Consolidated Financial Statements

TSUBAKIMOTO CHAIN CO.
and Consolidated Subsidiaries

Fiscal year ended March 31, 2022
with Independent Auditor's Report

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries

Consolidated Balance Sheet

As of March 31, 2022

(Unit: Millions of yen)

		2021		2022
Assets				
Current assets				
Cash and deposits		41,869		49,104
Notes and accounts receivable - trade		43,816		―
Notes and accounts receivable - trade, and contract assets		―	※8	45,773
Electronically recorded monetary claims - operating		11,561		13,358
Securities		6,189		6,339
Merchandise and finished goods		17,469		22,357
Work in process	※1	11,674	※1	14,250
Raw materials and supplies		9,245		12,400
Other		4,226		3,620
Allowance for doubtful accounts		(865)		(692)
Total current assets		145,185		166,512
Non-current assets				
Property, plant and equipment				
Buildings and structures		77,488		79,885
Accumulated depreciation		(45,659)		(47,998)
Buildings and structures, net		31,828		31,887
Machinery, equipment and vehicles		135,869		143,459
Accumulated depreciation		(97,780)		(106,117)
Machinery, equipment and vehicles, net		38,089		37,341
Tools, furniture and fixtures		30,112		31,884
Accumulated depreciation		(26,175)		(28,109)
Tools, furniture and fixtures, net		3,936		3,775
Land	※6	37,543	※6	37,694
Construction in progress		3,660		4,220
Total property, plant and equipment		115,059		114,918
Intangible assets				
Goodwill		2,533		2,496
Other		8,162		8,204
Total intangible assets		10,695		10,700
Investments and other assets				
Investments in securities	※2	28,522	※2	32,245
Long-term loans receivable		11		13
Deferred tax assets		2,048		2,350
Retirement benefit asset		―		42
Other	※2	5,923	※2	5,942
Allowance for doubtful accounts		(113)		(107)
Total investments and other assets		36,391		40,488
Total non-current assets		162,147		166,107
Total assets		307,332		332,620

(Unit: Millions of yen)

		2021		2022
Liabilities				
Current liabilities				
Notes and accounts payable - trade		16,882		18,610
Electronically recorded obligations - operating		8,791		9,762
Short-term borrowings		11,318		8,591
Current portion of long-term borrowings		634		4,551
Lease liabilities		404		559
Income taxes payable		1,178		3,152
Accrued consumption taxes		763		375
Provision for bonuses		3,794		5,164
Provision for loss on construction contracts	※1	293	※1	85
Provision for loss on orders received		38		11
Provision for shareholder benefit program		32		43
Electronically recorded obligations - non-operating		998		1,286
Other		16,558	※9	15,642
Total current liabilities		61,690		67,839
Non-current liabilities				
Bonds payable		15,000		15,000
Long-term borrowings		14,214		9,727
Lease liabilities		633		800
Deferred tax liabilities		8,175		8,877
Deferred tax liabilities for land revaluation	※6	5,001	※6	5,001
Provision for retirement benefits for directors (and other officers)		124		140
Retirement benefit liability		13,863		14,196
Asset retirement obligations		457		441
Other		676		837
Total non-current liabilities		58,147		55,023
Total liabilities		119,838		122,863
Net assets				
Shareholders' equity				
Share capital		17,076		17,076
Capital surplus		13,565		13,569
Retained earnings		154,856		165,878
Treasury shares		(4,231)		(4,220)
Total shareholders' equity		181,266		192,304
Accumulated other comprehensive income				
Valuation difference on other securities		12,836		14,716
Deferred gain or loss on hedges		(76)		(75)
Revaluation reserve for land	※6	(10,614)	※6	(10,614)
Foreign currency translation adjustment		2,828		11,622
Retirement benefits liability adjustments		(449)		(196)
Total accumulated other comprehensive income		4,524		15,452
Non-controlling interests		1,703		2,000
Total net assets		187,494		209,757
Total liabilities and net assets		307,332		332,620

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries

Consolidated Statement of Income

For the fiscal year ended March 31, 2022

(Unit: Millions of yen)

		2021		2022
Net sales		193,399	※1	215,879
Cost of sales	※2,※3,※5	145,764	※2,※3,※5	153,134
Gross profit		47,634		62,745
Selling, general and administrative expenses	※4,※5	38,737	※4,※5	44,902
Operating profit		8,896		17,842
Non-operating income				
Interest income		129		154
Dividend income		775		944
Share of profit of entities accounted for using equity method		47		81
Foreign exchange gain		378		979
Other		1,934		1,070
Total non-operating income		3,265		3,230
Non-operating expenses				
Interest expenses		320		296
Loss on sale and retirement of non-current assets		105		232
Loss on valuation of derivatives		241		135
Other		468		362
Total non-operating expenses		1,136		1,026
Ordinary profit		11,026		20,045
Extraordinary income				
Gain on liquidation of subsidiaries and affiliates		－		4
Insurance claim income	※6	870		－
Gain on sale of non-current assets	※7	314		－
Gain on sale of investments in securities		5		126
Total extraordinary income		1,190		130
Extraordinary loss				
Impairment loss		－	※8	26
Loss on valuation of investments in capital of subsidiaries and affiliates		－		68
Loss on business restructuring	※9	57		－
Total extraordinary loss		57		95
Profit before income taxes		12,159		20,081
Income taxes - current		3,295		5,919
Income taxes - deferred		81		(501)
Total income taxes		3,377		5,418
Profit		8,782		14,662
Profit attributable to non-controlling interests		75		119
Profit attributable to owners of parent		8,706		14,543

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income

For the fiscal year ended March 31, 2022

(Unit: Millions of yen)

		2021		2022
Profit		8,782		14,662
Other comprehensive income				
Valuation difference on other securities		4,284		1,879
Deferred gain or loss on hedges		(94)		1
Foreign currency translation adjustment		1,646		8,979
Retirement benefits liability adjustments, net of tax		198		252
Share of other comprehensive income of entities accounted for using equity method		4		49
Total other comprehensive income	※1	6,040	※1	11,162
Comprehensive income		14,822		25,825
Comprehensive income attributable to				
Comprehensive income attributable to owners of parent		14,745		25,471
Comprehensive income attributable to non-controlling interests		77		353

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries
Consolidated Statement of Changes in Net Assets

For the fiscal year ended March 31, 2021

(Unit: Millions of yen)

	Shareholders' equity					Accumulated other comprehensive income							
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on other securities	Deferred gain or loss on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at beginning of period	17,076	13,563	149,487	(4,253)	175,873	8,551	17	(10,614)	1,178	(647)	(1,513)	1,695	176,055
Changes during period													
Dividends of surplus			(3,330)		(3,330)						—		(3,330)
Profit attributable to owners of parent			8,706		8,706						—		8,706
Purchase of treasury shares				(3)	(3)						—		(3)
Disposal of treasury shares		(5)		25	19						—		19
Transfer from retained earnings to capital surplus		6	(6)		—						—		—
Net changes in items other than shareholders' equity						4,284	(94)	—	1,649	198	6,038	7	6,046
Total changes during period	—	1	5,369	22	5,392	4,284	(94)	—	1,649	198	6,038	7	11,438
Balance at end of period	17,076	13,565	154,856	(4,231)	181,266	12,836	(76)	(10,614)	2,828	(449)	4,524	1,703	187,494

For the fiscal year ended March 31, 2022

(Unit: Millions of yen)

	Shareholders' equity					Accumulated other comprehensive income							
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on other securities	Deferred gain or loss on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at beginning of period	17,076	13,565	154,856	(4,231)	181,266	12,836	(76)	(10,614)	2,828	(449)	4,524	1,703	187,494
Changes during period													
Dividends of surplus			(3,516)		(3,516)						–		(3,516)
Profit attributable to owners of parent			14,543		14,543						–		14,543
Purchase of treasury shares				(5)	(5)						–		(5)
Disposal of treasury shares		(0)		16	16						–		16
Transfer from retained earnings to capital surplus		4	(4)		–						–		–
Net changes in items other than shareholders' equity						1,879	1	–	8,794	252	10,927	296	11,224
Total changes during period	–	4	11,022	10	11,037	1,879	1	–	8,794	252	10,927	296	22,262
Balance at end of period	17,076	13,569	165,878	(4,220)	192,304	14,716	(75)	(10,614)	11,622	(196)	15,452	2,000	209,757

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries
Consolidated Statement of Cash Flows

For the fiscal year ended March 31, 2022

(Unit: Millions of yen)

	2021	2022
Cash flows from operating activities		
Profit before income taxes	12,159	20,081
Depreciation and amortization	12,682	12,694
Impairment loss	—	26
Loss on business restructuring	57	—
Amortization of goodwill	277	279
Gain (loss) on sale and retirement of non-current assets	(311)	197
Gain (loss) on valuation of investments in securities	0	—
Gain (loss) on sale of investments in securities	(5)	(126)
Loss on valuation of shares of subsidiaries and affiliates	52	—
Loss on valuation of investments in capital of subsidiaries and affiliates	4	68
Gain (loss) on liquidation of subsidiaries and affiliates	—	(4)
Subsidies for employment adjustment	(557)	(28)
Increase (decrease) in allowance for doubtful accounts	64	(239)
Increase (decrease) in retirement benefit liability	597	581
Increase (decrease) in trade receivables	2,114	(1,266)
Increase (decrease) in inventories	2,596	(8,111)
Increase (decrease) in trade payables	(1,567)	1,379
Other, net	2,353	(1,857)
Subtotal	30,517	23,675
Interest and dividends received	950	1,130
Interest paid	(324)	(300)
Subsidies for employment adjustment received	557	28
Income taxes paid	(3,810)	(3,533)
Net cash provided by (used in) operating activities	27,890	21,000
Cash flows from investing activities		
Payments into time deposits	(543)	(1,576)
Proceeds from withdrawal of time deposits	187	1,243
Purchase of investments in securities	(252)	(12)
Proceeds from sale of investments in securities	166	352
Purchase of shares of subsidiaries and affiliates	(76)	(1,216)
Payments for investments in capital of subsidiaries and affiliates	(10)	(92)
Proceeds from liquidation of subsidiaries and affiliates	—	54
Net increase (decrease) in short-term loans receivable	1	0
Long-term loan advances	(20)	(22)
Proceeds from collection of long-term loans receivable	21	19
Purchase of non-current assets	(9,723)	(8,004)
Proceeds from sale of non-current assets	689	178
Net cash provided by (used in) investing activities	(9,560)	(9,075)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(1,687)	(3,005)
Proceeds from long-term borrowings	5,452	9
Repayments of long-term borrowings	(4,239)	(667)
Repayments of finance lease liabilities	(469)	(531)
Repayments of installment payables	(6)	(6)
Dividends paid	(3,330)	(3,516)
Dividends paid to non-controlling interests	(69)	(56)
Purchase of treasury shares	(3)	(5)
Proceeds from sale of treasury shares	0	0
Net cash provided by (used in) financing activities	(4,354)	(7,780)
Effect of exchange rate change on cash and cash equivalents	730	2,658
Net increase (decrease) in cash and cash equivalents	14,706	6,803
Cash and cash equivalents at beginning of period	31,378	46,084
Cash and cash equivalents at end of period	※1 46,084	※1 52,888

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries
Notes to Consolidated Financial Statements
As of and for the fiscal year ended March 31, 2022

(Significant Matters for the Basis of Preparing Consolidated Financial Statements)

1. Scope of consolidation

(1) Consolidated subsidiaries 64

The list of names of consolidated subsidiaries is omitted.

Central Industrial, LLC is newly established and included in the scope of consolidation effective from the fiscal year ended March 31, 2022. Alka USA, LLC, previously a consolidated subsidiary, was excluded from the scope of consolidation due to liquidation.

(2) Unconsolidated subsidiaries

Name of major unconsolidated subsidiary: Shijiazhuang CAPT Power Transmission Co., Ltd.

(Reason for excluding from consolidation)

Unconsolidated subsidiaries were excluded from the scope of consolidation because their total assets, net sales, profit or loss (amount equivalent to the equity interest), and retained earnings (amount equivalent to the equity interest) do not have a material impact on the consolidated financial statements.

2. Application of equity method

Affiliates accounted for by equity method 2

Name: Tianjin Tsubakimoto Conveyor Systems Co., Ltd.
Kabelschlepp Sp. z o.o.

Kabelschlepp Sp. z o.o. was included in the scope of equity-method application effective from the fiscal year ended March 31, 2022 since its materiality increased.

(1) Unconsolidated subsidiaries not accounted for by equity method

Name of major unconsolidated subsidiary: Shijiazhuang CAPT Power Transmission Co., Ltd.

Affiliates not accounted for by equity method

Name of major affiliate: SHINKO MACHINERY CO.,LTD.

(Reason for excluding from the scope of equity method)

Unconsolidated subsidiaries and affiliates not accounted for by equity method were excluded from the scope of equity method because their profit or loss (amount equivalent to the equity interest) and retained earnings (amount equivalent to the equity interest) do not have a material impact on the consolidated financial statements.

3. Fiscal year end of consolidated subsidiaries

The fiscal year end of the following consolidated subsidiaries is different from the consolidated financial statements.

December 31

TSUBAKIMOTO AUTOMOTIVE (THAILAND) CO.,LTD.	*1
Tsubakimoto Automotive (Shanghai) Co., Ltd.	*1
Tsubaki Everbest Gear (Tianjin) Co., Ltd.	*1
TSUBAKI BRASIL EQUIPAMENTOS INDUSTRIAIS LTDA.	*2
Tsubaki Kabelschlepp GmbH	*1
Kabelschlepp GmbH-Hünsborn	*1
KABELSCHLEPP ITALIA S.R.L.	*1
METOOL PRODUCTS LIMITED	*1
KABELSCHLEPP FRANCE S.A.R.L.	*1
KABELSCHLEPP INDIA PRIVATE LIMITED	*1
Kabelschlepp China Co., Ltd.	*1
KABELSCHLEPP SYSTEMTECHNIK spol. s.r.o.	*1
OOO TSUBAKI KABELSCHLEPP	*1
Schmidberger GmbH	*1
Tsubakimoto Automotive Korea Co., Ltd.	*1
Mayfran International, Incorporated	*1
Conergics International LLC	*1
Mayfran U.K. Limited	*1
Mayfran GmbH	*1
Mayfran Limburg B.V.	*1
Mayfran International B.V.	*1
Mayfran France S.A.R.L.	*1
Press Room Techniques Co.	*1
Tsubakimoto Chain (Tianjin) Co., Ltd.	*1
Tsubaki Motion Control (Shanghai) Co., Ltd.	*1
Tsubakimoto Bulk Systems (Shanghai) Corp.	*1
Tsubakimoto Chain (Shanghai) Co., Ltd.	*1
Tsubakimoto Automotive Mexico S.A. de C.V.	*1
TSUBAKI MOTION CONTROL (THAILAND) CO.,LTD.	*1

January 31

TSUBAKIMOTO （THAILAND） CO., LTD.	*1

*1: Financial statements of each consolidated subsidiary as of the respective fiscal year end are used for the consolidation. Significant transactions between the respective fiscal year end and the date of consolidation, if any, are adjusted for the consolidation purposes.

*2: The financial statements tentatively prepared as of the date of consolidation are used for the consolidation.

4. Accounting policies

(1) Basis and method of valuation for major assets

a. Securities

Other securities

Excluding equity securities without market prices: Stated at fair value

Valuation difference is directly included in net assets and the cost of securities sold is determined by the moving-average method.

Equity securities without market prices:	Stated at cost determined by the moving-average method

b. Derivatives are stated at fair value.

c. Inventories

Inventories held for sale in the ordinary course of business

Inventories are mainly stated at the lower of cost or net selling value, cost being determined by the first-in, first-out method, the individual identification method or the moving average method, except for goods held by certain overseas subsidiaries which are valued at the lower of cost or market.

(2) Depreciation and amortization method of major depreciable assets

a. Property, plant and equipment (excluding leased assets)

Property, plant and equipment are stated at cost. The Company and its domestic consolidated subsidiaries mainly calculate depreciation by the declining-balance method over the estimated useful lives of the respective assets, except that the straight-line method is applied to buildings (other than fixtures attached to the buildings) and structures attached to buildings and structures acquired on or after April 1, 2016. The foreign consolidated subsidiaries mainly calculate depreciation by the straight-line method over the estimated useful lives of the respective assets.

Major estimated useful lives are summarized as follows:

Buildings and structures	3 to 50 years
Machinery, equipment and vehicles	4 to 13 years

b. Intangible assets (excluding leased assets)

The straight-line method is applied.

Software for internal use is amortized over the expected useful life of five years.

c. Leased assets

For lease transactions involving the transfer of ownership, leased assets are depreciated by the same depreciation method applied to property, plant and equipment owned by the lessee.

For lease transactions not involving the transfer of ownership, leased assets are depreciated over their lease term using the straight-line method with a residual value of zero.

Certain consolidated subsidiaries adopting International Financial Reporting Standards (“IFRSs”) apply IFRS 16 “Leases” (“IFRS 16”). In accordance with IFRS 16, for lessees, all leases are generally accounted for as assets and liabilities in the balance sheet.

(3) Basis for significant allowance and provisions

a. Allowance for doubtful accounts

The Company and its consolidated subsidiaries provide an allowance for doubtful accounts at an amount calculated based on their historical experience of bad debts on ordinary receivables plus an additional estimate of probable specific bad debts from customers experiencing financial difficulties.

b. Provision for bonuses

Provision for bonuses are provided based on the estimated amount of bonuses to be paid to employees which are charged to income in the current fiscal year.

c. Provision for retirement benefits for directors (and other officers)

Provision for retirement benefits for directors (and other officers) are provided at an estimated amount based on the internal rules.

d. Provision for loss on construction contracts

Provision for loss on construction contracts is provided for anticipated future loss on outstanding projects if such future loss on construction projects is anticipated at the fiscal year end and the loss amount can be reasonably estimated.

e. Provision for loss on orders received

Provision for loss on order received is provided for anticipated future loss on outstanding projects if such future loss on order is anticipated at the fiscal year end and the loss amount can be reasonably estimated.

f. Provision for shareholder benefit program

Provision for shareholder benefit program is estimated and recorded in the amount reasonably expected to be incurred in the next fiscal year or later in order to prepare for expenditures related to the shareholder benefit program.

(4) Accounting treatment for retirement benefits

a. Attribution method

The retirement benefit obligation is attributed to each period by the straight-line method over the estimated remaining years of service of the eligible employees.

b. Actuarial differences and prior service cost

Prior service cost is credited or charged to income in the year in which the gain or loss is recognized.

Actuarial differences are amortized commencing the year following the year in which the gain or loss is recognized by the straight-line method over a period which is shorter than the average estimated remaining years of service of the eligible employees (10 years).

c. Application of simplified method

Certain subsidiaries calculate their retirement benefit liability and retirement benefit expenses by the simplified method. Under the simplified method, the retirement benefit obligation for employees is stated at the amount which would be required to be paid if all eligible employees voluntarily terminated their employment at the balance sheet dates.

(5) Basis for recognizing significant revenue and expenses

In applying the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020), etc., the Company and its consolidated subsidiaries recognize revenue at the point in time when a promised good or service is transferred to a customer at an amount expected to be received in exchange for said good or service.

The major business of the Group is marketing and sale of products including drive chains and conveyor chains, reducers, linear actuators, timing chain systems, and conveying/sorting/storage systems. In the Materials Handling operations, the Company and its consolidated subsidiaries provides contracted construction and other services.

For the product sales of the Chains operations, the Motion Control operations, and the Mobility operations, the deliveries of products based on contracts with customers are identified as performance obligations.

For sales within the same country, the Group recognizes revenue when the products are delivered to customers as the control of products is transferred to customers at that time and performance obligations are satisfied at the time of delivery of the products. For export sales, revenue is recognized when the control of products is transferred to customers based on the terms and conditions of the trade.

Transaction prices for product sales are determined at the amount of consideration promised in contracts with customers, after deducting discounts, sales discounts and others. Estimating the amount of variable consideration including variable discounts by using all reasonably available information, the Group recognizes revenue only to the extent that it is highly probable that a significant reversal will not occur.

For services in the Materials Handling operations, the provision of services based on contracts with customers is identified as performance obligations. If any of the following three requirements is met, it is considered that the performance obligations are satisfied over time. Thus, the relevant revenue is recognized depending on the degree of progress.

(a) A customer simultaneously receives the benefits provided by the Group’s satisfaction of performance as the Group performs its obligation in a contract with a customer.
(b) The Group’s performance of an obligation in a contract with a customer creates an asset or increases the value of an asset, and the customer has control over the asset as the asset is created or the value of the asset is increases.
(c) The Group’s performance of obligation in a contract with a customer creates an asset that cannot be diverted to an alternative use, and the Group has an enforceable right to receive payment for the completed portion of the performance obligation.

The Group measures the degree of progress using an input method based on costs incurred since costs incurred are considered to be generally proportional to and contribute to the Group’s progress in satisfying its performance obligations.

As consideration for transactions, the Group requests that customers pay advance payments in the period from the order to the time of satisfaction of performance obligations, or to make payments after satisfaction of performance obligations. The payments after satisfaction of performance obligations are generally made within one year, and thus they do not include a significant financing component.

(6) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the current fiscal year end, and translation differences are included in profit or loss. The balance sheet accounts of the overseas consolidated subsidiaries are translated into yen at the rates of exchange in effect at the current fiscal year end. Revenue and expense accounts of the overseas consolidated subsidiaries are translated at the average rates of exchange in effect during the year. Adjustments resulting from translating financial statements whose accounts are denominated in foreign currencies are not included in the determination of profit but are reported as “Foreign currency translation adjustment” as a component of accumulated other comprehensive income and as “Non-controlling interests” under net assets in the accompanying consolidated balance sheet.

(7) Significant hedge accounting method

a. Method of hedge accounting

Hedge deferral treatment is applied. Forward foreign exchange contracts which met certain conditions are accounted for by the allocation method.

b. Hedging instruments and hedged items

Hedging instruments: Forward foreign exchange contracts

Hedged items: Transactions denominated in foreign currencies

c. Hedge policy

Derivatives are used to avoid foreign currency fluctuation risk. As a policy, the Company does not enter derivatives for speculative purposes.

d. Hedge effectiveness

The hedge effectiveness of derivative transactions is assessed by comparing the cumulative changes in cash flows or fair value of the underlying hedged items with those of the hedging instruments in the period from the start of the hedging relationship to the assessment date. However, an assessment of hedge effectiveness is omitted for forward foreign exchange contracts meeting certain conditions for applying the allocation method.

(8) Amortization of goodwill

Goodwill is amortized primarily over a reasonable period determined individually within 20 years on a straight-line basis. When immaterial, goodwill is charged to income as incurred.

(9) Cash and cash equivalents for the consolidated statement of cash flows

Cash and cash equivalents consist of cash on hand, deposits with banks withdrawable on demand, and short-term investments which are readily convertible to cash subject to an insignificant risk of any change in their value and which were purchased with an original maturity of three months or less.

(Significant Accounting Estimates)

For the fiscal year ended March 31, 2021

1. Estimates of total construction costs based on the percentage of completion method at the Materials Handling operations

(1) Amounts recorded on the consolidated financial statements (Unit: Millions of yen)

	2021
Net sales accounted for by percentage of completion method	25,077

(2) Information on the content of significant accounting estimates for the identified item

a. Calculation method of the amount recorded in the consolidated financial statements for the fiscal year

Revenue based on the percentage of completion method recorded in the consolidated financial statements for the fiscal year is measured based on the progress of construction, which is measured based on the percentage of construction costs incurred up to the end of the fiscal year against the total estimated construction costs.

b. Major assumptions used in significant accounting estimates

Total construction cost is estimated for each project using the working budget approved by the construction management department. The working budget is calculated by accumulating objective prices such as quotations obtained from third parties and internally authorized estimated unit prices.

However, the estimates include certain assumptions and judgements by person in charge of construction with expertise and experience related to construction projects.

c. Impact on consolidated financial statements for the next fiscal year

Since construction projects are generally completed over long periods, modifications to construction contracts or delays due to bad weather may occur during the course of construction, which result in necessary revisions to the total construction cost. In some cases, it may affect the consolidated financial statements for the next fiscal year.

2. Impairment of property, plant and equipment and intangible assets

(1) Amounts recorded on the consolidated financial statements (Unit: Millions of yen)

	2021
Impairment loss (Note)	57
Property, plant and equipment and intangible assets	125,755

(Note) Impairment loss is presented as “Loss on business restructuring” in the consolidated statement of income.

(2) Information on the content of significant accounting estimates for the identified item

a. Calculation method of the amount recorded in the consolidated financial statements for the fiscal year

Property, plant and equipment, etc.

The Company groups assets by the smallest unit that generates generally independent cash flows based on business divisions and estimates undiscounted future cash flows. If the undiscounted future cash flows are less than carrying value, the carrying value is reduced to its recoverable amount, and the difference is recorded as an impairment loss.

Goodwill and trademark rights, etc.

The Company groups assets by the smallest unit that generates generally independent cash flows based on business divisions and calculates the estimated fair value of goodwill and trademark rights. If the estimated fair value of goodwill and trademark rights, etc. is less than the carrying value, the carrying value is reduced to its recoverable amount and the difference is recorded as an impairment loss.

b. Major assumptions used in significant accounting estimates

Property, plant and equipment, etc.

Profit or loss from operating activities, the basis for estimating undiscounted future cash flows is calculated based on an internally authorized business plan that takes into consideration forecasts of the market environment. Forecasts of the market environment mainly include forecasts of economic trends and supply and demand trends. The recoverable amount is the higher of the value in use or the net realizable value. These estimates involve certain assumptions and managements’ judgment based on the information available to the Group.

Goodwill and trademark rights, etc.

The fair value of goodwill, trademark rights, etc. is calculated using discounted future cash flows based on an internally authorized business plan that takes into consideration forecasts of the market environment. Forecasts of the market environment mainly include forecasts of economic trends and supply and demand trends. The discount rate is determined in consideration of the risk premium, etc. estimated individually for the risk-free rate. The recoverable amount is mainly measured by the value in use. These estimates involve certain assumptions and managements’ judgment based on the information available to the Group.

c. Impact on consolidated financial statements for the next fiscal year.

The Group carefully considers the business plan and the market environment when identifying the impairment indicators and recognizing and measuring impairment loss. However, if the conditions and assumptions that are the basis of the estimate need to be revised, there is a possibility that additional impairment loss will be recognized in the consolidated financial statements for the next fiscal year.

3. Recoverability of deferred tax assets

(1) Amounts recorded on the consolidated financial statements

(Unit: Millions of yen)

	2021
Deferred tax assets (Note)	2,048

(Note) The amount before netting out with deferred tax liabilities is 9,556 million yen.

(2) Information on the content of significant accounting estimates for the identified item

a. Calculation method of the amount recorded in the consolidated financial statements for the fiscal year

Deferred tax assets are recorded to the extent that they are considered to be effective in reducing future tax burdens, taking into consideration estimated future taxable income and feasible tax planning strategies.

b. Major assumptions used in significant accounting estimates

The estimated amount of future taxable income is calculated based on an internally authorized business plan that takes into consideration forecasts of the market environment. Forecasts of the market environment mainly include forecasts of economic trends and supply and demand trends. These estimates involve certain assumptions and managements' judgment based on the information available to the Group.

c. Impact on consolidated financial statements for the next fiscal year

Since the estimated amount of future taxable income will fluctuate depending on the business performance at that time, if an event that affects the estimate of taxable income occurs, any amount that may not be realizable will be reviewed and the amount of deferred tax assets will be revised. Profit or loss attributable to owners of parent may be affected.

For the fiscal year ended March 31, 2022

1. Estimates of total construction costs under contracts for which performance obligations are satisfied over time

(1) Amounts recorded on the consolidated financial statements (Unit: Millions of yen)

	2022
Revenue recognized over time as performance obligations are satisfied	20,566

(2) Information on the content of significant accounting estimates for the identified item

a. Calculation method of the amount recorded in the consolidated financial statements for the fiscal year

In the Materials Handling operations, revenue from certain construction contracts satisfying certain requirements is recognized based on the degree of progress of construction as of the end of fiscal year.

The progress is measured based on the percentage of construction costs incurred up to the end of the fiscal year against the total estimated construction costs.

b. Major assumptions used in significant accounting estimates

Total construction cost is estimated for each project using the working budget approved by the construction management department. The working budget is calculated based on the cost of materials during construction, outsourcing cost quotations obtained from third parties and labor costs calculated by multiplying the detailed working hours by internally authorized estimated unit prices.

The estimates of total construction costs may need to be revised due to changes in circumstances such as delays in construction or initially unexpected events.

c. Impact on consolidated financial statements for the next fiscal year

Since construction projects are generally completed over long periods, modifications to construction contracts or delays due to bad weather may occur during the course of construction, which result in necessary modifications to the total construction cost. In some cases, it may affect the consolidated financial statements for the next fiscal year.

2. Valuation of goodwill

(1) Amounts recorded on the consolidated financial statements (Unit: Millions of yen)

	2022
Impairment loss	–
Goodwill	2,496

(2) Information on the content of significant accounting estimates for the identified item

a. Calculation method of the amount recorded in the consolidated financial statements for the current fiscal year

Goodwill presented in the consolidated balance sheet arose when U.S. TSUBAKI HOLDINGS, INC., a consolidated subsidiary of the Company, acquired all shares of Central Conveyor Company, LLC. If the recoverable amount of the reporting unit including goodwill is less than its carrying value, the carrying value is reduced to the recoverable amount and the difference is recognized as an impairment loss. The recoverable amount of the reporting unit is measured at its fair value.

b. Major assumptions used in significant accounting estimates

The fair value is measured using the comparable companies method and the discounted cash flow (DCF) method based on an internally authorized business plan that takes into consideration forecasts of the market environment. Forecasts of the market environment mainly include forecasts of economic trends and supply and demand trends. The discount rate is determined in consideration of the risk premium, etc. estimated individually and the risk-free rate.

These estimates involve certain assumptions and managements' judgement based on the information available to the Group.

c. Impact on consolidated financial statements for the next fiscal year.

The Company carefully considers the business plan and the market environment when identifying the impairment indicators and recognizing and measuring impairment loss. However, if the conditions and assumptions that are the basis of the estimate need to be revised, there is a possibility that additional impairment loss will be recognized in the consolidated financial statements for the next fiscal year.

(Changes in Accounting Policies)

(Application of Accounting Standard for Revenue Recognition)

The Group has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020, hereinafter the "Accounting Standards for Revenue Recognition"), etc. effective from the beginning of the fiscal year ended March 31, 2022, and revenue is recognized at the amount assumed to be received in exchange for a promised good or service at the point in time when the control of the said good or service is transferred to a customer. Accordingly, incentives paid to sales agents, which were previously included in "Selling, general and administrative expenses," and sales discounts, which were previously included in "Non-operating expenses," have been deducted from "Net sales." In addition, for transactions involving materials supplied for a fee with repurchase obligations, the ending balance of the materials are recognized in "Raw materials and supplies" and "Other" under current liabilities.

In accordance with the transitional treatment prescribed in the proviso to paragraph 84 of the Accounting Standard for Revenue Recognition, the Company adjusted the beginning balance of retained earnings to reflect the cumulative effect of retroactive application of this new accounting policy prior to the beginning of the fiscal year ended March 31, 2022, and then has applied this new accounting policy. However, there is no effect on the beginning balance of retained earnings for the fiscal year ended March 31, 2022.

As a result, "Net sales" decreased by 168 million yen, "Gross profit" decreased by 168 million yen, "Selling, general and administrative expenses" decreased by 152 million yen, "Operating profit" decreased by 15 million yen, and "Non-operating expenses" decreased by 15 million yen for the fiscal year ended March 31, 2022 while "Raw materials and supplies" increased by 91 million yen and "Other" under current liabilities increased by 91 million yen as of March 31, 2022.

Along with the application of the Accounting Standards for Revenue Recognition, the Company has changed certain presentation in the consolidated balance sheet effective from the fiscal year ended March 31, 2022; that is, "Notes and accounts receivable - trade," previously shown under current assets, is presented as "Notes and accounts receivable - trade, and contract assets." However, in accordance with the transitional treatment prescribed in paragraph 89-2 of the Accounting Standard for Revenue Recognition, the reclassifications of previous fiscal year's amounts have not been made to conform to the current fiscal year's presentation.

Furthermore, in accordance with the transitional treatment prescribed in paragraph 89-3 of the Accounting Standard for Revenue Recognition, the disclosure for the previous fiscal year was not stated in the note "(Revenue recognition)."

(Application of Accounting Standard for Fair Value Measurement)

Effective from the beginning of the fiscal year ended March 31, 2022, the Company has applied the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019, hereinafter, the "Accounting Standard for FVM"), etc. In accordance with the transitional treatments prescribed in paragraph 19 of the Accounting Standard for FVM and paragraph 44-2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019), the Company has applied the new accounting policy prospectively. There is no effect on the consolidated financial statements for the fiscal year ended March 31, 2022 from this change.

In addition, the fair value of financial instruments by hierarchy level is disclosed in the note "(Financial Instruments)." In accordance with the transitional treatment prescribed in paragraph 7-4 of the "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No.19, July 4, 2019), relevant information for the previous fiscal year was not stated.

(Changes in Presentation)

Consolidated Statement of Income

"Subsidies for employment adjustment," which was previously shown as a separate line item under non-operating income, has been included in "Other" under non-operating income since the amount was less than 10% of the total amount of non-operating income for the fiscal year ended March 31, 2022. The amount of "Subsidies for employment adjustment" is 28 million yen for the fiscal year ended March 31, 2022. In order to reflect this change in presentation, the consolidated financial statements for the fiscal year ended March 31, 2021 have been reclassified to conform to the current fiscal year's presentation.

As a result, 557 million yen of "Subsidies for employment adjustment" and 1,377 million yen of "Other," which were shown under non-operating income in the consolidated statement of income for the fiscal year ended March 31, 2021, have been reclassified as 1,934 million yen of "Other."

Furthermore, "Loss on sale and retirement of non-current assets," which was previously included in "Other" under non-operating expenses, has been shown as a separate line item since the amount exceeded 10% of the total amount of non-operating expenses for the fiscal year ended March 31, 2022. In order to reflect this change in presentation, the consolidated financial statements for the fiscal year ended March 31, 2021 have been reclassified to conform to the current fiscal year's presentation.

As a result, 573 million yen of "Other" under non-operating expenses in the consolidated statement of income for the fiscal year ended March 31, 2021 has been reclassified to 105 million yen of "Loss on sale and retirement of non-current assets" and 468 million yen of "Other."

(Consolidated Balance Sheet)

*1 Inventories related to construction contracts assumed to incur loss and provision for loss on construction contracts are not net out but presented in gross. Of inventories related to construction contracts assumed to incur loss, the amount corresponding to provision for loss on construction contracts is as follows:

(Unit: Millions of yen)

	2021	2022
Work in process	71	36

*2 Unconsolidated subsidiaries and affiliates

Unconsolidated subsidiaries and affiliates are included in the following accounts:

(Unit: Millions of yen)

	2021	2022
Investments and other assets		
Investments in securities (equity securities)	1,370	2,596
Other (investments in capital)	2,134	2,192

*3 Guarantee obligations

Guarantees for borrowings of subsidiaries and affiliates and housing loans of employees are as follows:

(1) Subsidiaries and affiliates

(Unit: Millions of yen)

	2021	2022
Tianjin Dongchun-Taiki Metal Finishing＆Conveyor System Manufacturing Co., Ltd.	17	549

(2) Employees

(Unit: Millions of yen)

2021	2022
12	10

*4 Discounted notes receivable - trade

(Unit: Millions of yen)

2021	2022
4	–

*5 Discounted electronically recorded monetary claims - operating and transferred electronically recorded monetary claims - operating

(Unit: Millions of yen)

	2021	2022
Discounted electronically recorded monetary claims - operating	4	13
Transferred electronically recorded monetary claims - operating	102	–

*6 Land revaluation

The Company revalued its land held for business use in accordance with the “Act on Revaluation of Land” (Act No. 34 of 1998) and “Amendment to the Act on Revaluation of Land” (Act No. 19 of 2001), and differences on land revaluation have been accounted for as “Revaluation reserve for land” under net assets at the net amount of the relevant tax effect.

The method in determining the land revaluation

The Company determines the value based on an appraisal as stipulated in Article 2, item 5 of the “Order for

Enforcement of the Act on Revaluation of Land" (Cabinet Order No. 119 of 1998) and assessed value for property tax purposes as stipulated in Article 2, item 3 of the said Cabinet Order, with reasonable adjustments.
Date of revaluation: March 31, 2002

(Unit: Millions of yen)

	2021	2022
Difference between fair value of the land revalued as of the end of fiscal year and carrying value after the revaluation (excess of carrying value over fair value)	8,100	8,000

*7 Line of credit

The Company concluded line-of-credit agreements with certain banks to achieve efficient financing. The status of these lines of credit as of current fiscal year end is as follows:

(Unit: Millions of yen)

	2021	2022
Lines of credit	15,000	15,000
Credit utilized	–	–
Available credit	15,000	15,000

*8 Of notes and accounts receivable - trade, and contract assets, amounts of receivables and contract assets arising from contracts with customers are as follows:

(Unit: Millions of yen)

	2022
Notes receivable - trade	3,341
Accounts receivable - trade	39,711
Contract assets	2,720

*9 Of other, amount of contract liabilities is as follows:

(Unit: Millions of yen)

	2022
Contract liabilities	2,558

(Consolidated Statement of Income)

*1 Revenue from contracts with customers

For net sales, revenue from contract with customers and other revenue are not separately presented. Amounts of revenue from contract with customers are disclosed in the note “(Revenue Recognition) 1. Information on disaggregated revenue from contracts with customers.”

*2 Provision for loss on construction contracts included in cost of sales

(Unit: Millions of yen)

2021	2022
64	(211)

*3 Inventories are stated at the lower of cost or net selling value. Loss on valuation of inventories (reversal of loss on valuation of inventories) included in cost of sales is as follows:

(Unit: Millions of yen)

2021	2022
40	(8)

*4 The major items of selling, general and administrative expenses are as follows:

(Unit: Millions of yen)

	2021	2022
Salary and allowance	14,191	15,411
Provision for bonuses	1,127	2,028
Retirement benefit expenses	591	718
Provision for retirement benefits for directors (and other officers)	17	17
Shipping cost	4,513	6,026
Depreciation and amortization	1,852	1,899
Provision of allowance for doubtful accounts	130	69
Provision for shareholder benefit program	32	34

*5 Research and development costs included in manufacturing costs, and selling, general and administrative expenses are as follows:

(Unit: Millions of yen)

2021	2022
4,288	5,199

*6 Insurance claim income

For the fiscal year ended March 31, 2021

It is insurance money related to representations and warranties associated with the equity transfer agreement.

For the fiscal year ended March 31, 2022

Not applicable.

*7 Gain on sale of non-current assets consists of the followings:

(Unit: Millions of yen)

	2021	2022
Land and buildings, etc.	314	–

*8 Impairment loss

For the fiscal year ended March 31, 2021

The amount of impairment loss is included in loss on business restructuring.

For the fiscal year ended March 31, 2022

The Group recognized impairment loss on non-current assets for the following asset groups.

(1) Description of impaired asset group

Location	Use	Classification
Ageo-City, Saitama Prefecture	Company housing	Land and other

(2) Reason for recognizing impairment loss

Due to the decision to sell the asset, the carrying value of the asset is reduced to the recoverable amount and the difference was recognized as impairment loss under extraordinary loss.

(3) Breakdown of impairment loss

	2022
Land	17
Buildings	8
Total	26

(4) Method of asset grouping

Assets were grouped principally by each business or each business location. Assets to be disposed and idle assets not used for business are individually grouped.

(5) Calculation method of recoverable amount

The recoverable amount of the asset group is measured by net realizable value. The net realizable value is determined by the estimated sale price.

*9 Loss on business restructuring

For the fiscal year ended March 31, 2021

Loss on business restructuring consisted of factory restructuring expenses of the Company and mainly consisted of impairment loss of non-current assets.

(1) Description of impaired asset group

Location	Use	Classification
Hanno-City, Saitama Prefecture	Power transmission production equipment	Buildings and others

(2) Reason for recognizing impairment loss

Due to the decision to dismantle the conveyor painting factory along with the Company's factory restructuring, the carrying value of the assets was written down to their respective recoverable amount.

(3) Breakdown of impairment loss

	2021
Buildings and structures	57
Machinery, equipment and vehicles	0
Tools, furniture and fixtures	0
Total	57

(4) Method of asset grouping

Assets were grouped principally by each business or each business location.

(5) Calculation method of recoverable amount

The recoverable amount of the asset group was measured by value in use. The amount was not discounted as such effect was immaterial due to the short period of time until dismantlement.

For the fiscal year ended March 31, 2022

Not applicable.

(Consolidated Statement of Comprehensive Income)

*1 Reclassification adjustments and tax effects on components of other comprehensive income

(Unit: Millions of yen)

	2021	2022
Valuation difference on other securities:		
Amount arising during the fiscal year	6,162	2,824
Reclassification adjustments	(5)	(113)
Before tax effect	6,157	2,710
Tax effect	(1,872)	(830)
Valuation difference on other securities	4,284	1,879
Deferred gain or loss on hedges:		
Amount arising during the fiscal year	(135)	1
Reclassification adjustments	–	–
Before tax effect	(135)	1
Tax effect	41	(0)
Deferred gain or loss on hedges	(94)	1
Foreign currency translation adjustment:		
Amount arising during the fiscal year	1,646	8,979
Reclassification adjustments	(0)	–
Foreign currency translation adjustment	1,646	8,979
Retirement benefits liability adjustments:		
Amount arising during the fiscal year	125	221
Reclassification adjustments	160	143
Before tax effect	286	364
Tax effect	(87)	(111)
Retirement benefits liability adjustments	198	252
Share of other comprehensive income of entities accounted for using equity method:		
Amount arising during the fiscal year	4	49
Reclassification adjustments	–	–
Share of other comprehensive income of entities accounted for using equity method	4	49
Total other comprehensive income	6,040	11,162

(Consolidated Statement of Changes in Net Assets)

For the fiscal year ended March 31, 2021

1. Matters regarding the outstanding shares

Class of shares	Beginning of the year	Increase	Decrease	End of the year
Common stock (Thousands of shares)	38,281	–	–	38,281

2. Matters regarding treasury shares

Class of shares	Beginning of the year	Increase	Decrease	End of the year
Common stock (Thousands of shares)	1,272	1	7	1,266

(Reason for changes)

The reason for increases is as follows:

Increase due to purchase of fractional shares of less than one unit 1 thousand shares

The reason for decreases is as follows:

Decrease due to disposal of treasury shares as restricted stock compensation 7 thousand shares

Decrease due to sale of fractional shares of less than one unit 0 thousand shares

3. Cash dividends

(1) Dividends paid

Resolution	Class of shares	Total amount of dividends (Million yen)	Dividend per share (Yen)	Record date	Effective date
General Meeting of Shareholders held on June 26, 2020	Common stock	2,220	60.0	March 31, 2020	June 29, 2020
Board of Directors' Meeting held on October 30, 2020	Common stock	1,110	30.0	September 30, 2020	December 2, 2020

(2) Dividends with a record date in the fiscal year and an effective date in the following fiscal year

Resolution	Class of shares	Source of dividends	Total amount of dividends (Million yen)	Dividend per share (Yen)	Record date	Effective date
General Meeting of Shareholders held on June 29, 2021	Common stock	Retained earnings	1,665	45.0	March 31, 2021	June 30, 2021

For the fiscal year ended March 31, 2022

1. Matters regarding the outstanding shares

Class of shares	Beginning of the year	Increase	Decrease	End of the year
Common stock (Thousands of shares)	38,281	–	–	38,281

2. Matters regarding treasury shares

Class of shares	Beginning of the year	Increase	Decrease	End of the year
Common stock (Thousands of shares)	1,266	1	4	1,263

(Reason for changes)

The reason for increases is as follows:

Increase due to purchase of fractional shares of less than one unit 1 thousand shares

The reason for decreases is as follows:

Decrease due to disposal of treasury shares as restricted stock compensation 4 thousand shares

Decrease due to sale of fractional shares of less than one unit 0 thousand shares

3. Cash dividends

(1) Dividends paid

Resolution	Class of shares	Total amount of dividends (Million yen)	Dividend per share (Yen)	Record date	Effective date
General Meeting of Shareholders held on June 29, 2021	Common stock	1,665	45.0	March 31, 2021	June 30, 2021
Board of Directors' Meeting held on October 29, 2021	Common stock	1,850	50.0	September 30, 2021	December 2, 2021

(2) Dividends with a record date in the fiscal year and an effective date in the following fiscal year

Resolution	Class of shares	Source of dividends	Total amount of dividends (Million yen)	Dividend per share (Yen)	Record date	Effective date
General Meeting of Shareholders held on June 29, 2022	Common stock	Retained earnings	2,591	70.0	March 31, 2022	June 30, 2022

(Consolidated Statement of Cash Flows)

*1 Reconciliation between cash and cash equivalents at the end of the fiscal year and amounts shown in the consolidated balance sheet

(Unit: Millions of yen)

	2021	2022
Cash and deposits	41,869	49,104
Time deposits with original maturities of over three months	(1,973)	(2,554)
Cash equivalents included in securities	6,189	6,339
Cash and cash equivalents	46,084	52,888

(Leases)

1. Finance lease transactions

Finance lease transactions involving the transfer of ownership

(1) Details of leased assets

Property, plant and equipment

Mainly forklifts (vehicles) in the Chains operations

(2) Depreciation method for leased assets

Leased assets are depreciated by the same depreciation method applied to property, plant and equipment owned by the Company

Finance lease transactions not involving the transfer of ownership

(1) Details of leased assets

Property, plant and equipment

Mainly factories (buildings and structures) in the Mobility operations

Intangible assets

Mainly backup software (software) in the Materials Handling operations

(2) Depreciation method for leased assets

Leased assets are depreciated over their lease term using the straight-line method with a residual value of zero.

2. Future minimum lease payments for non-cancelable operating leases

(Unit: Millions of yen)

	2021	2022
Within one year	132	171
Over one year	231	155
Total	364	327

(Financial Instruments)

1. Status on financial instruments

(1) Policy on financial instruments

The Group obtains necessary funding principally by bank borrowings and bonds issuance. Temporary surplus funds are managed through low-risk financial assets. Derivatives are utilized for mitigating fluctuation risks of foreign currency exchange rates or interest rates, and not utilized for speculative purposes.

(2) Types of financial instruments and related risk

Notes and accounts receivable - trade and electronically recorded monetary claims - operating are exposed to the credit risk of customers. The Group conducts their businesses globally and the trade receivables denominated in foreign currencies arising from export transactions are exposed to the fluctuation risk of foreign currencies. This risk is mitigated by utilizing forward foreign exchange contracts.

Securities and investments in securities are mainly composed of stocks of the companies with which the Group has business relationships or capital alliances and they are exposed to fluctuation risk of market prices.

Almost all trade payables, notes, accounts payable and electronically recorded obligations are due within one year. Certain trade payables arising from import transactions are denominated in foreign currencies and the Group utilizes forward foreign exchange contracts to mitigate the risk, as with trade receivables. Borrowings and bonds payable are utilized for necessary financing of operating funds and capital expenditures.

Derivative transactions are entered into to hedge the foreign currency fluctuation risk of trade receivables and trade payables denominated in foreign currencies by utilizing forward foreign exchange contracts. Refer to “Significant hedge accounting method” in “Accounting policies” for information on hedge accounting, such as hedging instruments, hedged items and hedge effectiveness.

(3) Risk management for financial instruments

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

In accordance with internal rules of credit management of the Company, each business department manages the collection due dates and receivable balances of its customers, periodically monitors the financial conditions of customers and strives to identify credit risk of customers with worsening financial conditions at the early stage to mitigate any risk. Consolidated subsidiaries perform similar credit management.

Derivative transactions are entered into with financial institutions with high credit ratings to mitigate the risk of credit loss.

b. Monitoring of market risks (the risks arising from fluctuations in foreign currency exchange rates and interest rates)

The Company and certain consolidated subsidiaries utilize forward foreign exchange contracts for hedging currency fluctuation risk arising from trade receivables, trade payables and debt securities denominated in foreign currencies.

The status of investments in securities is continuously reviewed by monitoring periodically the fair value and financial conditions of the securities' issuers (companies with business relationships or business alliances with the Group) and by evaluating those relationships.

Each business department determines the amount of each forward foreign exchange contract within the actual underlying transaction amount, and the responsible finance department enters into and manages these forward foreign exchange contracts.

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

The Group manages liquidity risk by preparing cash flow plans by each company on a timely basis and so forth.

(4) Supplementary explanation of the fair value of financial instruments

Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value. In addition, the notional amounts of derivatives in the note "(Derivative Transactions)" are not necessarily indicative of the actual market risk involved in the derivative transactions.

2. Fair value of financial instruments

The carrying value of financial instruments on the consolidated balance sheets, fair value and the difference are as follows:

As of March 31, 2021

(Unit: Millions of yen)

	Carrying value	Fair value	Difference
(1) Securities and investments in securities	32,746	32,746	–
Assets, total	32,746	32,746	–
(2) Bonds payable	15,000	15,424	(424)
(3) Long-term borrowings (*3)	14,849	14,859	(9)
Liabilities, total	29,849	30,283	(434)
Derivative transactions (*4)	[349]	[349]	–

(*1) For "Cash and deposits," "Notes and accounts receivable - trade," Electronically recorded monetary claims - operating," "Notes and accounts payable - trade," "Electronically recorded obligations - operating," "Short-term borrowings," and "Electronically recorded obligations - non-operating," the disclosure is omitted since these items were in cash and settled in a short time period and their carrying value approximates fair value.

(*2) Financial instruments for which it was extremely difficult to determine the fair value:

(Unit: Millions of yen)

	2021
Unlisted equity securities and investments in capital	4,101

Because no quoted market price was available and it was extremely difficult to determine the fair value, the above financial instruments were not included in "(1) Securities and investments in securities" above.

(*3) The balance of long-term borrowings includes current portion.

(*4) Assets and liabilities arising from derivatives were shown at net value, and the amount in square parentheses represented a net liability position.

As of March 31, 2022

(Unit: Millions of yen)

	Carrying value	Fair value	Difference
(1) Securities and investments in securities	35,400	35,400	–
Assets, total	35,400	35,400	–
(2) Bonds payable	15,000	15,359	(359)
(3) Long-term borrowings (*3)	14,279	14,278	0
Liabilities, total	29,279	29,638	(358)
Derivative transactions (*4)	[484]	[484]	–

(*1) For "Cash and deposits," "Notes receivable - trade," "Accounts receivable - trade," Electronically recorded monetary claims - operating," "Notes and accounts payable - trade," "Electronically recorded obligations - operating," "Short-term borrowings," and "Electronically recorded obligations - non-operating," the disclosure is omitted since these items were in cash and settled in a short time period and their carrying value approximates fair value.

(*2) Equity securities without market prices are not included in "(1) Securities and investments in securities" above. The amount included in the consolidated balance sheet is as follows:

(Unit: Millions of yen)

	2022
Unlisted equity securities and investments in capital	5,377

(*3) The balance of long-term borrowings includes current portion.

(*4) Assets and liabilities arising from derivatives were shown at net value, and the amount in square parentheses represented a net liability position.

(Note 1) The redemption schedule for monetary assets and securities with maturities subsequent to the fiscal year end

As of March 31, 2021

(Unit: Millions of yen)

	Due within 1 year	Due after 1 year through 5 years	Due after 5 years through 10 years	Over 10 years
Cash and deposits	41,840	–	–	–
Notes and accounts receivable - trade	43,816	–	–	–
Electronically recorded monetary claims – operating	11,561	–	–	–
Securities and investments in securities				
Other securities with maturity dates				
(1) Debt securities	–	–	–	–
(2) Other	6,189	–	–	–
Total	103,406	–	–	–

As of March 31, 2022

(Unit: Millions of yen)

	Due within 1 year	Due after 1 year through 5 years	Due after 5 years through 10 years	Over 10 years
Cash and deposits	49,078	–	–	–
Notes receivable – trade	3,341	–	–	–
Accounts receivable – trade	39,711	–	–	–
Electronically recorded monetary claims – operating	13,358	–	–	–
Securities and investments in securities				
Other securities with maturity dates				
(1) Debt securities	–	–	–	–
(2) Other	6,339	–	–	–
Total	111,828	–	–	–

(Note 2) The repayment schedule for bonds payable and long-term borrowings subsequent to the fiscal year end

As of March 31, 2021

(Unit: Millions of yen)

	Due within 1 year	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Over 5 years
Bonds payable	–	–	–	–	5,000	10,000
Long-term borrowings	634	4,516	285	5,775	1,522	2,114

As of March 31, 2022

(Unit: Millions of yen)

	Due within 1 year	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Over 5 years
Bonds payable	–	–	–	5,000	–	10,000
Long-term borrowings	4,551	294	5,781	1,524	74	2,052

3. Breakdown of fair value of financial instruments by level

Fair values of financial instruments are categorized into three levels as described below on the basis of the observability and the materiality of the inputs used in the fair value measurement.

Level 1 fair value:	Fair value measured by using quoted prices in active markets as observable inputs for assets or liabilities subject to a fair value measurement
Level 2 fair value:	Fair value measured by using observable inputs other than those for Level 1
Level 3 fair value:	Fair value measured by using unobservable inputs

When multiple inputs of different categories are used in measuring fair value, the Company classifies the fair value into a category to which the lowest priority is assigned.

(1) Financial instruments measured at fair value in the consolidated balance sheet

As of March 31, 2022

(Unit: Millions of yen)

Classification	Fair value			
	Level 1	Level 2	Level 3	Total
Securities and investments in securities Other securities Equity securities	29,060	–	–	29,060
Total assets	29,060	–	–	29,060
Derivative transactions Currency related	–	484	–	484
Total liabilities	–	484	–	484

(2) Financial instruments other than those measured at fair value in the consolidated balance sheet

As of March 31, 2022

(Unit: Millions of yen)

Classification	Fair value			
	Level 1	Level 2	Level 3	Total
Securities and investments in securities				
Other securities				
Other	–	6,339	–	6,339
Total assets	–	6,339	–	6,339
Bonds payable	–	15,359	–	15,359
Long-term borrowings	–	14,278	–	14,278
Total liabilities	–	29,638	–	29,638

(Note) Explanation of valuation techniques and inputs used for fair value measurement

Securities and investments in securities

The fair value of listed equity securities is measured at quoted market prices. Since listed equity securities are traded in active markets, the fair value is classified into Level 1. The fair value of negotiable certificates of deposit is measured at their carrying value since they are settled in a short time period and their carrying value approximates fair value. Such fair value is classified into Level 2.

Derivative transactions

The fair value of forward foreign exchange contracts is measured by the discounted present value method based on observable inputs such as interest rates and foreign exchange rates, and classified into Level 2.

Bonds payable

The fair value of bonds payable issued by the Company is based on present value of the total of principal and interest discounted by an interest rate determined taking into account the remaining period of each bond and current credit risk. Such fair value is classified into Level 2.

Long-term borrowings

The fair value of long-term borrowings is based on the present value of the total principal and interest discounted by an interest rate determined taking into account the remaining period of each borrowing and current credit risk. Such fair value is classified into Level 2.

(Securities)

1. Other securities

As of March 31, 2021

(Unit: Millions of yen)

	Carrying value	Acquisition cost	Difference
Other securities whose carrying value exceeds acquisition cost:			
(1) Equity securities	26,556	8,199	18,357
(2) Debt securities	–	–	–
(3) Other	–	–	–
Subtotal	26,556	8,199	18,357
Other securities whose carrying value does not exceed acquisition cost:			
(1) Equity securities	–	–	–
(2) Debt securities	–	–	–
(3) Other	6,189	6,189	–
Subtotal	6,189	6,189	–
Total	32,746	14,388	18,357

As of March 31, 2022

(Unit: Millions of yen)

	Carrying value	Acquisition cost	Difference
Other securities whose carrying value exceeds acquisition cost:			
(1) Equity securities	28,761	7,607	21,154
(2) Debt securities	–	–	–
(3) Other	–	–	–
Subtotal	28,761	7,607	21,154
Other securities whose carrying value does not exceed acquisition cost:			
(1) Equity securities	299	385	(86)
(2) Debt securities	–	–	–
(3) Other	6,339	6,339	–
Subtotal	6,638	6,725	(86)
Total	35,400	14,332	21,068

2. Other securities sold

For the fiscal year ended March 31, 2021

(Unit: Millions of yen)

	Sales proceeds	Total gain	Total loss
(1) Equity securities	166	5	–
(2) Debt securities	–	–	–
(3) Other	–	–	–
Total	166	5	–

For the fiscal year ended March 31, 2022

(Unit: Millions of yen)

	Sales proceeds	Total gain	Total loss
(1) Equity securities	352	126	–
(2) Debt securities	–	–	–
(3) Other	–	–	–
Total	352	126	–

3. Securities for which impairment loss is recognized

For the fiscal year ended March 31, 2021

Impairment loss on securities is recognized in the amount of 53 million yen (shares of subsidiaries and affiliates: 52 million yen, unlisted equity securities: 0 million yen).

For the fiscal year ended March 31, 2022

Not applicable.

(Derivative Transactions)

1. Derivative transactions for which hedge accounting is not applied

(1) Currency related

As of March 31, 2021

(Unit: Millions of yen)

	Type	Notional amount	Over 1 year	Fair value	Unrealized gain (loss)
Over-the-counter Transaction	Forward foreign exchange contracts				
	Sell:				
	U.S. dollars	1,549	–	(85)	(85)
	Euros	1,189	–	(38)	(38)
	Canadian dollars	97	–	(8)	(8)
	Australian dollars	86	–	(8)	(8)
	Chinese yuan	1,018	–	(99)	(99)
	Buy:				
	Yen	270	–	1	1
	U.S. dollars	6	–	0	0
	Total	4,217	–	(239)	(239)

As of March 31, 2022

(Unit: Millions of yen)

	Type	Notional amount	Due after 1 year	Fair value	Unrealized gain (loss)
Over-the-counter Transaction	Forward foreign exchange contracts				
	Sell:				
	U.S. dollars	1,690	–	(140)	(140)
	Euros	1,338	–	(73)	(73)
	Canadian dollars	94	–	(9)	(9)
	Australian dollars	102	–	(12)	(12)
	Chinese yuan	1,024	–	(140)	(140)
	Buy:				
	Yen	622	–	0	0
	U.S. dollars	6	–	(0)	(0)
	Euros	7	–	0	0
	Total	4,887	–	(375)	(375)

(2) Interest rate related

Not applicable.

2. Derivative transactions for which hedge accounting is applied

(1) Currency related

As of March 31, 2021

(Unit: Millions of yen)

Method of hedge accounting	Transactions	Major hedged item	Notional amount	Due after 1 year	Fair value
Allocation method for forward foreign exchange contracts	Forward foreign exchange contracts Sell:				
	U.S. dollars	Accounts receivable - trade (Forecasted transactions)	2,152	–	(64)
	Euros		1,362	–	(14)
	Australian dollars		172	–	(4)
	Canadian dollars		135	–	(4)
	Chinese yuan		719	–	(21)
	Total		4,542	–	(110)

As of March 31, 2022

(Unit: Millions of yen)

Method of hedge accounting	Transactions	Major hedged item	Notional amount	Due after 1 year	Fair value
Allocation method for forward foreign exchange contracts	Forward foreign exchange contracts Sell:				
	U.S. dollars	Accounts receivable – trade (Forecasted transactions)	2,106	–	(52)
	Euros		1,222	–	(30)
	Australian dollars		142	–	(4)
	Canadian dollars		124	–	(2)
	Chinese yuan		665	–	(20)
	Total		4,261	–	(110)
	Buy:				
	U.S. dollars	Accounts payable (Forecasted transactions)	19	–	1
	Euros		39	–	1
	Total		59	–	3

(Note) Since forward foreign exchange contracts under allocation method (excluding forecasted transactions as hedged items) are accounted for as integral parts of receivables and payables denominated in foreign currencies as hedged items, their fair value is included in the fair value of applicable receivables and payables denominated in foreign currencies.

(2) Interest rate related

Not applicable.

(Retirement Benefits)

1. Overview of retirement benefit plans

The Company and its domestic consolidated subsidiaries have defined benefit pension plans, i.e., lump-sum payment plans, defined contribution pension plans and advance payment schemes for retirement benefits. In addition to the retirement benefit plans described above, the Company and its domestic subsidiaries paid additional retirement benefits under certain conditions. Certain consolidated overseas subsidiaries also have defined benefit pension plans and defined contribution pension plans. As permitted under the accounting standard for retirement benefits, certain domestic consolidated subsidiaries calculated their retirement benefit liability and retirement benefit expenses under defined benefit corporate pension plans and lump-sum payment plans by the simplified method.

2. Defined benefit pension plans

(1) The changes in the retirement benefit obligation for the fiscal years (excluding the plans applying the simplified method)

(Unit: Millions of yen)

	2021	2022
Balance at beginning of period	13,536	13,922
Service cost	712	698
Interest cost	81	61
Actuarial differences	(158)	(201)
Retirement benefits paid	(310)	(301)
Prior service cost	0	(15)
Other	60	88
Balance at end of period	13,922	14,254

(2) The changes in plan assets for the fiscal years (excluding the plans applying the simplified method)

(Unit: Millions of yen)

	2021	2022
Balance at beginning of period	1,430	1,635
Expected return on plan assets	19	20
Actuarial differences	92	(36)
Contributions by the Group	65	116
Retirement benefit paid	(35)	(38)
Other	64	49
Balance at end of period	1,635	1,747

(3) The changes in retirement benefit liability of plans applying the simplified method

(Unit: Millions of yen)

	2021	2022
Balance at beginning of period	1,423	1,576
Retirement benefit expenses	288	189
Retirement benefits paid	(117)	(79)
Contributions to the plans	(29)	(39)
Other	10	(0)
Balance at end of period	1,576	1,646

(4) A reconciliation of the ending balance of retirement benefit obligation and plan assets and retirement benefit liability and retirement benefit asset recorded in the consolidated balance sheet as of the end of the fiscal year

(Unit: Millions of yen)

	2021	2022
Funded retirement benefit obligation	2,179	2,146
Plan assets at fair value	(2,011)	(2,142)
	167	4
Unfunded retirement benefit obligation	13,695	14,149
Net liability for retirement benefits in the balance sheet	13,863	14,153
Retirement benefit liability	13,863	14,196
Retirement benefit asset	–	(42)
Net liability (assets) for retirement benefits in the balance sheet	13,863	14,153

(Note) The above table included retirement benefit obligation calculated by the simplified method.

(5) The components of retirement benefit expenses

(Unit: Millions of yen)

	2021	2022
Service cost	712	698
Interest cost	81	61
Expected return on plan assets	(19)	(20)
Amortization of unrecognized actuarial differences	35	199
Amortization of unrecognized prior service cost	0	(15)
Retirement benefit expense calculated by the simplified method	288	189
Other	(25)	(34)
Retirement benefit expenses	1,073	1,078

(6) Retirement benefits liability adjustments included in other comprehensive income (before tax effect)

(Unit: Millions of yen)

	2021	2022
Actuarial differences	286	364

(7) Retirement benefits liability adjustments included in accumulated other comprehensive income (before tax effect)

(Unit: Millions of yen)

	2021	2022
Unrecognized actuarial differences	647	283

(8) Plan assets

a. The composition of plan assets

The composition of plan assets by major category, as a percentage of total plan assets

	2021	2022
Debt securities	12%	12%
Equity securities	8	8
General accounts at life insurance companies	31	31
Other	49	49
Total	100%	100%

b. Long-term expected rate of return on plan assets

Current and target asset allocations as well as historical and expected long-term returns on various categories of plan assets have been considered in determining the long-term expected rate of return of plan assets.

(9) Assumption used for actuarial calculation

Major assumption used for actuarial calculation

	2021	2022
Discount rates	Principally 0.10%	Principally 0.10%
Expected rate of return on plan assets	Principally 2.00%	Principally 2.00%

3. Defied contribution pension plans

Total contributions required to be paid by the Company and its consolidated subsidiaries to the defined contribution pension plans amounted to 1,033 million yen and 1,109 million yen for the fiscal years ended March 31, 2021 and 2022, respectively.

(Tax Effect Accounting)

1. The significant components of deferred tax assets and liabilities

	2021	2022
Deferred tax assets:		
Tax loss carryforwards (Note)	1,494	1,513
Retirement benefit liability	4,132	4,225
Provision for bonuses	964	1,100
Inventories	445	726
Impairment loss	1,032	1,057
Enterprise taxes payable	99	205
Social insurance on bonuses	134	162
Asset retirement obligations	132	120
Other	2,750	3,106
Subtotal	11,186	12,218
Valuation allowance for tax loss carryforwards (Note)	(1,109)	(1,136)
Valuation allowance for deductible temporary differences	(520)	(515)
Total valuation allowance, subtotal	(1,630)	(1,651)
Total deferred tax assets	9,556	10,567
Deferred tax liabilities:		
Valuation difference on other securities	(5,501)	(6,332)
Deferred gain on replacement of property	(4,014)	(4,007)
Undistributed earnings of overseas subsidiaries	(2,635)	(3,101)
Net unrealized gain on revaluation of assets and liabilities of subsidiaries	(628)	(629)
Other	(2,903)	(3,024)
Total deferred tax liabilities	(15,684)	(17,094)
Net deferred tax assets (liabilities)	(6,127)	(6,527)

(Note) The breakdown of tax loss carryforwards and valuation allowance by expiry date

As of March 31, 2021

(Unit: Millions of yen)

	Due within 1 year	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Over 5 years	Total
Tax loss carryforwards (a)	193	179	115	53	149	802	1,494
Valuation allowance	(193)	(179)	(115)	(53)	(149)	(416)	(1,109)
Deferred tax assets	–	–	–	–	–	385	385

(a) The tax loss carryforwards in the above table were measured using the statutory tax rates.

(b) Deferred tax assets of 385 million yen were recognized for a portion of the balance of the tax loss carryforwards for consolidated subsidiaries of 1,494 million yen, whose amount was multiplied by the statutory tax rate. The tax loss carryforwards for which deferred tax assets were recognized were caused by the loss before income taxes in previous years and so on, and based on considerations of the prospect of estimated future taxable income, the Company has determined that the corresponding amounts was recoverable and has not recognized a valuation allowance.

As of March 31, 2022

(Unit: Millions of yen)

	Due within 1 year	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Over 5 years	Total
Tax loss carryforwards (a)	205	131	9	28	28	1,109	1,513
Valuation allowance	(205)	(131)	(9)	(28)	(28)	(732)	(1,136)
Deferred tax assets	–	–	–	–	–	376	376

(a) The tax loss carryforwards in the above table were measured using the statutory tax rates.

(b) Deferred tax assets of 376 million yen were recognized for a portion of the balance of the tax loss carryforwards for consolidated subsidiaries of 1,513 million yen, whose amount was multiplied by the statutory tax rate. The tax loss carryforwards for which deferred tax assets were recognized were caused by the loss before income taxes in previous years and so on, and based on considerations of the prospect of estimated future taxable income, the Company has determined that the corresponding amounts was recoverable and has not recognized a valuation allowance.

2. The reconciliation between the effective tax rates reflected in the consolidated statement of income and the statutory tax rate

	2021	2022
Statutory tax rate	30.6%	30.6%
(Adjustments)		
Non-deductible entertainment expenses and others	0.6	0.4
Non-taxable dividend income and others	(0.9)	(0.8)
Inhabitants’ per capita taxes	0.4	0.3
Changes in valuation allowance	(0.7)	(0.1)
Tax exemption regarding investment preferential tax system	(0.6)	(0.4)
Tax exemption regarding research and development costs	(2.1)	(2.4)
Equity in earnings of affiliates	(0.1)	(0.1)
Differences of statutory tax rate in consolidated subsidiaries	(0.6)	0.0
Other	1.2	(0.5)
Effective tax rates	27.8%	27.0%

(Revenue Recognition)

1. Information on disaggregated revenue from contracts with customers

The relationship between disaggregated revenue from contracts with customers and net sales by reportable segments is as follows:

For the fiscal year ended March 31, 2022

(Unit: Millions of yen)

	Reportable segment					Other (Note)	Total
	Chains	Motion Control	Mobility	Materials Handling	Subtotal		
By geographical area							
Japan	27,623	14,275	18,127	26,112	86,139	2,369	88,508
U.S.A.	24,232	665	15,084	18,388	58,371	–	58,371
Europe	10,982	454	4,610	7,563	23,611	–	23,611
Indian-Ocean Rim	4,855	959	9,538	1,052	16,406	31	16,437
China	2,985	2,104	11,671	2,479	19,242	–	19,242
Korea and Taiwan	1,690	915	6,993	107	9,707	–	9,707
Revenue from contracts with customers	72,371	19,376	66,026	55,704	213,479	2,400	215,879
Net sales to third parties	72,371	19,376	66,026	55,704	213,479	2,400	215,879

(Note) The "Other" segment consisted of the following business segments not classified into reportable segments: building maintenance business, insurance agency business, new business and others.

2. Balances of contract assets and contract liabilities

(Unit: Millions of yen)

	2022	
	Beginning of the year	End of the year
Receivables arising from contracts with customers	38,980	43,052
Contract assets	4,835	2,720
Contract liabilities	3,375	2,558

Contract assets arising from service contracts with customers, mainly at Materials Handling operations, are the Group's right to consideration in exchange for promised services that the Group has provided to customers as of the end of the fiscal year but not yet claimed for payments. Contract assets are reclassified to receivables arising from contracts with customers when the Group's right to consideration becomes unconditional. The consideration relating to the services is received based on the individual conditions determined by each contract.

Contract liabilities arising from service contracts with customers, mainly at Materials Handling operations, are the consideration received before the Group provides promised services to customers. Contract liabilities are reversed as revenue is recognized.

In the consolidated financial statements, receivables arising from contracts with customers and contract assets are included in "Notes and accounts receivable - trade, and contract assets" under current assets, and contract liabilities are included in “Other” under current liabilities. Of revenue recognized during the fiscal year, the amount included in contract liabilities at the beginning of the fiscal year is 3,037 thousand yen.

In the fiscal year ended March 31, 2022, the amount of contract assets decreased because contract assets were reclassified to receivables arising from contracts with customers as the Group’s right to consideration became unconditional.

3. Transaction price allocated to the remaining performance obligations

The Group applies a practical expedient since there are no significant contracts with an initially expected contract terms of more than one year. Thus, information on the remaining performance obligations is omitted.

(Segment Information, etc.)

【Segment information】

1. Outline of reportable segment information

The Group’s reportable segments are those for which separate financial information is available and a regular review by the Board of Directors is being performed in order to evaluate the performance and decide how resources are allocated among the Group.

The business segments are classified based on products and services. Each business segment determines comprehensive domestic and overseas strategies in addition to pursuing business expansion in its respective product and service area.

The reportable segments that comprise the Group’s operations are: “Chains,” “Motion Control,” “Mobility” and “Materials Handling.”

The major products of each reportable segments are as follows:

Reportable segments	Major products
Chains	Drive chains, Small size conveyor chains, Large size conveyor chains, Top chains, Sprocket, Timing Belts, Timing Pulleys, Horse and Cable Carriers and other
Motion Control	Reducers, Linear Actuators, Shaft Couplings, Locking Devices, Clutches, Electrical Controllers, Mechanical Protectors, Zip Chains/ Lifters and other
Mobility	Timing Chain Systems (Cam drive, Accessary drive, etc.), EV/HEV Enedrive® Chain, Vehicle One-Way Clutch and other
Materials Handling	Materials Handling Systems for the Logistics Industry, Life Science Support Systems and Equipment, Systems for Newspaper Printing Plants and Paper Manufacturers, Systems for Automobile Industry, Other Conveying, Sorting or Storage Systems, Bulk Handling Systems, Metalworking Chips Handling and Coolant Processing Systems, Maintenance and other

(Matters regarding changes in reportable segments)

In connection with the reorganization effective April 1, 2021, the Group has changed the classification and names of the reportable segments.

The Group has changed the name of a reportable segment from “Power Transmission Units and Components” to “Motion Control” in order to accelerate the development and sales of new complex products by utilizing the Group’s control technology and to grow the business as part of efforts to strengthen the growth potential.

The Group also has changed the name of a reportable segment from “Automotive Parts” to “Mobility” in order to expand the scope of business from a business mainly for vehicles with internal combustion engines to electric vehicles (EVs), motorcycles and other. Accordingly, the motorcycle starter clutch business, previously included in “Power Transmission Units and Components,” has been classified into “Mobility.”

The segment information for the fiscal year ended March 31, 2021 is restated to conform to the presentation after these changes.

2. Calculation methods used for net sales, profit or loss, assets and other items of each reportable segment

The accounting treatment for reporting this segment information is substantially the same as that described in “(Significant Matters for the Basis of Preparing Consolidated Financial Statements).”

Segment profit is on the basis of operating profit.

Intersegment net sales and transfer amount are recorded at the same price used in transactions with third parties.

(Application of Accounting Standard for Revenue Recognition)

As stated in the Changes in Accounting Policies, applying the Accounting Standard for Revenue Recognition effective from the beginning of the fiscal year ended March 31, 2022, the Group has changed the accounting policy for revenue recognition, and accordingly, changed the calculation methods for net sales and profit or loss in the same manner. From this change, compared to the previous method, net sales and segment profit in each segment decreased as follows: “Chains” by 104 million yen and 6 million yen, respectively, “Motion Control” by 57 million yen and 3 million yen, respectively, “Mobility” by 0 million yen and 0 million yen, respectively, “Materials Handling” by 4 million yen and 4 million yen, respectively, and “Other” by 1 million yen and 1 million yen, respectively.

3. Information on net sales, profit or loss, assets and other items of each reportable segment

For the fiscal year ended March 31, 2021

(Unit: Millions of yen)

	Reportable segment					Other (Note 1)	Total	Adjust-ments (Note 2)	Consoli-dated
	Chains	Motion Control	Mobility	Materials Handling	Subtotal				
Net sales									
Net sales to third parties	59,708	17,719	59,450	53,279	190,158	3,241	193,399	–	193,399
Inter-segment & transfers	1,604	305	–	338	2,248	700	2,948	(2,948)	–
Total	61,312	18,024	59,450	53,618	192,406	3,941	196,348	(2,948)	193,399
Segment profit (loss) (Operation profit (loss))	7,862	747	3,782	(2,202)	10,190	(330)	9,860	(963)	8,896
Segment assets	76,344	28,061	99,560	56,011	259,977	3,515	263,492	43,840	307,332
Other items:									
Depreciation and amortization	2,912	975	7,063	1,649	12,600	81	12,682	–	12,682
Investments in affiliates accounted for by equity method	–	–	–	345	345	–	345	–	345
Increase in property, plant and equipment and intangible assets	2,422	1,024	3,498	1,275	8,219	70	8,290	–	8,290

Notes: 1. The “Other” segment consists of the following business segments not classified into reportable segments: building maintenance business, insurance agency business, new business and others.

2. Adjustments are as follows:

(1) Adjustments to segment profit (loss) of (963) million yen include intersegment eliminations of 51 million yen, corporate expenses, which are not allocated to the reportable segments, of (1,014) million yen. Corporate expenses present mainly general and administrative expenses which do not belong to the reportable segments.

(2) Adjustments to segment assets of 43,840 million yen include intersegment eliminations of (868) million yen, corporate assets, which are not allocated to the reportable segments, of 44,709 million yen. Corporate assets present cash and deposits and investments in securities which do not belong to the reportable segments.

For the fiscal year ended March 31, 2022

(Unit: Millions of yen)

	Reportable segment: Chains	Reportable segment: Motion Control	Reportable segment: Mobility	Reportable segment: Materials Handling	Reportable segment: Subtotal	Other (Note 1)	Total	Adjust-ments (Note 2)	Consolidated
Net sales									
Net sales to third parties	72,371	19,376	66,026	55,704	213,479	2,400	215,879	–	215,879
Inter-segment & transfers	1,802	530	0	23	2,357	674	3,031	(3,031)	–
Total	74,174	19,906	66,027	55,728	215,837	3,074	218,911	(3,031)	215,879
Segment profit (loss) (Operation profit (loss))	11,005	1,129	6,568	799	19,502	(442)	19,060	(1,217)	17,842
Segment assets	87,731	30,061	101,924	56,705	276,422	3,158	279,581	53,039	332,620
Other items:									
Depreciation and amortization	3,293	1,045	6,751	1,571	12,661	32	12,694	–	12,694
Investments in affiliates accounted for by equity method	6	–	–	418	424	–	424	–	424
Increase in property, plant and equipment and intangible assets	2,782	1,416	3,542	817	8,558	33	8,591	–	8,591

Notes: 1. The “Other” segment consists of the following business segments not classified into reportable segments: building maintenance business, insurance agency business, new business and others.

2. Adjustments are as follows:

(1) Adjustments to segment profit (loss) of (1,217) million yen include intersegment eliminations of 36 million yen, corporate expenses, which are not allocated to the reportable segments, of (1,254) million yen. Corporate expenses present mainly general and administrative expenses which do not belong to the reportable segments.

(2) Adjustments to segment assets of 53,039 million yen include intersegment eliminations of (885) million yen, corporate assets, which are not allocated to the reportable segments, of 53,924 million yen. Corporate assets present cash and deposits and investments in securities which do not belong to the reportable segments.

【Related information】

For the fiscal year ended March 31, 2021

1. Information by products and services

The disclosure is omitted since the same information is disclosed in the Segment Information.

2. Geographical information

(1) Net sales

(Unit: Millions of yen)

Japan	U.S.A.	Europe	Indian-Ocean Rim	China	Korea and Taiwan	Other	Total
83,704	44,754	19,413	12,588	17,316	7,847	7,775	193,399

(Note) Net sales are based on customers' location and classified into countries or region.

(2) Property, plant and equipment

(Unit: Millions of yen)

Japan	U.S.A.	Europe	Indian-Ocean Rim	China	Korea and Taiwan	Other	Total
76,302	16,452	5,824	3,413	7,510	3,996	1,559	115,059

(3) Information on major customers

(Unit: Millions of yen)

Name of customer	Net sales	Related segments
TSUBAKIMOTO KOGYO CO., LTD.	23,728	Chains, Motion Control, Mobility and Materials Handling

For the fiscal year ended March 31, 2022

1. Information by products and services

The disclosure is omitted since the same information is disclosed in the Segment Information.

2. Geographical information

(1) Net sales

(Unit: Millions of yen)

Japan	U.S.A.	Europe	Indian-Ocean Rim	China	Korea and Taiwan	Other	Total
88,508	47,671	23,611	16,437	19,242	9,707	10,699	215,879

(Note) Net sales are based on customers' location and classified into countries or region.

(2) Property, plant and equipment

(Unit: Millions of yen)

Japan	U.S.A.	Europe	Indian-Ocean Rim	China	Korea and Taiwan	Other	Total
74,981	17,204	6,258	2,849	8,230	3,723	1,670	114,918

(3) Information on major customers

(Unit: Millions of yen)

Name of customer	Net sales	Related segments
TSUBAKIMOTO KOGYO CO., LTD.	26,061	Chains, Motion Control, Mobility and Materials Handling

【Information on impairment loss by reportable segments】

For the fiscal year ended March 31, 2021

(Unit: Millions of yen)

	Chains	Motion Control	Mobility	Materials Handling	Other	Corporate and eliminations	Consolidated
Impairment loss	–	–	57	–	–	–	57

(Note) Impairment loss is presented as "Loss on business restructuring" in the consolidated statement of income.

For the fiscal year ended March 31, 2022

(Unit: Millions of yen)

	Chains	Motion Control	Mobility	Materials Handling	Other	Corporate and eliminations	Consolidated
Impairment loss	15	6	–	5	–	–	26

【Information on amortization of goodwill and unamortized balances by reportable segments】

For the fiscal year ended March 31, 2021

(Unit: Millions of yen)

	Chains	Motion Control	Mobility	Materials Handling	Other	Corporate and eliminations	Consolidated
Amortization	13	–	–	263	–	–	277
Unamortized balance	–	–	–	2,533	–	–	2,533

For the fiscal year ended March 31, 2022

(Unit: Millions of yen)

	Chains	Motion Control	Mobility	Materials Handling	Other	Corporate and eliminations	Consolidated
Amortization	–	–	–	279	–	–	279
Unamortized balance	–	–	–	2,496	–	–	2,496

【Information on negative goodwill by reportable segments】

For the fiscal year ended March 31, 2021

Not applicable

For the fiscal year ended March 31, 2022

Not applicable

【Related parties information】

Not applicable

(Per Share Information)

	2021	2022
Net assets per share	5,019.35 yen	5,612.28 yen
Profit per share	235.23 yen	392.88 yen

Notes 1. Diluted profit per share is not stated since there is no diluted share.

2. Basis for calculation of profit per share is as follows:

	2021	2022
Profit per share		
Profit attributable to owners of parent (Millions of yen)	8,706	14,543
Profit not attributable to common shareholders (Millions of yen)	–	–
Profit attributable to owners of parent related to common stock (Millions of yen)	8,706	14,543
Average number of common stock during the fiscal year (Thousands of shares)	37,013	37,017

(Significant Subsequent Events)

Not applicable

【Supplemental information】

【Details of bonds】

Name of company	Name of issues	Issued date	Beginning balance (Millions of yen)	Ending balance (Millions of yen)	Rate (%)	Collateral	Redemption date
TSUBAKIMOTO CHAIN CO.	The 10th unsecured corporate bonds	December 20, 2018	5,000	5,000	0.30	Unsecured	December 19, 2025
TSUBAKIMOTO CHAIN CO.	The 11th unsecured corporate bonds	December 20, 2018	10,000	10,000	0.52	Unsecured	December 20, 2028
Total	–	–	15,000	15,000	–	–	–

(Note) Redemption schedule within 5 years subsequent to the fiscal year end

(Unit: Millions of yen)

Within 1 year	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years
–	–	–	5,000	–

【Details of borrowings】

	Beginning balance (Millions of yen)	Ending balance (Millions of yen)	Average rate (%)	Due dates
Short-term borrowings	11,318	8,591	0.8	—
Current portion of long-term borrowings	634	4,551	0.5	—
Current portion of lease liabilities	404	559	—	—
Long-term borrowings (excluding current portion)	14,214	9,727	0.5	From February 28, 2023 to December 15, 2029
Lease liabilities (excluding current portion)	633	800	—	From April 23, 2023 to February 29, 2028
Other interest-bearing liabilities				
Installment purchase (due within 1 year)	6	4	2.1	—
Installment purchase (over 1 year)	4	—	—	—
Total	27,216	24,235	—	—

Notes 1. The average rate above presents weighted-average interest rates to the endling balances.

2. The average rate of lease liabilities is not stated since the lease liabilities is presented in the consolidated balance sheet mainly at the amount before deducting the amount equivalent to interests included in total lease payments.

3. Maturity schedules of long-term borrowings and lease liabilities (excluding current portion) within 5 years subsequent to the fiscal year end are as follows:

(Unit: Millions of yen)

	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years
Long-term borrowings	294	5,781	1,524	74
Lease obligations	453	198	53	20

【Details of asset retirement obligations】

The disclosure is omitted since the amounts of asset retirement obligations at the beginning and end of the fiscal year ended March 31, 2022 are below 1% of the total of liabilities and net assets at the beginning and end of the fiscal year ended March 31, 2022.

【Other】

Quarterly financial information

Cumulative	The 1st Quarter	The 2nd Quarter	The 3rd Quarter	2022
Net sales (Millions of yen)	50,326	102,518	155,459	215,879
Quarterly profit before income taxes (Millions of yen)	4,801	9,104	14,755	20,081
Quarterly profit attributable to owners of parent (Millions of yen)	3,439	6,624	10,619	14,543
Quarterly profit per share (Yen)	92.91	178.96	286.87	392.88

Quarterly	The 1st Quarter	The 2nd Quarter	The 3rd Quarter	The 4th Quarter
Quarterly profit per share (Yen)	92.91	86.05	107.90	106.02

English Translation
Independent Auditor’s Reports on the Audit of Financial Statements and the Internal Controls over Financial Reporting

June 30, 2022

The Board of Directors
TSUBAKIMOTO CHAIN Co.

Ernst & Young ShinNihon LLC
Osaka, Japan

Yuka Hayashi
Designates Engagement Partner
Certified Public Accountant

Kimio Sudo
Designates Engagement Partner
Certified Public Accountant

<The Audit of the Financial Statement>

Opinion

Pursuant to Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act, we have audited the accompanying consolidated financial statements of TSUBAKIMOTO CHAIN Co. (the Company) and its subsidiaries (the Group), which comprise the consolidated balance sheet as of 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 of 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.

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.

<table>
<tr><td colspan="2">Revenue recognition of construction contracts in materials handling operations</td></tr>
<tr><th>Description of Key Audit Matter</th><th>Auditor's Response</th></tr>
<tr><td>The Company and its consolidated subsidiaries are mainly engaged in four businesses: chains, motion control, mobility and materials handling. As described in the note (Significant Matters for the Basis of Preparing Consolidated Financial Statements), 4. Accounting policies, (5) Basis for recognizing significant revenue and expenses," for construction contracts in the materials handling operations, when control of a good or service is transferred to the customer over time, the Company and its consolidated subsidiaries recognize revenue based on the degree of progress toward satisfaction of the performance obligation over time. Progress toward satisfaction of a performance obligation is measured based on the percentage of construction costs incurred up to the end of each reporting period against the total estimated construction costs.

Out of the ¥215,879 million of net sales for the fiscal year ended March 31, 2022, the amount of sales recognized based on the degree of progress toward satisfaction of the performance obligations was ¥20,566 million, and it accounts for 9.5% of all sales.

The calculation of the degree of progress toward satisfaction of the performance obligation in the construction contract is affected by the estimation of the total construction cost. Total construction cost is estimated for each project using the working budget (budget prepared and approved for construction cost control) approved by the construction management department. The working budget is calculated by accumulating quotations for the cost of materials and outsourcing costs obtained from third parties</td><td>The audit procedures we performed to assess estimates of total construction costs, which affect revenue recognition of construction contracts, at significant locations of the materials handling operations and U.S. TSUBAKI HOLDINGS, INC. (hereinafter "UST") included the following, among others:

-1 Test of internal control

Regarding estimates of total construction costs, the audit procedures we performed to assess the design and test the operation of the following internal control systems of the Company, included the following, among others:

・ Controls to ensure the reliability of working budget, which is prepared by the person in charge of construction with expertise and proper authorization.

・ Controls to review estimates of total construction costs in accordance with the status of construction, actual costs incurred, or instructions from customers if there are changes in specifications.

・ Controls to ensure that the construction cost management department, which is responsible for the reliability of construction costs, monitors profit or loss management and progress of construction projects in a timely and appropriate manner.

-2 Test of the reasonableness of estimates of total construction costs

For construction projects completed during the fiscal year ended March 31, 2022, we evaluated the process of</td></tr>
</table>

and labor costs calculated based on detailed working hours. Since construction work in the materials handling operations is highly customized and the basic specifications and details are based on each customer's instructions, estimates of total construction costs are subject to uncertainty. In addition, since modifications to construction contracts or delays due to bad weather may occur during the course of construction, which result in necessary revisions to the total construction cost, it is difficult to conduct reviews of total construction costs in a timely and appropriate manner. Given that estimates of total construction costs in revenue recognition of construction contracts in the materials handling operations was particularly significant for the current fiscal year, we determined estimates of total construction costs to be a key audit matter.	estimating total construction costs by comparing prior estimates or re-estimates of total construction costs with the actual amount. The audit procedures we performed to understand the construction projects where there was uncertainty in estimating total construction costs in accordance with the specifications of the construction contract amount, construction profit or loss, construction specifications, and construction status, included the following, among others: In addition, for UST, we instructed the component auditor in the United States to conduct the same audit procedures below and confirmed the results thereof. ・ Regarding estimates of total construction costs, we performed comparisons with the working budget, which is the basis for calculation of the construction cost, and examined whether the estimated cost corresponded with the construction objectives specified in the construction contract, and whether the estimated cost is calculated by categorizing each type of work. ・ We made inquiries with the person responsible for construction cost management about the status of construction and the necessity to revise estimates of total construction costs, and reviewed the reasonableness of responses to our inquiries by comparing the schedule of the construction work and the degree of progress based on actual costs incurred .

Other Information

The other information comprises the information included in the Annual Securities Report that contains audited consolidated financial statements but does not include the consolidated financial statements and our auditor's report thereon. Management is responsible for preparation and disclosure of the other information. The Corporate Auditor and the Board of Corporate Auditors is responsible for overseeing the Group's reporting process of the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management, the Corporate Auditor and the Board of Corporate Auditors 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 Corporate Auditor and the Board of Corporate Auditors 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 Company and its consolidated subsidiaries 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 Corporate Auditor and the Board of Corporate Auditors 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 communicate with the Corporate Auditor and the Board of Corporate Auditors that we have complied with the ethical requirements regarding independence that are relevant to our audit of the 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 to remove or mitigate obstructions.

From the matters communicated with the Corporate Auditor and the Board of Corporate Auditors, 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.

<The Audit of the Internal Control over Financial Reporting>

Opinion

Pursuant to Article 193-2, paragraph 2 of the Financial Instruments and Exchange Act, we also have audited the accompanying management’s report on internal control over financial reporting of TSUBAKIMOTO CHAIN Co. and its subsidiaries (the Group) as of March 31, 2022.

In our opinion, the accompanying management’s report on internal control over financial reporting, which states that the internal control over financial reporting was effective as of March 31, 2022, present fairly, in all material respects, the results of the internal control over financial reporting in accordance with assessment standards for internal over financial reporting generally accepted in Japan.

Basis for Opinion

We conducted our internal control audit in accordance with auditing standards on internal control over financial reporting generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Internal Control section of our report. We are independent of the Company and its consolidated subsidiaries in accordance with the ethical requirements that are relevant to our audit of the 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.

Responsibilities of Management's and the Corporate Auditor and the Board of Corporate Auditors for Internal Control Report

Management is responsible for designing and implementing internal control over financial reporting, and for the preparation and fair presentation of Internal Control Report in accordance with standards for assessment of internal control over financial reporting generally accepted in Japan. The Corporate Auditor and the Board of Corporate Auditors are responsible for overseeing and verifying the design and implementation of internal control over financial reporting. Internal control over financial reporting may not prevent or detect misstatements.

Auditor's Responsibilities for the Audit of Internal Control

Our objectives are to obtain reasonable assurance about whether Internal Control Report is free from material misstatement based our internal control audit performed, and to issue an auditor's report that includes our opinion from an independent standpoint. As part of an audit in accordance with auditing standards on internal control generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Perform audit procedures to obtain audit evidence relating to the result of management's assessment of internal control over financial reporting in Internal Control Report. The design and performance of audit procedures for internal control audit is based on our judgement in consideration of the materiality of the effect on the reliability of financial reporting.
- Consider the overall presentation of Internal Control Report with regards to the scope, procedures, and result of the assessment of internal control over financial reporting including descriptions by management.
- Obtain sufficient appropriate audit evidence regarding the result of management's assessment of internal control over financial reporting in Internal Control Report. We are responsible for the direction, supervision, and performance of the audit of Internal Control Report. We remain solely responsible for our audit opinion.

We communicate with the Corporate Auditor and the Board of Corporate Auditors regarding, among other matters, the planned scope and timing of the internal control audit, the results of the internal control audit, any significant deficiencies in internal control that we identify, and the results of corrective measures for such significant deficiencies.

We communicate with the Corporate Auditor and the Board of Corporate Auditors that we have complied with the ethical requirements regarding independence that are relevant to our audit of internal control 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 to remove or mitigate obstructions.

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 Company and its consolidated subsidiaries which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Note to Readers of Independent Auditor's Reports

This is an English translation of the Independent Auditor's Reports ordinally issued in Japanese as required by the Financial Instruments and Exchange Act.

The other information described in the "Other Information" section may differ from the information in the Integrated Report.