities” on the consolidated balance sheet at March 31, 2022 and 2021, respectively.

(r) Provision for special repairs

Provision for special repairs is provided for payments of routine maintenance mainly for ammonia plants at the estimated amount.

These provision for special repairs in the amounts of ¥3,084 million (US$25,279 thousand) and ¥1,503 million are included in “Other long-term liabilities” on the consolidated balance sheet at March 31, 2022 and 2021, respectively.

(s) Significant revenues and expenses

The Company and its consolidated subsidiaries conduct business activities in the following four business segments: “Chemicals,” “Construction Materials,” “Machinery” and “Other,” and provide a wide variety of products to customers in Japan and overseas.

With regard to the sale of products in these businesses, the Group recognizes revenue at the point in time when the product is delivered to the customer based on the provisions of the contract or when risks are transferred to the customer based on Incoterms because the customer has gained control over the product and the Group’s performance obligations have been satisfied. In addition, regarding contracts in the Machinery segment in which performance obligations are fulfilled over a certain period of time, unless the period is very short, the degree of progress in satisfying the performance obligations is estimated and revenue is recognized over a certain period of time based on the degree of progress. The method of estimating the degree of progress related to the satisfaction of the performance obligations is based on the input method using the ratio of costs incurred to the estimated total cost.

Revenue is calculated by deducting returns, discounts, and rebates from the consideration promised in the contract with the customer, and at an amount within a range where it is highly probable that a significant refund will not occur.

In addition, other parties are involved in some overseas sales transactions of products in the Chemicals segment and in sales transactions of cement in the Construction Materials segment. The Group is required to arrange for goods or services to be provided to the customer by these other parties, and therefore the Company is acting as an agent in such transactions. For transactions where the Group acts as an agent, the Company recognizes revenue by deducting the amount paid to the supplier from the amount received from the customer.

Furthermore, the consideration in contracts involving the sales of products is collected within approximately one year from the time the control over the product is transferred to the customer, and does not include the significant interest rate factor.

3

Significant accounting estimates

Loss on impairment of property, plant and equipment

An impairment loss of ¥771 million (US$6,320 thousand) was recognized for the year ended March 31, 2022.

Total property, plant and equipment, net, of ¥332,757 million (US$2,727,516 thousand) has been recorded on the consolidated balance sheet at March 31, 2022.

Business assets whose profitability has declined were identified during the year ended March 31, 2022.

The Group regularly assesses any indication of impairment for each fixed asset grouping and estimates the recoverable amount in the event indications of impairment exist. When calculating the recoverable amount, the future cash flows expected to be generated by the asset group are used. In estimating the future cash flows, the Group evaluates business conditions, market trends of industries in which its customers operate their business and future growth rates. However, if the future cash flow projection changes and the carrying value of the asset group is unrecoverable, an impairment loss may be recorded.

Recoverability of deferred tax assets

Deferred tax assets of ¥16,452 million (US$134,852 thousand) have been recorded on the consolidated balance sheet at March 31, 2022.

Deferred tax assets recognized by the Group are related to future tax consequences of temporary differences and are estimated regularly to assess their recoverability. The recoverability of deferred tax assets is largely dependent on estimates of future taxable income. In estimating taxable income, the Group evaluates business conditions, market trends of industries in which its customers operate their businesses and future growth rates. However, if it is determined that some or all deferred tax assets are unrecoverable due to a change in estimates, the amount of deferred tax assets may be reduced.

4

Accounting changes

(Application of “Accounting Standard for Revenue Recognition”)

The “Accounting Standard for Revenue Recognition” (Accounting Standards Board of Japan (“ASBJ”) Statement No.29, March 31, 2020) and other standards are applied from the first quarter of the fiscal year ended March 31, 2022. The Group recognizes revenue in the amount that expects to receive in exchange for promised goods or services at the time control of the goods or services are transferred to a customer. The main changes resulted from this application are as follows.

(1) Revenue recognition policies regarding agent transaction

For some transactions, the Group had previously recognized revenue at the total amount of the consideration that the Groups expects to receive from a customer as revenue. However, when the Group acts as an agent in a transaction, it recognizes revenue at the net amount in which the amount payable to a supplier is deducted from the amount receivable from the customer.

(2) Revenue recognition for performance obligations met over a period of time

For contracts accounted for using the completed-contract method, those with performance obligations met over a period of time will be accounted for using a revenue recognition method in which the degree of progress on said performance fulfillment is estimated and revenue is calculated based on this progress, except for those transactions for which the period of time is extremely short. In addition, for estimating the degree of progress on fulfillment of performance obligations, the input method used is based on the ratio of cost incurred to total estimated cost.

Based on the transitional treatment outlined in Article 84 of the “Accounting Standard for Revenue Recognition,” the cumulative effect of retroactively applying the new accounting policy to periods prior to the beginning of the fiscal year ended March 31, 2022 is reflected in the balance of retained earnings at the beginning of the fiscal year ended March 31, 2022.

However, based on the method outlined in Article 86 of the “Accounting Standard for Revenue Recognition,” the Group has not retroactively applied the new accounting policy to the contracts in which almost all revenue had been recognized prior to the beginning of the current fiscal year in accordance with the previous treatment. In addition, based on Article 86 (1) of the “Accounting Standard for Revenue Recognition,” the Group has implemented accounting treatment for contracts modified prior to the beginning of the current term by applying the contract conditions made after reflecting all the modifications to the contracts, and added or deducted the cumulative effects to the beginning balance of retained earnings.

“Notes and accounts receivable - trade” that had been classified in “current assets” in the consolidated balance sheet for the previous fiscal year was reclassified and presented as “notes receivable - trade,” “accounts receivable - trade” and “contract assets” from the current fiscal year, and “others,” which had been classified in “current liabilities” was reclassified and presented as “contract liabilities” and “others” from the current fiscal year. Based on the transitional treatment outlined in Article 89-2 of the “Accounting Standard for Revenue Recognition,” the Group has not reclassified some items reported for the previous fiscal year based on the new classification method.

As a result, compared with the amounts before application of the “Accounting Standard for Revenue Recognition”, net sales, cost of sales, selling, general administrative expenses, and operating profit for the fiscal year ended March 31, 2022 decreased by ¥82,759 million, ¥81,622 million, ¥367 million and ¥770 million, respectively. In addition, ordinary profit and profit before income taxes decreased by ¥1,039 million, respectively.

The cumulative impact was reflected in net assets at the beginning of the current fiscal year, and the balance of retained earnings at the beginning of the year in the consolidated statement of changes in net assets decreased by ¥648 million.

(Application of “Accounting Standard for Fair Value Measurement”)

The “Accounting Standard for Fair Value Measurement” (ASBJ Statement No.30, July 4, 2019) and other standards are applied from the first quarter of the fiscal year ended March 31, 2022. Based on the transitional treatment prescribed in Paragraph 19 of the “Accounting Standard for Fair Value Measurement” and Paragraph 44-2 of the “Accounting Standard for Financial Instruments” (ASBJ Statement No.10, July 4, 2019), the Group has decided to apply the new accounting policies set forth by the “Accounting Standard for Fair Value Measurement” into the future. These changes had no impact on the consolidated financial statements.

5 Financial instruments

(a) Policy for financial instruments

The Group manages funds by utilizing short-term deposits, etc., subject to an insignificant risk of change in value. The Group raises money by borrowing from financial institutions and by issuing commercial paper, straight bonds and bonds with warrants. The Group uses derivatives for the purpose of reducing risk and does not hold or issue derivative financial instruments for speculative purposes.

(b) Types of financial instruments and related risk

Trade receivables— Notes and accounts receivables - trade —are exposed to credit risk in relation to customers. In addition, the Group is exposed to foreign currency exchange risk arising from receivables and payables denominated in foreign currencies. The foreign currency exchange risks deriving from those receivables and payables are hedged by forward foreign exchange contracts, currency options and currency swaps.

Investment securities are exposed to market risk and credit risk in relation to issuers. Those securities are composed of the shares of common stock of other companies.

Trade payables— Notes and accounts payables – trade —have payment due dates within one year.

Short-term loans payable is raised and commercial paper is issued mainly in connection with business activities, and long-term debt is taken out principally for the purpose of making capital investments. Short-term loans payable and long-term debt with variable interest rates are exposed to interest rate fluctuation risk. However, to reduce such risk and fix interest expense for those bearing interest at variable rates, the Group utilizes interest rate swap or option transactions as a hedging instrument.

Regarding derivatives, the Group enters into derivative transactions in order to manage certain risks arising from adverse fluctuations in foreign currency exchange rates, interest rates and commodity prices.

(c) Risk management for financial instruments

1. Monitoring of credit risk (the risk that customers or counterparties may default)

In accordance with the internal policies of the Group for managing credit risk arising from receivables, each related division monitors the credit worthiness of their main customers periodically, and monitors due dates and outstanding balances by individual customer. In addition, the Group is making efforts to identify and mitigate risks of bad debts from customers who are having financial difficulties.

The Group also believes that the credit risk of derivatives is insignificant as it enters into derivative transactions only with financial institutions which have a sound credit profile.

2. Monitoring of market risks (the risks arising from fluctuations in foreign exchange rates, interest rates and others)

For trade receivables and payables denominated in foreign currencies, the Group identifies the foreign currency exchange risk for each currency and enters into forward foreign exchange contracts, currency options and currency swaps to hedge such risk. In order to mitigate the interest rate risk for loans payable bearing interest at variable rates, the Group may also enter into interest rate swap transactions and interest rate option transactions.

For investment securities, the Group periodically reviews the fair values of such financial instruments and the financial position of the issuers.

In conducting derivative transactions, the division in charge of derivative transactions follows the internal policies, which set forth delegation of authority and maximum upper limit on positions.

3. Monitoring of liquidity risk (the risk that the Group may not be able to meet its obligations on scheduled due dates)

Based on a report from each division, the Group prepares and updates its cash flow plans on a timely basis to manage liquidity risk.

(d) Supplementary explanation of the estimated fair value of financial instruments

Since fluctuation factors are included into the calculation of the market value of financial instruments, the price may be fluctuated by adopting different preconditions. The notional amounts of derivatives in Note 17. Derivative financial instruments are not necessarily indicative of the actual market risk involved in derivative transactions.

Summarized in the table below are the carrying amounts and the estimated fair values of financial instruments outstanding at March 31, 2022 and 2021. The amount recorded on the consolidated balance sheet, the market value and the difference between them are as follows.

	Millions of yen			Thousands of U.S. dollars		
	2022			2022		
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Assets						
Notes receivable - trade	¥ 18,090	¥ 18,090	¥ —	$ 148,279	$ 148,279	$ —
Accounts receivable - trade	137,518	137,518	—	1,127,197	1,127,197	—
Investment securities	11,304	11,304	—	92,655	92,655	—
Total assets	¥166,912	¥166,912	¥ —	$1,368,131	$1,368,131	$ —
Liabilities						
Notes and accounts payable - trade	¥110,766	¥110,766	¥ —	$ 907,918	$ 907,918	$ —
Short-term loans payable	24,686	24,686	—	202,344	202,344	—
Commercial paper	17,000	17,000	—	139,344	139,344	—
Other payables	34,292	34,292	—	281,082	281,082	—
Income taxes payable	5,890	5,890	—	48,279	48,279	—
Long-term debt*	194,490	193,902	(588)	1,594,180	1,589,361	(4,820)
Total liabilities	¥387,124	¥386,536	¥(588)	$3,173,147	$3,168,328	$(4,820)
Derivative financial transactions**	¥ 1,488	¥ 1,488	¥ —	$ 12,197	$ 12,197	$ —

* *Current portions of long-term borrowings of ¥19,820 million (US$162,459 thousand) and bonds payable of ¥10,000 million (US$81,967 thousand) are included in long-term debt.*

** *The value of assets and liabilities arising from derivatives is shown at net value with amounts in parentheses representing net liability position.*

*** *Regarding investment in partnerships and other similar business entities that record the amount equivalent to their equity in the consolidated balance sheet in net amount, the description of matters related to the market value of financial instruments is omitted. The amount recorded on the consolidated balance sheet of the investment is ¥546 million (US$4,475 thousand).*

**** *"Cash and deposits" are omitted because they are cash, and the market value is close to the book value because the deposits are settled in a short period of time.*

	Millions of yen		
	2021		
	Carrying amount	Fair value	Difference
Assets			
Notes and accounts receivable - trade	¥149,615	¥149,615	¥ —
Investment securities	12,028	12,028	—
Total assets	¥161,643	¥161,643	¥ —
Liabilities			
Notes and accounts payable - trade	¥ 90,831	¥ 90,831	¥ —
Short-term loans payable	23,372	23,372	—
Other payables	30,718	30,718	—
Income taxes payable	3,196	3,196	—
Long-term debt*	185,904	185,814	(90)
Total liabilities	¥334,021	¥333,931	¥(90)
Derivative financial transactions**	¥ 1,328	¥ 1,328	¥ —

* *Current portions of long-term borrowings of ¥14,659 million and bonds payable of ¥10,000 million are included in long-term debt.*

** *The value of assets and liabilities arising from derivatives is shown at net value with amounts in parentheses representing net liability position.*

*** *"Cash and deposits" are omitted because they are cash, and the market value is close to the book value because the deposits are settled in a short period of time.*

Stocks without market prices are not included in investment securities. The amount recorded on the consolidated balance sheet of the relevant financial instrument at March 31, 2022 is as follows:

	Millions of yen	Thousands of U.S. dollars
	2022	2022
Unconsolidated subsidiaries and affiliates securities	¥45,410	$372,213
Non-listed equity securities	4,245	34,795
Others	849	6,959

Financial instruments for which it is extremely difficult to determine the fair value at March 31, 2021 is as follows:

	Millions of yen
	2021
Unconsolidated subsidiaries and affiliates securities	¥42,392
Non-listed equity securities	4,252
Others	812

Redemption schedules for financial assets and investment securities with contractual maturities subsequent to March 31, 2022 and 2021 are as follows:

	Millions of yen			
	2022			
	Within one year	After one year through five years	After five years through ten years	After ten years
Cash and cash equivalents	¥ 78,735	¥—	¥—	¥—
Time deposits	731	—	—	—
Notes receivable - trade	18,090	—	—	—
Accounts receivable - trade	137,518	—	—	—
	¥235,074	¥—	¥—	¥—

	Thousands of U.S. dollars			
	2022			
	Within one year	After one year through five years	After five years through ten years	After ten years
Cash and cash equivalents	$ 645,368	$—	$—	$—
Time deposits	5,992	—	—	—
Notes receivable - trade	148,279	—	—	—
Accounts receivable - trade	1,127,197	—	—	—
	$1,926,836	$—	$—	$—

	Millions of yen			
	2021			
	Within one year	After one year through five years	After five years through ten years	After ten years
Cash and cash equivalents	¥ 79,620	¥—	¥—	¥—
Time deposits	658	—	—	—
Notes and accounts receivable - trade	149,615	—	—	—
	¥229,893	¥—	¥—	¥—

Redemption schedules for long-term debt and other interest-bearing debt subsequent to March 31, 2022 and 2021 are as follows:

	Millions of yen					
	2022					
	Within one year	After one year through two years	After two years through three years	After three years through four years	After four years through five years	After five years
Short-term loans payable	¥24,686	¥ —	¥ —	¥ —	¥ —	¥ —
Commercial paper	17,000	—	—	—	—	—
Long-term debt	29,820	24,704	45,814	33,712	30,060	30,380
	¥71,506	¥24,704	¥45,814	¥33,712	¥30,060	¥30,380

	Thousands of U.S. dollars					
	2022					
	Within one year	After one year through two years	After two years through three years	After three years through four years	After four years through five years	After five years
Short-term loans payable	$202,344	$ —	$ —	$ —	$ —	$ —
Commercial paper	139,344	—	—	—	—	—
Long-term debt	244,426	202,492	375,525	276,328	246,393	249,016
	$586,114	$202,492	$375,525	$276,328	$246,393	$249,016

	Millions of yen					
	2021					
	Within one year	After one year through two years	After two years through three years	After three years through four years	After four years through five years	After five years
Short-term loans payable	¥23,372	¥ —	¥ —	¥ —	¥ —	¥ —
Long-term debt	24,659	25,168	20,065	31,511	28,999	55,502
	¥48,031	¥25,168	¥20,065	¥31,511	¥28,999	¥55,502

The fair value of financial instruments are classified into the following three levels according to the observability and importance of the input related to the calculation of the fair value.

Level 1: Of the inputs related to the calculation of the observable fair value, One was calculated using the market price concerned with assets or liabilities targeted by the calculation of the fair value in active markets.

Level 2: Of the inputs related to the calculation of the observable fair value, One was calculated using the inputs related to the calculation of the fair value other than the level 1 input.

Level 3: The fair value was calculated using inputs related to the calculation of market value that couldn't be observed.

When using multiple inputs that have significant impact on fair value calculations, the fair value is classified into the lowest priority level.

Financial instruments recorded on the consolidated balance sheet at market value to March 31, 2022 is as follows:

	Millions of yen			
	2022			
	Level 1	Level 2	Level 3	Total
Assets				
Investment securities:				
Available-for-sale securities:				
Share	¥11,304	¥ —	¥—	¥11,304
Derivative financial transactions:				
Currency related	—	1,658	—	1,658
Total assets	¥11,304	¥1,658	¥—	¥12,962
Liabilities				
Derivative financial transactions:				
Currency related	—	170	—	170
Total liabilities	¥ —	¥ 170	¥—	¥ 170

	Thousands of U.S. dollars			
	2022			
	Level 1	Level 2	Level 3	Total
Assets				
Investment securities:				
Available-for-sale securities:				
Share	$92,656	$ —	$—	$ 92,656
Derivative financial transactions:				
Currency related	—	13,590	—	13,590
Total assets	$92,656	$13,590	$—	$106,246
Liabilities				
Derivative financial transactions:				
Currency related	—	1,393	—	1,393
Total liabilities	$ —	$ 1,393	$—	$ 1,393

Financial instruments other than the financial instruments recorded on the consolidated balance sheet at market value to March 31, 2022 is as follows:

	Millions of yen			
	2022			
	Level 1	Level 2	Level 3	Total
Assets				
Notes receivable - trade	¥—	¥ 18,090	¥—	¥ 18,090
Accounts receivable - trade	—	137,518	—	137,518
Total assets	¥—	¥155,608	¥—	¥155,608
Liabilities				
Notes and accounts payable - trade	—	110,766	—	110,766
Short-term loans payable	—	24,686	—	24,686
Commercial paper	—	17,000	—	17,000
Other payables	—	34,292	—	34,292
Income taxes payable	—	5,890	—	5,890
Long-term debt*	—	193,902	—	193,902
Total liabilities	¥—	¥386,536	¥—	¥386,536

	Thousands of U.S. dollars			
	2022			
	Level 1	Level 2	Level 3	Total
Assets				
Notes receivable - trade	$—	$ 148,279	$—	$ 148,279
Accounts receivable - trade	—	1,127,197	—	1,127,197
Total assets	$—	$1,275,476	$—	$1,275,476
Liabilities				
Notes and accounts payable - trade	—	907,918	—	907,918
Short-term loans payable	—	202,344	—	202,344
Commercial paper	—	139,344	—	139,344
Other payables	—	281,082	—	281,082
Income taxes payable	—	48,279	—	48,279
Long-term debt*	—	1,589,361	—	1,589,361
Total liabilities	$—	$3,168,328	$—	$3,168,328

Note: Explanation of the valuation technique used to calculate the fair value and the inputs related to the calculation of the fair value.

"Investment securities"

Listed stocks are valued using market prices. Since listed stocks are traded in active markets, we classify their fair value as Level 1.

"Derivative financial transactions"

The method of calculating the fair value of foreign exchange contracts and currency options is calculated based on the prices offered by the financial institutions of our business partners, and is classified as Level 2.

The fair value of currency swaps accounted for by the short-cut method is included in the fair value of long-term debt, which is designated as the hedged item.

"Notes and accounts receivable – trade"

These market values are calculated by the discounted present value method based on the interest rate that takes into account the amount of receivables, the period until maturity, and credit risk for each fixed period and for each classified receivables, and is classified as Level 2.

"Notes and accounts payable – trade," "Short-term loans payable," "Commercial paper," "Other payables" and "Income taxes payable"

These fair values are calculated by the discounted present value method based on the future cash flows, the period until the repayment date, and the interest rate that takes into account credit risk for each fixed period and for each classified payables, and is classified as Level 2.

"Long-term debt"

The fair value of corporate bonds issued by the Company is based on the market price and is divided into Level 2.

The fair value of long-term loans payable is calculated by the discounted present value method based on the total amount of principal and interest, the remaining period of the debt and the interest rate that takes into account credit risk, and is classified as Level 2.

6 Securities

Investment securities at March 31, 2022 and 2021 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Investment securities:			
Unconsolidated subsidiaries and affiliated companies	¥45,410	¥42,392	$372,213
Others	16,398	17,092	134,410
	¥61,808	¥59,484	$506,623

Marketable securities classified as other securities at March 31, 2022 and 2021 are as follows:

	Millions of yen						Thousands of U.S. dollars		
	2022			2021			2022		
	Carrying value	Acquisition costs	Unrealized gain (loss)	Carrying value	Acquisition costs	Unrealized gain (loss)	Carrying value	Acquisition costs	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:									
Stock	¥ 9,460	¥3,406	¥6,054	¥10,643	¥4,401	¥6,242	$77,541	$27,918	$49,623
Debt securities	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—
Subtotal	9,460	3,406	6,054	10,643	4,401	6,242	77,541	27,918	49,623
Securities whose acquisition cost exceeds their carrying value:									
Stock	1,844	2,716	(872)	1,385	1,857	(472)	15,114	22,262	(7,148)
Debt securities	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—
Subtotal	1,844	2,716	(872)	1,385	1,857	(472)	15,114	22,262	(7,148)
Total	¥11,304	¥6,122	¥5,182	¥12,028	¥6,258	¥5,770	$92,655	$50,180	$42,475

Non-listed equity securities and others are not included in the above table because there were no quoted market prices available and their fair value is deemed to be extremely difficult to determine.

Sales of securities classified as other securities and the aggregate gain for the years ended March 31, 2022 and 2021 are as follows:

	Millions of yen						Thousands of U.S. dollars		
	2022			2021			2022		
	Sales proceeds	Aggregate gain	Aggregate loss	Sales proceeds	Aggregate gain	Aggregate loss	Sales proceeds	Aggregate gain	Aggregate loss
Stock	¥403	¥279	¥—	¥—	¥—	¥—	$3,303	$2,287	$—
Debt securities	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—
	¥403	¥279	¥—	¥—	¥—	¥—	$3,303	$2,287	$—

7 Inventories

Inventories at March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Finished goods	¥ 53,576	¥35,748	$ 439,148
Work in process	21,131	19,362	173,205
Raw materials and supplies	50,002	32,724	409,852
	¥124,709	¥87,834	$1,022,205

8 Short-term loans payable and long-term debt

Short-term loans payable represent bank loans, with average interest rates of 0.31% and 0.39% per annum at March 31, 2022 and 2021, respectively.

Long-term debt at March 31, 2022 and 2021 consists of the following:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
0.53% unsecured bonds due FY 2021	¥ —	¥ 10,000	$ —
0.15% unsecured bonds due FY 2022	10,000	10,000	81,967
0.15% unsecured bonds due FY 2024	10,000	10,000	81,967
0.31% unsecured bonds due FY 2025	10,000	10,000	81,967
0.43% unsecured bonds due FY 2026	10,000	10,000	81,967
0.375% unsecured bonds due FY 2027	10,000	10,000	81,967
0.58% unsecured bonds due FY 2030	10,000	10,000	81,967
Loans principally from banks and insurance companies:			
Secured, at 0.33% to 4.10%, maturing through FY 2025	—	2,706	—
Secured, at 0.45% to 1.10%, maturing through FY 2028	2,433	—	19,943
Unsecured, at 0.00% to 3.95%, maturing through FY 2033	132,057	113,198	1,082,435
	194,490	185,904	1,594,180
Less current portion	29,820	24,659	244,426
	¥164,670	¥161,245	$1,349,754

The Company and certain consolidated subsidiaries have entered into loan commitment agreements amounting to ¥21,378 million (US$175,230 thousand) with certain banks. Loans payable outstanding at March 31, 2022 under these loan commitment agreements amounted to ¥19 million (US$156 thousand).

The aggregate annual maturities of the non-current portion of long-term debt are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2024	¥ 24,704	$ 202,492
2025	45,814	375,525
2026	33,712	276,328
2027	30,060	246,393
2028 and thereafter	30,380	249,016
	¥164,670	$1,349,754

9

Pledged assets

The assets pledged as collateral for short-term and long-term borrowings, guarantees and borrowings of affiliated companies at March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Assets pledged as collateral:			
Property, plant and equipment, at net book value	¥8,785	¥9,012	$72,008

10

Contingent liabilities

At March 31, 2022 and 2021, the Company and its consolidated subsidiaries are contingently liable as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
As endorser of trade notes discounted or endorsed	¥ 102	¥ 49	$ 836
As guarantor of employees' housing loans	7	11	57
As guarantor of indebtedness principally of unconsolidated subsidiaries and affiliated companies	6,233	6,180	51,090

11

Net assets

The Corporation Law of Japan provides that an amount equal to 10% of the amount to be distributed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) shall be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders or by the Board of Directors if certain conditions are met, but neither the capital reserve nor the legal reserve is available for distributions.

At the general shareholders' meeting of the Company held on June 29, 2022, the distribution of retained earnings for the year ended March 31, 2022 was approved as follows:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥50.00 per share)	¥4,840	$39,672

12

Selling, general and administrative expenses

Major components of selling, general and administrative expenses for the years ended March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Freight and storage	¥23,286	¥20,052	$190,869
Salaries and benefits	20,763	21,072	170,189
Research and development costs	11,462	11,034	93,951

13

Research and development costs

Research and development costs, all of which are included in "Selling, general and administrative expenses" and "Cost of sales" for the years ended March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Research and development costs	¥11,786	¥11,378	$96,607

14

Other income (expenses)

"Other income (expenses) – Others, net" for the years ended March 31, 2022 and 2021 consists of the following:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Gain on sales of investment securities, net	¥ 367	¥ 483	$ 3,008
Gain (loss) on sales of property, plant and equipment, net	(17)	150	(139)
Loss on disposal of property, plant and equipment	(1,310)	(2,835)	(10,738)
Loss on impairment of fixed assets (Note 15)	(771)	(55)	(6,320)
Loss on valuation of investment securities	(13)	(1,452)	(107)
Gain on foreign currency exchange, net	1,666	363	13,656
Provision for loss over investment cost of subsidiaries and affiliates	(2,426)	(523)	(19,885)
Contribution for industrial water weight loss	(1,550)	—	(12,705)
Others, net	(1,649)	(818)	(13,516)
	¥(5,703)	¥(4,687)	$(46,746)

15

Loss on impairment of fixed assets

Fixed assets of the Company and its consolidated subsidiaries are grouped at the business unit or department level for impairment testing.

Loss on impairment of fixed assets for the year ended March 31, 2022 consists of the following:

	Millions of yen	Thousands of U.S. dollars
	2022	2022
Business assets in use:		
Isa factory dedicated line (UBE Corporation)	¥(100)	$ (820)
Functional fiber materials manufacturing plant (UBE Exsymo Co.,Ltd.)	(662)	(5,426)
Hydroxyapatite manufacturing plant (UBE Material Industries, Ltd.)	(9)	(74)
	¥(771)	$(6,320)

(a) Business assets in use

The Company reduced the book value of the Isa factory dedicated line to their recoverable amounts because it is not expected to be used in the future.

The recoverable amounts were their memorandum value, and an impairment loss of ¥(100) million (US$(820) thousand) was recorded.

This impairment loss consisted of ¥(100) million (US$(820) thousand) for structures.

UBE Exsymo Co., Ltd. reduced the book value of the functional fiber materials manufacturing plant to the recoverable amount due to deteriorating profitability.

The recoverable amounts were their memorandum value, and an impairment loss of ¥(662) million (US$(5,426) thousand) was recorded.

This impairment loss consisted of ¥(662) million (US$(5,426) thousand) for construction in progress, machineries, and others. The recoverable value is measured based on value in use, but a discount rate is omitted because the future cash flow before the discounting is negative.

Ube Material Industries, Ltd. decided to withdraw from the hydroxyapatite manufacturing business and reduced the book value of the related facilities to their recoverable amounts.

The recoverable amounts were their memorandum value, and an impairment loss of ¥(9) million (US$(74) thousand) was recorded.

This impairment loss consisted of ¥(9) million (US$(74) thousand) for buildings and others.

Loss on impairment of fixed assets for the year ended March 31, 2021 consists of the following:

	Millions of yen
	2021
Idle property:	
Land	¥(15)
Business assets in use:	
Dolomite for food manufacturing plant (Ube Material Industries, Ltd.)	(12)
Dan line in plastic materials manufacturing plant (Ube-Nitto Kasei (WUXI) Co., Ltd.)	(12)
Land on ready-mixed concrete manufacturing plant (Hokkaido Ube Co., Ltd.)	(16)
	¥(55)

(a) Idle property

Among idle property by the Company, there were certain assets whose book values exceeded their recoverable amounts. These assets were written down to their recoverable amounts and an impairment loss of ¥15 million was recognized for the year ended March 31, 2021. This impairment loss consisted of ¥15 million for land.

The recoverable amounts for land in the idle property were determined at net selling price based on appraisal.

(b) Business assets in use

Ube Material Industries, Ltd. decided to withdraw from the dolomite business and reduced the book value of the related facilities to their recoverable amounts.

The recoverable amounts were their memorandum value, and an impairment loss of ¥12 million was recorded.

This impairment loss consisted of ¥12 million for buildings and others.

Ube-Nitto Kasei (WUXI) Co., Ltd. decided to withdraw from the dan line business and reduced the book value of the related facilities to their recoverable amounts.

The recoverable amounts were their memorandum value, and an impairment loss of ¥12 million was recorded.

This impairment loss consisted of ¥12 million for machinery and others.

Hokkaido Ube Co., Ltd. decided to close a ready-mixed concrete manufacturing plant in Shiribeshi and reduced the book value of the land to their recoverable amounts.

The recoverable amounts were determined at net selling price based on appraisal, and an impairment loss of ¥16 million was recorded.

This impairment loss consisted of ¥16 million for land.

16

Income taxes

Income taxes applicable to the Company comprise corporation, enterprise and inhabitants' taxes which, in the aggregate, resulted in statutory tax rates of approximately 30.5% for the years ended March 31, 2022 and 2021.

The effective tax rates reflected in the consolidated statement of income for the years ended March 31, 2022 and 2021 differ from the statutory tax rates for the following reasons.

	Percentage	
	2022	2021
Statutory tax rate	30.5%	30.5%
Effect of:		
Permanently non-deductible expenses	0.2	0.2
Permanently non-taxable items including dividend income	(12.5)	(11.6)
Loss carried forward without deferred tax assets	0.9	0.9
Deducted amount of loss without deferred tax assets	(0.1)	(1.1)
Effect of elimination of dividend income through consolidation procedures	13.5	12.0
Share of profit of entities accounted for using equity method	1.6	(1.5)
Tax rate difference of overseas consolidated subsidiaries	(3.1)	(0.6)
Gain on bargain purchase	—	(0.2)
Retained earnings of foreign subsidiary companies	1.8	(13.6)
Deductible research and development expenses	(2.5)	(2.1)
Consolidated adjustment for allowance for doubtful accounts	(0.5)	(1.4)
Decrease in valuation allowance of resolution in subsidiary's dissolution	—	(9.0)
Gain on change in equity	—	(2.5)
Others	0.0	(0.4)
Effective tax rate	29.8%	(0.4)%

The significant components of deferred tax assets and liabilities at March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Deferred tax assets:			
Provision for bonuses	¥ 2,155	¥ 2,005	$ 17,644
Net defined benefit liability	2,303	2,475	18,877
Allowance for doubtful accounts	253	316	2,074
Loss carried forward	5,181	7,132	42,467
Intercompany profit	10,642	10,759	87,229
Depreciation and amortization	1,260	2,431	10,328
Loss on valuation of investment securities	3,326	3,374	27,262
Disposal of fixed assets without dismantlement	2,012	2,525	16,492
Accrual for losses on business restructuring	66	78	541
Others	7,576	6,396	62,098
Gross deferred tax assets	34,774	37,491	285,032
Valuation allowance:			
Tax loss carried forward	(4,989)	(5,071)	(40,893)
Total future tax consequences of temporary differences**	(1,788)	(3,645)	(14,656)
Gross valuation allowance	(6,777)	(8,716)	(55,549)
Total deferred tax assets	27,997	28,775	229,483
Deferred tax liabilities:			
Reserve for advanced depreciation of non-current assets	(1,873)	(1,986)	(15,352)
Valuation difference on available-for-sale securities	(1,474)	(1,592)	(12,082)
Net defined benefit asset	(2,889)	(2,816)	(23,680)
Revaluation surplus on assets	(1,254)	(1,433)	(10,279)
Retained earnings of foreign subsidiary companies	(2,407)	(1,761)	(19,730)
Others	(3,580)	(3,703)	(29,344)
Total deferred tax liabilities	(13,477)	(13,291)	(110,467)
Net deferred tax assets*	¥ 14,520	¥ 15,484	$ 119,016

** Net deferred tax assets in the preceding table are classified as follows in the accompanying consolidated balance sheet.*

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Investments and other assets – Deferred tax assets	¥16,452	¥16,263	$134,852
Long-term liabilities – Deferred tax liabilities	(1,932)	(779)	(15,836)

*** Tax loss carried forward and deferred tax assets by carry-forward period are as follows:*

	Millions of yen			Thousands of U.S. dollars		
Years ending March 31	Tax loss carried forward	Valuation allowance	Deferred tax assets	Tax loss carried forward	Valuation allowance	Deferred tax assets
2023	¥ 814	¥ (786)	¥ 28	$ 6,672	$ (6,443)	$ 229
2024	182	(182)	—	1,492	(1,492)	—
2025	1	(1)	—	8	(8)	—
2026	170	(9)	161	1,394	(74)	1,320
2027	2	(2)	—	16	(16)	—
2028 and thereafter	4,012	(4,009)	3	32,885	(32,860)	25
	¥5,181	¥(4,989)	¥192*	$42,467	$(40,893)	$1,574

** For the tax loss carried forward of ¥5,181 million (US$42,467 thousand) and ¥7,132 million for the years ended March 31, 2022 and 2021, respectively, the deferred tax assets of ¥192 million (US$1,574 thousand) and ¥2,061 million for the years ended March 31, 2022 and 2021, respectively have been recorded. The tax loss carried forward was determined to be recoverable as future taxable income is anticipated, and therefore a valuation allowance has not been recognized.*
Note: Tax loss carried forward is measured using the statutory effective tax rate.

17 Derivative financial instruments

Summarized below are the notional amounts and the estimated fair values of the derivative transactions outstanding at March 31, 2022 and 2021.

(a) Derivative financial instruments for which deferred hedge accounting has not been applied

Currency-related transactions:

	Millions of yen						Thousands of U.S. dollars		
	2022			2021			2022		
	Notional amount	Fair value	Unrealized gain (loss)	Notional amount	Fair value	Unrealized gain (loss)	Notional amount	Fair value	Unrealized gain (loss)
Forward exchange contracts:									
Sell:									
USD	¥ 2,777	¥ (56)	¥ (56)	¥ 1,966	¥ (56)	¥ (56)	$ 22,762	$ (459)	$ (459)
JPY	247	8	8	40	(0)	(0)	2,025	66	66
EUR	737	(12)	(12)	290	(3)	(3)	6,041	(99)	(99)
Buy:									
USD	7,733	1,627	1,627	9,088	1,336	1,336	63,385	13,336	13,336
JPY	124	(1)	(1)	—	—	—	1,017	(8)	(8)
EUR	641	30	30	4,124	47	47	5,254	246	246
Currency options contracts:									
Sell and buy*:									
USD	102	(7)	(7)	—	—	—	836	(57)	(57)
Total	¥12,361	¥1,589	¥1,589	¥15,508	¥1,324	¥1,324	$101,320	$13,025	$13,025

** Currency options contracts is zero cost option, and call options and put options are listed together because they are integrated contracts.*
Note: Calculation of fair value is based on the forward rate.

(b) Derivative financial instruments for which deferred hedged accounting has been applied

Currency-related transactions

Main items hedged by forward foreign exchange contracts are trade accounts receivable and payable.

		Millions of yen				Thousands of U.S. dollars	
		2022		2021		2022	
		Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
Principle method	Forward exchange contracts:						
	Sell:						
	USD	¥1,024	¥(104)	¥ 685	¥ (5)	$ 8,393	$ (852)
	Buy:						
	EUR	161	3	299	9	1,320	25
Short-cut method	Forward exchange contracts:						
	Sell:						
	USD	1,321	(140)	678	(31)	10,828	(1,148)
	Currency swap contracts:						
	Receive/USD						
	Pay/JPY	1,000	*	1,000	*	8,197	*
	Total	¥3,506	¥(241)	¥2,662	¥(27)	$28,738	$(1,975)

** The fair value of currency swaps accounted for by the short-cut method is included in the fair value of long-term debt, which is designated as the hedged item.*
Note: Calculation of fair value is based on the forward rate.

18

Segment information

Reportable segments of the Company consist of the business units for which independent financial information is available. They are regularly monitored by the Board of Directors in order to decide the distribution of business resources and evaluate the business results.

The Company classifies its products and services into four reportable segments: “Chemicals,” “Construction Materials,” “Machinery” and “Others.”

The operations of the Company and its consolidated subsidiaries for the years ended March 31, 2022 and 2021 are summarized by reportable segment as follows:

	Millions of yen					
Year ended March 31, 2022	Chemicals	Construction Materials	Machinery	Others	Elimination & Corporate	Consolidated
Sales:						
Outside customers	¥340,675	¥217,353	¥95,579	¥1,658	¥ —	¥655,265
Intersegment sales and transfers	818	4,123	1,408	1,753	(8,102)	—
Total	341,493	221,476	96,987	3,411	(8,102)	655,265
Segment operating profit	¥ 35,472	¥ 3,405	¥ 5,130	¥ 573	¥ (542)	¥ 44,038
Segment assets	¥390,859	¥302,301	¥89,397	¥7,849	¥47,548	¥837,954
Depreciation and amortization	20,942	13,198	1,859	23	484	36,506
Equity method investments	30,607	8,937	—	1,750	—	41,294
Capital expenditures	18,899	17,420	2,528	21	704	39,572

	Thousands of U.S. dollars					
Year ended March 31, 2022	Chemicals	Construction Materials	Machinery	Others	Elimination & Corporate	Consolidated
Sales:						
Outside customers	$2,792,418	$1,781,582	$783,434	$13,590	$ —	$5,371,024
Intersegment sales and transfers	6,705	33,795	11,541	14,369	(66,410)	—
Total	2,799,123	1,815,377	794,975	27,959	(66,410)	5,371,024
Segment operating profit	$ 290,754	$ 27,910	$ 42,049	$ 4,697	$ (4,443)	$ 360,967
Segment assets	$3,203,762	$2,477,877	$732,762	$64,336	$389,738	$6,868,475
Depreciation and amortization	171,656	108,180	15,238	189	3,967	299,230
Equity method investments	250,877	73,254	—	14,344	—	338,475
Capital expenditures	154,910	142,787	20,721	172	5,770	324,360

	Millions of yen					
Year ended March 31, 2021	Chemicals	Construction Materials	Machinery	Others	Elimination & Corporate	Consolidated
Sales:						
Outside customers	¥258,612	¥276,229	¥77,300	¥1,748	¥ —	¥613,889
Intersegment sales and transfers	768	6,626	1,427	1,369	(10,190)	—
Total	259,380	282,855	78,727	3,117	(10,190)	613,889
Segment operating profit	¥ 8,184	¥ 14,744	¥ 2,831	¥ 447	¥ (304)	¥ 25,902
Segment assets	¥353,065	¥284,197	¥81,365	¥7,232	¥43,851	¥769,710
Depreciation and amortization	20,758	13,197	1,896	42	489	36,382
Equity method investments	28,061	11,022	—	1,435	—	40,518
Capital expenditures	17,944	13,937	4,578	34	654	37,197

Sales and amounts of property, plant and equipment of the Company and its consolidated subsidiaries as of and for the years ended March 31, 2022 and 2021 by geographic area are as follows:

	Millions of yen				
Year ended March 31, 2022	Japan	Asia	Europe	Others	Consolidated
Sales	¥415,238	¥137,951	¥57,355	¥44,721	¥655,265

	Thousands of U.S. dollars				
Year ended March 31, 2022	Japan	Asia	Europe	Others	Consolidated
Sales	$3,403,590	$1,130,746	$470,123	$366,565	$5,371,024

	Millions of yen					
As of March 31, 2022	Japan	Thailand	Other Asia	Europe	Others	Consolidated
Property, plant and equipment	¥269,465	¥40,716	¥214	¥21,362	¥1,000	¥332,757

	Thousands of U.S. dollars					
As of March 31, 2022	Japan	Thailand	Other Asia	Europe	Others	Consolidated
Property, plant and equipment	$2,208,729	$333,738	$1,754	$175,098	$8,197	$2,727,516

	Millions of yen				
Year ended March 31, 2021	Japan	Asia	Europe	Others	Consolidated
Sales	¥440,722	¥106,723	¥37,373	¥29,071	¥613,889

	Millions of yen					
As of March 31, 2021	Japan	Thailand	Other Asia	Europe	Others	Consolidated
Property, plant and equipment	¥269,132	¥41,345	¥613	¥19,307	¥826	¥331,223

19 Leases

Operating leases

Future minimum lease payments subsequent to March 31, 2022 and 2021 for non-cancelable operating leases are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Years ending March 31	2022	2022
2023	¥ 696	$ 5,705
2024 and thereafter	2,976	24,393
	¥3,672	$30,098

	Millions of yen
Years ending March 31	2021
2022	¥ 677
2023 and thereafter	3,411
	¥4,088

20

Retirement benefits

The Company and certain domestic consolidated subsidiaries have funded and unfunded defined benefit company pension plans. Certain domestic consolidated subsidiaries have defined contribution pension plans.

Under the defined benefit pension plans, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay and years of service. The retirement benefit trusts have been established for some defined benefit pension plans.

Under the lump-sum retirement benefit of defined pension plans, benefits are determined based on the rate of pay and years of service.

Defined contribution plans are mainly defined contribution pension plans.

(a) Defined benefit plans

The changes in the retirement benefit obligation during the years ended March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Opening balance of retirement benefit obligation	¥50,604	¥49,797	$414,787
Service cost	3,029	2,952	24,828
Interest cost	290	291	2,377
Actuarial loss (gain)	(207)	(69)	(1,697)
Benefit paid	(4,796)	(2,367)	(39,311)
Closing balance of retirement benefit obligation	¥48,920	¥50,604	$400,984

The changes in plan assets during the years ended March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Opening balance of plan assets	¥57,202	¥51,027	$468,868
Expected return on pension assets	1,274	1,161	10,443
Actuarial gain (loss)	(32)	5,369	(262)
Contributions by the employer	2,161	1,892	17,713
Benefit paid	(4,478)	(2,247)	(36,705)
Closing balance of plan assets	¥56,127	¥57,202	$460,057

The reconciliation of the retirement benefit obligations and plan assets to the liabilities and assets for retirement benefits recognized in the consolidated balance sheet as of March 31, 2022 and 2021 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Funded retirement benefit obligations	¥ 47,961	¥ 47,263	$ 393,123
Plan assets	(56,127)	(57,202)	(460,057)
	(8,166)	(9,939)	(66,934)
Unfunded retirement benefit obligations	959	3,341	7,860
Net amount of liabilities and assets for retirement benefits in the consolidated balance sheet	¥ (7,207)	¥ (6,598)	$ (59,074)
Net defined benefit liability	¥ 3,087	¥ 3,341	$ 25,303
Net defined benefit asset	(10,294)	(9,939)	(84,377)
Net amount of liabilities and assets for retirement benefits in the consolidated balance sheet	¥ (7,207)	¥ (6,598)	$ (59,074)

The breakdown of the retirement benefit expenses for the years ended March 31, 2022 and 2021 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Service cost	¥ 3,029	¥ 2,952	$ 24,828
Interest cost	290	291	2,377
Expected return on plan assets	(1,274)	(1,161)	(10,443)
Amortization of actuarial loss	(137)	954	(1,123)
Retirement benefit expenses	¥ 1,908	¥ 3,036	$ 15,639

The components of remeasurements of defined benefit plans in other comprehensive income (before tax effect) for the years ended March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Actuarial loss (gain)	¥38	¥6,392	$311
Total	¥38	¥6,392	$311

The components of remeasurements of defined benefit plans in accumulated other comprehensive income (before tax effect) as of March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Unrecognized actuarial loss (gain)	¥(969)	¥(931)	$(7,943)
Total	¥(969)	¥(931)	$(7,943)

The breakdown of pension assets by major category as a percentage of total plan assets as of March 31, 2022 and 2021 is as follows:

	Ratio	
	2022	2021
Bonds	22%	28%
Equities	33	38
Insurance assets (General account)	23	23
Other	22	11
Total	100%	100%

The above total includes 7% and 8% of the retirement benefit trusts of company pension plans at March 31, 2022 and 2021, respectively.

The expected return rate on plan assets is estimated based on the current and anticipated allocations to each asset class and current and anticipated long-term returns on assets held in each category.

The items of actuarial assumptions for the years ended March 31, 2022 and 2021 are as follows:

	Ratio	
	2022	2021
Discount rate	0.5~1.2%	0.4~1.2%
Expected long-term return on plan assets:		
Pension assets	1.0~2.5	2.0~2.5
Retirement benefit trusts	0.0	0.0

The schedule of the defined benefit obligation and pension assets accounted for by the simplified method for the years ended March 31, 2022 and 2021 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Opening balance of net defined benefit asset and liability	¥4,319	¥4,313	$35,402
Benefit expenses	284	426	2,328
Benefit paid	(411)	(353)	(3,369)
Contributions to the plans	(75)	(67)	(615)
Closing balance of net defined benefit asset and liability	¥4,117	¥4,319	$33,746

The reconciliation of the retirement benefit obligations and plan assets to the liabilities and assets for retirement benefits by the simplified method recognized in the consolidated balance sheet as of March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Funded retirement benefit obligations	¥ 1,484	¥ 1,398	$12,164
Plan assets	(1,202)	(1,103)	(9,852)
	282	295	2,312
Unfunded retirement benefit obligations	3,835	4,024	31,434
Net amount of liabilities and assets for retirement benefits in the consolidated balance sheet	4,117	4,319	33,746
Net defined benefit liability	4,205	4,404	34,467
Net defined benefit asset	(88)	(85)	(721)
Net amount of liabilities and assets for retirement benefits in the consolidated balance sheet	¥ 4,117	¥ 4,319	$33,746

The retirement benefit expenses under the simplified method were ¥284 million (US$2,328 thousand) and ¥426 million for the years ended March 31, 2022 and 2021, respectively.

(b) Defined contribution plans

The contributions by consolidated subsidiaries paid to defined contribution pension plans were ¥75 million (US$615 thousand) and ¥67 million for the years ended March 31, 2022 and 2021, respectively.

21

Investment and rental property

The Company and its consolidated subsidiaries own idle property and rental property in Yamaguchi prefecture, Japan and other areas. The carrying amount, net changes and fair value of investment and rental property for the years ended March 31, 2022 and 2021 are as follows:

	Millions of yen			
	2022			
	Carrying amount			Fair value at March 31, 2022
	Opening balance	Net change during the year	Closing balance	
Idle property	¥ 5,708	¥ 85	¥ 5,793	¥21,571
Rental property	10,975	(143)	10,832	20,608

	Thousands of U.S. dollars			
	2022			
	Carrying amount			Fair value at March 31, 2022
	Opening balance	Net change during the year	Closing balance	
Idle property	$46,787	$ 697	$47,484	$176,811
Rental property	89,959	(1,172)	88,787	168,918

Notes: Carrying amounts represent the acquisition costs less accumulated depreciation and impairment losses.
Net change for the year ended March 31, 2022 is mainly loss on sales of ¥(285) million (US$(2,336) thousand).
Fair value of main property at March 31, 2022 is based on external appraisal, and fair value of other property is estimated based on the index prices deemed to reflect the market price accurately.

	Millions of yen			
	2021			
	Carrying amount			Fair value at March 31, 2021
	Opening balance	Net change during the year	Closing balance	
Idle property	¥ 5,737	¥ (29)	¥ 5,708	¥21,810
Rental property	10,642	333	10,975	19,161

Notes: Carrying amounts represent the acquisition costs less accumulated depreciation and impairment losses.
Net change for the year ended March 31, 2021 is mainly change of use of classification of ¥377 million.
Fair value of main property at March 31, 2021 is based on external appraisal, and fair value of other property is estimated based on the index prices deemed to reflect the market price accurately.

The amount of income and expenses related to investment and rental property for the years ended March 31, 2022 and 2021 are as follows:

	Millions of yen			
	2022			
	Rental income	Rental expenses	Net income	Others
Idle property	¥ —	¥ —	¥ —	¥(105)
Rental property	1,174	584	590	(108)

	Thousands of U.S. dollars			
	2022			
	Rental income	Rental expenses	Net income	Others
Idle property	$ —	$ —	$ —	$(861)
Rental property	9,623	4,787	4,836	(885)

Notes: Others in the above table for idle property consist of taxes and dues of ¥(164) million (US$(1,344) thousand), and profit on sales of ¥59 million (US$484 thousand).
Others for rental property is loss on sales of ¥(108) million (US$(885) thousand).

	Millions of yen			
	2021			
	Rental income	Rental expenses	Net income	Others
Idle property	¥ —	¥ —	¥ —	¥(216)
Rental property	1,106	501	605	(29)

Notes: Others in the above table for idle property consist of taxes and dues of ¥(172) million, impairment loss of ¥(31) million and loss on sales of ¥(13) million.
Others for rental property is loss on sales of ¥(29) million.

22

Stock options

Stock option expenses in the amounts of ¥80 million (US$664 thousand) and ¥63 million were recognized as "Selling, general and administrative expenses" on the consolidated statement of income for the years ended March 31, 2022 and 2021, respectively.

The Company has reviewed the remuneration system for officers and resolved to introduce a restricted stock remuneration plan (hereinafter, the "Plan"). The Plan was approved at the 116th Ordinary General Meeting of Shareholders which was held on June 29,2022 for Directors of the Company (excluding those who are Audit and Supervisory Committee members and Outside Directors).

Targeting Directors of the Company (excluding those who are Audit and Supervisory Committee members and Outside Directors) (hereinafter, "Eligible Directors") and Executive Officers who do not concurrently serve as Directors of the Company (hereinafter collectively with Eligible Directors, "Eligible Directors, etc."), the Plan is designed to increase incentives for achieving the Company's medium- to long-term goals and improving shareholder value and to promote further value sharing with shareholders.

The Company abolishes the remuneration for stock acquisition rights as stock compensation-type stock options, and discontinues the issuance of stock acquisition rights as stock compensation-type stock options thereafter. Stock acquisition rights as stock options granted to the Eligible Directors, etc. that have not yet been exercised will be waived by the Eligible Directors, etc., provided that the Plan will be introduced.

The Company completed a share consolidation of 10 common shares to one common share, effective as of October 1, 2017. Information on stock options at March 31, 2022, which reflects such share consolidation, is as follows:

2007 stock options	*Position and number of grantees*	Directors of the Company: 5 Executive officers of the Company: 12
	Type and number of shares	Common stock of the Company: 26,900 shares
	Date of grant	February 22, 2007
	Settlement of rights	After providing service for the period
	Period of providing service for stock option	For 1 year (From July 1, 2006 to June 30, 2007)
	Exercise period of rights	For 25 years from grant date (From February 22, 2007 to February 21, 2032)
	Condition of exercise of rights	A holder of share acquisition rights may only exercise rights within a maximum of 8 years, within the exercise period of rights described above, from the next day when such holder no longer holds a position as a director and/or an executive officer.
2008 stock options	*Position and number of grantees*	Directors of the Company: 5 Executive officers of the Company: 17
	Type and number of shares	Common stock of the Company: 23,700 shares
	Date of grant	July 13, 2007
	Settlement of rights	After providing service for the period
	Period of providing service for stock option	Directors of the Company: For 1 year (From July 1, 2007 to June 30, 2008) Executive officers of the Company: For 9 months (From July 1, 2007 to March 31, 2008) Newly designated executive officers of the Company: For 1 year (From April 1, 2007 to March 31, 2008)
	Exercise period of rights	For 25 years from grant date (From July 13, 2007 to July 12, 2032)
	Condition of exercise of rights	A holder of share acquisition rights may only exercise rights within a maximum of 8 years, within the exercise period of rights described above, from the next day when such holder no longer holds a position as a director and/or an executive officer.
2009 stock options	*Position and number of grantees*	Directors of the Company: 6 Executive officers of the Company: 16
	Type and number of shares	Common stock of the Company: 24,300 shares
	Date of grant	July 14, 2008
	Settlement of rights	After providing service for the period
	Period of providing service for stock option	Directors of the Company: For 1 year (From July 1, 2008 to June 30, 2009) Executive officers of the Company: For 1 year (From April 1, 2008 to March 31, 2009)
	Exercise period of rights	For 25 years from grant date (From July 14, 2008 to July 13, 2033)
	Condition of exercise of rights	A holder of share acquisition rights may only exercise rights within a maximum of 8 years, within the exercise period of rights described above, from the next day when such holder no longer holds a position as a director and/or an executive officer.
2010 stock options	*Position and number of grantees*	Directors of the Company: 6 Executive officers of the Company: 17
	Type and number of shares	Common stock of the Company: 32,200 shares
	Date of grant	July 13, 2009
	Settlement of rights	After providing service for the period
	Period of providing service for stock option	Directors of the Company: For 1 year (From July 1, 2009 to June 30, 2010) Executive officers of the Company: For 1 year (From April 1, 2009 to March 31, 2010)
	Exercise period of rights	For 25 years from grant date (From July 13, 2009 to July 12, 2034)
	Condition of exercise of rights	A holder of share acquisition rights may only exercise rights within a maximum of 8 years, within the exercise period of rights described above, from the next day when such holder no longer holds a position as a director and/or an executive officer.

2011 stock options	*Position and number of grantees*	Directors of the Company: 5 Executive officers of the Company: 17
	Type and number of shares	Common stock of the Company: 36,600 shares
	Date of grant	July 14, 2010
	Settlement of rights	After providing service for the period
	Period of providing service for stock option	Directors of the Company: For 1 year (From July 1, 2010 to June 30, 2011) Executive officers of the Company: For 1 year (From April 1, 2010 to March 31, 2011)
	Exercise period of rights	For 25 years from grant date (From July 14, 2010 to July 13, 2035)
	Condition of exercise of rights	A holder of share acquisition rights may only exercise rights within a maximum of 8 years, within the exercise period of rights described above, from the next day when such holder no longer holds a position as a director and/or an executive officer.
2012 stock options	*Position and number of grantees*	Directors of the Company: 5 Executive officers of the Company: 18
	Type and number of shares	Common stock of the Company: 35,500 shares
	Date of grant	July 14, 2011
	Settlement of rights	After providing service for the period
	Period of providing service for stock option	Directors of the Company: For 1 year (From July 1, 2011 to June 30, 2012) Executive officers of the Company: For 1 year (From April 1, 2011 to March 31, 2012)
	Exercise period of rights	For 25 years from grant date (From July 14, 2011 to July 13, 2036)
	Condition of exercise of rights	A holder of share acquisition rights may only exercise rights within a maximum of 8 years, within the exercise period of rights described above, from the next day when such holder no longer holds a position as a director and/or an executive officer.
2013 stock options	*Position and number of grantees*	Directors of the Company: 4 Executive officers of the Company: 19
	Type and number of shares	Common stock of the Company: 37,700 shares
	Date of grant	July 13, 2012
	Settlement of rights	After providing service for the period
	Period of providing service for stock option	Directors of the Company: For 1 year (From July 1, 2012 to June 30, 2013) Executive officers of the Company: For 1 year (From April 1, 2012 to March 31, 2013)
	Exercise period of rights	For 25 years from grant date (From July 13, 2012 to July 12, 2037)
	Condition of exercise of rights	A holder of share acquisition rights may only exercise rights within a maximum of 8 years, within the exercise period of rights described above, from the next day when such holder no longer holds a position as a director and/or an executive officer.
2014 stock options	*Position and number of grantees*	Directors of the Company: 4 Executive officers of the Company: 20
	Type and number of shares	Common stock of the Company: 48,100 shares
	Date of grant	July 12, 2013
	Settlement of rights	After providing service for the period
	Period of providing service for stock option	Directors of the Company: For 1 year (From July 1, 2013 to June 30, 2014) Executive officers of the Company: For 1 year (From April 1, 2013 to March 31, 2014)
	Exercise period of rights	For 25 years from grant date (From July 12, 2013 to July 11, 2038)
	Condition of exercise of rights	A holder of share acquisition rights may only exercise rights within a maximum of 8 years, within the exercise period of rights described above, from the next day when such holder no longer holds a position as a director and/or an executive officer.
2015 stock options	*Position and number of grantees*	Directors of the Company: 4 Executive officers of the Company: 19
	Type and number of shares	Common stock of the Company: 43,000 shares
	Date of grant	July 14, 2014
	Settlement of rights	After providing service for the period
	Period of providing service for stock option	Directors of the Company: For 1 year (From July 1, 2014 to June 30, 2015) Executive officers of the Company: For 1 year (From April 1, 2014 to March 31, 2015)
	Exercise period of rights	For 25 years from grant date (From July 14, 2014 to July 13, 2039)
	Condition of exercise of rights	A holder of share acquisition rights may only exercise rights within a maximum of 8 years, within the exercise period of rights described above, from the next day when such holder no longer holds a position as a director and/or an executive officer.
2016 stock options	*Position and number of grantees*	Directors of the Company: 4 Executive officers of the Company: 19
	Type and number of shares	Common stock of the Company: 50,000 shares
	Date of grant	July 13, 2015
	Settlement of rights	After providing service for the period
	Period of providing service for stock option	Directors of the Company: For 1 year (From July 1, 2015 to June 30, 2016) Executive officers of the Company: For 1 year (From April 1, 2015 to March 31, 2016)
	Exercise period of rights	For 25 years from grant date (From July 13, 2015 to July 12, 2040)
	Condition of exercise of rights	A holder of share acquisition rights may only exercise rights within a maximum of 8 years, within the exercise period of rights described above, from the next day when such holder no longer holds a position as a director and/or an executive officer.

2017 stock options	*Position and number of grantees*	Directors of the Company: 4 Executive officers of the Company: 19
	Type and number of shares	Common stock of the Company: 39,500 shares
	Date of grant	July 14, 2016
	Settlement of rights	After providing service for the period
	Period of providing service for stock option	Directors of the Company: For 1 year (From July 1, 2016 to June 30, 2017) Executive officers of the Company: For 1 year (From April 1, 2016 to March 31, 2017)
	Exercise period of rights	For 25 years from the next day of grant date (From July 15, 2016 to July 14, 2041)
	Condition of exercise of rights	A holder of share acquisition rights may only exercise rights within a maximum of 10 days, within the exercise period of rights described above, from the next day when such holder no longer holds a position as a director and/or an executive officer.
2018 stock options	*Position and number of grantees*	Directors of the Company: 4 Executive officers of the Company: 20
	Type and number of shares	Common stock of the Company: 42,100 shares
	Date of grant	July 14, 2017
	Settlement of rights	After providing service for the period
	Period of providing service for stock option	Directors of the Company: For 1 year (From July 1, 2017 to June 30, 2018) Executive officers of the Company: For 1 year (From April 1, 2017 to March 31, 2018)
	Exercise period of rights	For 25 years from the next day of grant date (From July 15, 2017 to July 14, 2042)
	Condition of exercise of rights	A holder of share acquisition rights may only exercise rights within a maximum of 10 days, within the exercise period of rights described above, from the next day when such holder no longer holds a position as a director and/or an executive officer.
2019 stock options	*Position and number of grantees*	Directors of the Company: 4 Executive officers of the Company: 22
	Type and number of shares	Common stock of the Company: 32,100 shares
	Date of grant	July 13, 2018
	Settlement of rights	After providing service for the period
	Period of providing service for stock option	Directors of the Company: For 1 year (From July 1, 2018 to June 30, 2019) Executive officers of the Company: For 1 year (From April 1, 2018 to March 31, 2019)
	Exercise period of rights	For 25 years from the next day of grant date (From July 14, 2018 to July 13, 2043)
	Condition of exercise of rights	A holder of share acquisition rights may only exercise rights within a maximum of 10 days, within the exercise period of rights described above, from the next day when such holder no longer holds a position as a director and/or an executive officer.
2020 stock options	*Position and number of grantees*	Directors of the Company: 4 Executive officers of the Company: 21
	Type and number of shares	Common stock of the Company: 41,500 shares
	Date of grant	July 12, 2019
	Settlement of rights	After providing service for the period
	Period of providing service for stock option	Directors of the Company: For 1 year (From July 1, 2019 to June 30, 2020) Executive officers of the Company: For 1 year (From April 1, 2019 to March 31, 2020)
	Exercise period of rights	For 25 years from the next day of grant date (From July 13, 2019 to July 12, 2044)
	Condition of exercise of rights	A holder of share acquisition rights may only exercise rights within a maximum of 10 days, within the exercise period of rights described above, from the next day when such holder no longer holds a position as a director and/or an executive officer.
2021 stock options	*Position and number of grantees*	Directors of the Company: 4 Executive officers of the Company: 21
	Type and number of shares	Common stock of the Company: 41,900 shares
	Date of grant	July 13, 2020
	Settlement of rights	After providing service for the period
	Period of providing service for stock option	Directors of the Company: For 1 year (From July 1, 2020 to June 30, 2021) Executive officers of the Company: For 1 year (From April 1, 2020 to March 31, 2021)
	Exercise period of rights	For 25 years from the next day of grant date (From July 14, 2020 to July 13, 2045)
	Condition of exercise of rights	A holder of share acquisition rights may only exercise rights within a maximum of 10 days, within the exercise period of rights described above, from the next day when such holder no longer holds a position as a director and/or an executive officer.
2022 stock options	*Position and number of grantees*	Directors of the Company: 4 Executive officers of the Company: 18
	Type and number of shares	Common stock of the Company: 43,200 shares
	Date of grant	July 14, 2021
	Settlement of rights	After providing service for the period
	Period of providing service for stock option	Directors of the Company: For 1 year (From July 1, 2021 to June 30, 2022) Executive officers of the Company: For 1 year (From April 1, 2021 to March 31, 2022)
	Exercise period of rights	For 25 years from the next day of grant date (From July 15, 2021 to July 14, 2046)
	Condition of exercise of rights	A holder of share acquisition rights may only exercise rights within a maximum of 10 days, within the exercise period of rights described above, from the next day when such holder no longer holds a position as a director and/or an executive officer.

	Exercise price	Average stock price at exercise	Fair value at grant date
2007 stock options	¥1	¥ —	¥3,880
2008 stock options	¥1	¥1,963	¥3,510
2009 stock options	¥1	¥2,182	¥3,260
2010 stock options	¥1	¥1,963	¥2,230
2011 stock options	¥1	¥2,111	¥1,860
2012 stock options	¥1	¥2,063	¥2,270
2013 stock options	¥1	¥2,067	¥1,360
2014 stock options	¥1	¥2,163	¥1,560
2015 stock options	¥1	¥2,100	¥1,350
2016 stock options	¥1	¥2,086	¥1,810
2017 stock options	¥1	¥2,310	¥1,610
2018 stock options	¥1	¥2,310	¥2,820
2019 stock options	¥1	¥2,310	¥2,584
2020 stock options	¥1	¥2,314	¥1,910
2021 stock options	¥1	¥2,315	¥1,480
2022 stock options	¥1	—	¥1,917
	US$0.01	—	US$15.71

Assumptions used in estimation of the fair value of stock options above were as follows:

	2022 stock options
Method of estimation	Black-Scholes model
Volatility*	27.497%
Expected remaining period**	4 years
Expected dividend	¥90 (US$0.74)
Risk-free interest rate***	(0.146)%

* *Volatility is calculated based on the monthly closing prices of common stock of the Company for 4 years prior to the last month ahead of each date of grant.*
** *Mid-term between date of grant and estimated exercisable period*
*** *Interest rate for a government bond with 4 years remaining*

23

Related parties

Related party transactions

The Company sold cement and related products for resale in the amounts of ¥31,306 million (US$256,607 thousand) and ¥30,997 million to Ube-Mitsubishi Cement Corporation (UMCC) for the years ended March 31, 2022 and 2021, respectively. The capital stock of UMCC is ¥8,000 million (US$65,574 thousand), and it is accounted for by the equity method. The balances of accounts receivable were ¥11,015 million (US$90,287 thousand) and ¥10,388 million as of March 31, 2022 and 2021, respectively.

Selling prices are negotiated based on the amount of goods sold after deducting UMCC's selling costs and logistics costs from its net sales.

24

Revenue recognition

Revenue from Contracts with Customers

The "Accounting Standard for Revenue Recognition" (ASBJ Statement No.29, March 31, 2020) and other standards are applied from the first quarter of the fiscal year ended March 31, 2022. The Group recognizes revenue at the amount that it expects to receive in exchange for promised goods or services at the time control of the goods or services are transferred to a customer. Related information with revenue from contracts with customers is as follows.

(a) A disaggregation of revenue from contracts with customers for the fiscal year ended March 31, 2022 is as follows.

	Millions of yen				
	2022				
	Chemicals	Construction Materials	Machinery	Others	Total
Japan	¥140,543	¥210,756	¥62,281	¥1,658	¥415,238
Asia	110,347	5,493	22,111	—	137,951
Europe	56,679	566	110	—	57,355
Others	33,106	538	11,077	—	44,721
Revenue from contracts with customers	340,675	217,353	95,579	1,658	655,265
Sales to outside customers	¥340,675	¥217,353	¥95,579	¥1,658	¥655,265

	Thousands of U.S. dollars				
	2022				
	Chemicals	Construction Materials	Machinery	Others	Total
Japan	$1,151,992	$1,727,508	$510,500	$13,590	$3,403,590
Asia	904,484	45,025	181,237	—	1,130,746
Europe	464,582	4,639	902	—	470,123
Others	271,360	4,410	90,795	—	366,565
Revenue from contracts with customers	2,792,418	1,781,582	783,434	13,590	5,371,024
Sales to outside customers	$2,792,418	$1,781,582	$783,434	$13,590	$5,371,024

(b) Information on contract assets and contract liabilities from contracts with customers is as follows.

	Millions of yen	Thousands of U.S. dollars
	2022	2022
Contract assets (Beginning balance)	¥140,891	$1,154,844
Contract assets (Ending balance)	155,608	1,275,475

(c) Allocation of transaction price to separate performance obligations in contracts by timing is as follows.

	Millions of yen	Thousands of U.S. dollars
	2022	2022
2023	¥31,916	$261,607
2024	1,268	10,393
2025	2,128	17,442
2026 and thereafter	9	74
	¥35,321	$289,516

25 Subsequent events

(a) Formation of jointly controlled company

The Company resolved at its Board of Directors meeting held on May 12, 2021 to enter into the absorption-type split agreement ("Absorption-Type Split Agreement") with Mitsubishi Materials Corporation, Ltd. ("Mitsubishi Materials") to integrate the cement business and its associated business of Mitsubishi Materials ("Integration") by around April 2022, and signed the Absorption-Type Split Agreement on May 14, 2021 with C Integration Arrangement, Ltd. (which was renamed to Mitsubishi UBE Cement Corporation ("Mitsubishi UBE Cement") on January 1, 2022). Subsequently, the Group and Mitsubishi Materials received approvals of their general meeting of shareholders held on June 29, 2021 and June 24, 2021, respectively. Based on this agreement, both companies transferred their cement business and its associated business to Mitsubishi UBE Cement on April 1, 2022.

1. Summary of the Transaction

(1) Name and Business Content of the New Joint Venture Company

Cement and ready-mixed concrete business, limestone resource business, business relation to energy and environment, construction material business, and other business relating to foregoing

(2) Date of Integration

April 1, 2022

(3) Legal Form of Integration

Formation of a joint management company in which the Company Group and Mitsubishi Materials share the same stake ratio

(4) Company Name after Integration

Mitsubishi UBE Cement Corporation

(5) Other Matters Related to the Summary of the Transaction

The Group and Mitsubishi Materials resolved at respective Board of Directors meetings held on February 12, 2020 to start specific discussions and review for this integration and a letter of intent was prepared. The integration was formally resolved at respective Board of Directors meetings held on September 29, 2020, and the integration agreement was concluded.

(6) Reason why this integration was determined as formation of a jointly controlled company

In order to establish this jointly controlled company, the Group and Mitsubishi Materials signed the absorption-type split agreement stipulating that both companies would jointly control Mitsubishi UBE Cement, and both companies paid with respective voting shares for the business integration. In addition, there is no certain clearly specified fact to show other controlling interests. Hence, the Company determined that this business integration is in the form of a jointly controlled company.

2. Outline of Accounting Treatment

This business integration has been accounted for as formation of a jointly controlled company pursuant to "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, January 16, 2019) and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, January 16, 2019).

(b) Change in reportable segments

The Company changed the management structure of its segments on April 1, 2022.

As a result, the reportable segments of the Company were changed to the following four segments: "Specialty Products," "Polymers & Chemicals," "Machinery" and "Others."

The operations of the Company and its consolidated subsidiaries for the fiscal year ended March 31, 2022 under the new segment classification are summarized as follows:

	Millions of yen					
Year ended March 31, 2022	Specialty Products	Polymers & Chemicals	Machinery	Others	Elimination & Corporate	Consolidated
Sales:						
Outside customers	¥47,694	¥233,921	¥95,579	¥64,191	¥213,880	¥655,265
Intersegment sales and transfers	13,093	26,123	1,408	(9,949)	(30,675)	—
Total	60,787	260,044	96,987	54,242	183,205	655,265
Segment operating profit	¥11,627	¥ 23,516	¥ 5,130	¥ 3,548	¥ 217	¥ 44,038

	Thousands of U.S. dollars					
Year ended March 31, 2022	Specialty Products	Polymers & Chemicals	Machinery	Others	Elimination & Corporate	Consolidated
Sales:						
Outside customers	$390,935	$1,917,385	$783,434	$526,156	$1,753,114	$5,371,024
Intersegment sales and transfers	107,319	214,123	11,541	(81,549)	(251,434)	—
Total	498,254	2,131,508	794,975	444,607	1,501,680	5,371,024
Segment operating profit	$ 95,303	$ 192,754	$ 42,049	$ 29,082	$ 1,779	$ 360,967

Independent Auditor's Report

The Board of Directors
UBE Corporation

Opinion

We have audited the accompanying consolidated financial statements of UBE Corporation (the Company) and its consolidated subsidiaries (collectively, the Group), which comprise the consolidated balance sheet as at March 31, 2022, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

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

Emphasis of Matter

We draw attention to Note 25 "Subsequent events" to the consolidated financial statements, which describes that the Company and Mitsubishi Materials Corporation transferred their cement business and associated business to Mitsubishi UBE Cement Corporation on April 1, 2022. Our opinion is not qualified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of Property, Plant and Equipment	
Description of Key Audit Matter	**Auditor's Response**
The total value of the Group's property, plant and equipment ("PP&E") in the consolidated balance sheet as at March 31, 2022 was ¥332,757 million, representing 39.7% of total assets. Since the Group's business activities are diverse and there are differences in business operating environments and profitability, the Company determines business units or departments in its Chemicals, Construction Materials, and Machinery segments as the smallest cash generating units for the asset grouping of PP&E. Indications of impairment include events such as operating profit or cash flows from operating activities being continuously negative or a change that alters the range or manner of utilization of PP&E so as to significantly reduce the recoverable amount. As there are many products with different supply chains or manufacturing processes, the grouping of PP&E related to production of products requires a range of judgments by management to reflect operating conditions, such as considering the relevance of manufacturing processes. Also, the Group operates a wide range of businesses, and the impact of environmental changes on business profitability varies. Therefore, the management determines whether there is any indication of impairment considering specific circumstances. As described above, because the book value of the PP&E is material and the management's judgment of the grouping and indications of impairment is required, we determined the impairment of the PP&E to be a key audit matter.	The audit procedures we performed to assess the Company's determination of indications of impairment of PP&E include the following, among others: 1. Evaluation of PP&E grouping In order to ensure that business units or departments are grouped on the basis of the smallest cash generating unit in the examination of impairment of PP&E, we reviewed related materials such as the Group's internal policies for recognizing impairment of PP&E and impairment documentation. In order to evaluate whether changing the asset grouping is necessary, we inquired of management, and reviewed minutes of certain meetings and related materials. 2. Judgment regarding indications of impairment (Assessment of operating profit or cash flows) In order to evaluate the accuracy and completeness of basic accounting data used to calculate operating profit or cash flows from operating activities in each asset group, we evaluated effectiveness of the IT system. For the head office expenses allocated to each asset group, in order to ensure that the scope and method of allocation of expenses were reasonable and consistently applied, we reviewed the Company's regulations for such allocation. In addition, in order to evaluate the accuracy of allocation calculations of the expenses, we assessed the consistency between basic allocation data and basic accounting data and conducted a calculation review of the basic allocation data. (Assessment of any continuous deficit) In order to confirm whether operating profit or cash flows from operating activities for each asset group was continuously negative or projected to be continuously negative, we reviewed the impairment-related materials such as impairment documentation, the basic accounting data and business plans approved by management.

	(Evaluation of existence of other indications of impairment) In order to determine whether there were changes in the range or manner of utilization of PP&E, a significant deterioration of the business environment or significant decline in market prices, we inquired of management from each business unit or department and reviewed minutes of certain meetings and related materials.

Other Information

The other information comprises the information included in the Integrated Report Financial Sections that contains audited consolidated financial statements but does not include the consolidated financial statements and our auditor's report thereon.

We have concluded that the other information does not exist. Accordingly, we have not performed any work related to the other information.

Responsibilities of Management and the Audit and Supervisory Committee for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Audit and Supervisory Committee is responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the Audit and Supervisory Committee with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the consolidated financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

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

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

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2022 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Ernst & Young ShinNihon LLC
Tokyo, Japan

June 29, 2022

Hideaki Karaki
Designated Engagement Partner
Certified Public Accountant

Ritsuko Narazaki
Designated Engagement Partner
Certified Public Accountant

Yasuhiro Kai
Designated Engagement Partner
Certified Public Accountant