
Appendix

TOKYO OHKA KOGYO CO., LTD. and Subsidiaries

Fiscal year ended December 31, 2022
(January 1, 2022 — December 31, 2022)

***Consolidated financial statements,
Notes to consolidated financial statements***

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries

Consolidated Balance Sheets December 31, 2022 and 2021

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2022	2021	2022
CURRENT ASSETS:			
Cash and deposits (Notes 7 and 19)	¥ 39,856	¥ 40,469	\$ 301,945
Time deposits (Note 19)	15,514	16,366	117,534
Trade notes receivable (Note 19)	911	810	6,907
Accounts receivable (Note 19)	34,900	33,084	264,396
Securities (Notes 7, 8 and 19)	3,999	3,999	30,302
Inventories (Note 9)	30,006	21,350	227,319
Prepaid expenses and other current assets	5,535	2,921	41,935
Allowance for doubtful accounts	(89)	(120)	(674)
Total current assets	130,636	118,883	989,667
PROPERTY, PLANT AND EQUIPMENT (Note 10):			
Land	10,570	8,662	80,083
Buildings and structures	83,665	76,095	633,832
Machinery and equipment	68,318	64,907	517,565
Furniture and fixtures	26,873	23,429	203,584
Right-of-use assets	1,060	984	8,032
Construction in progress	3,565	3,896	27,013
Total	194,054	177,976	1,470,110
Accumulated depreciation	(128,044)	(121,043)	(970,033)
Net property, plant and equipment	66,010	56,932	500,077
INVESTMENTS AND OTHER ASSETS:			
Intangible assets	1,295	837	9,817
Investment securities (Notes 8 and 19)	16,097	16,505	121,947
Investments in and advances to an unconsolidated subsidiary and associated companies	7	7	56
Investment in capital	100	100	757
Net defined benefit asset (Note 12)	3,682	4,658	27,901
Deferred tax assets (Note 16)	1,176	504	8,911
Long-term time deposits (Note 19)	18,000	18,000	136,363
Other assets	1,069	834	8,100
Total investments and other assets	41,429	41,447	313,856
TOTAL	¥ 238,075	¥ 217,264	\$ 1,803,600

See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
LIABILITIES AND EQUITY	2022	2021	2022
CURRENT LIABILITIES:			
Trade notes and accounts payable (Note 19)	¥ 21,617	¥ 19,250	\$ 163,769
Short-term loans payable	—	3,900	—
Construction and other payables	8,114	5,227	61,473
Income taxes payable	3,308	4,278	25,065
Accrued expenses	2,720	2,488	20,613
Provisions	3,322	3,107	25,167
Other current liabilities	1,698	1,404	12,864
Total current liabilities	40,781	39,656	308,952
NON-CURRENT LIABILITIES:			
Long-term loans payable (Note 11 and 19)	10,222	6,711	77,441
Deferred tax liabilities (Note 16)	1,084	1,614	8,212
Net defined benefit liability (Note 12)	853	609	6,468
Asset retirement obligations (Note 13)	80	81	608
Other non-current liabilities	4,092	3,399	31,006
Total non-current liabilities	16,333	12,416	123,737
EQUITY (Notes 14 and 22):			
Common stock - authorized, 197,000,000 shares in 2022 and 2021			
- issued, 42,600,000 shares in 2022 and 2021	14,640	14,640	110,912
Capital surplus	15,303	15,207	115,937
Retained earnings	137,551	124,806	1,042,057
Treasury stock - at cost, 2,321,258 shares in 2022 and 2,439,651 shares in 2021	(11,276)	(11,818)	(85,425)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	5,280	6,851	40,000
Foreign currency translation adjustments	8,877	5,618	67,250
Remeasurements of defined benefit plans	(630)	522	(4,779)
Total	169,745	155,829	1,285,952
Stock acquisition rights	174	215	1,324
Non-controlling interests	11,039	9,146	83,633
Total equity	180,960	165,190	1,370,910
TOTAL	¥ 238,075	¥ 217,264	\$ 1,803,600

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries

Consolidated Statement of Income Years Ended December 31, 2022 and 2021

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
NET SALES	¥ 175,434	¥ 140,055	\$ 1,329,052
COST OF SALES (Note 17)	112,319	90,529	850,901
Gross profit	63,115	49,525	478,150
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 17)	32,934	28,817	249,500
Operating income	30,181	20,707	228,650
OTHER INCOME (EXPENSES):			
Interest and dividend income	644	530	4,883
Foreign exchange gain - net	280	477	2,121
Interest expense	(73)	(72)	(555)
Loss on valuation of derivatives	(326)	(162)	(2,474)
Treasury stock acquisition cost	—	(50)	—
Gain on sale of investment securities	243	4,820	1,848
Impairment loss on long-lived assets (Note 10)	(195)	(439)	(1,483)
Loss on retirement of non-current assets	(239)	(163)	(1,812)
Environmental costs	—	(83)	—
Other - net	275	234	2,083
Other income (expenses) - net	608	5,091	4,610
INCOME BEFORE INCOME TAXES AND NON-CONTROLLING INTERESTS	30,790	25,799	233,260
INCOME TAXES (Note 16):			
Current	7,537	6,464	57,104
Deferred	97	(191)	735
Total income taxes	7,634	6,273	57,840
NET INCOME BEFORE NON-CONTROLLING INTERESTS	23,155	19,526	175,420
NON-CONTROLLING INTERESTS IN NET INCOME	3,461	1,777	26,225
PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 19,693	¥ 17,748	\$ 149,195

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries

Consolidated Statement of Income **Years Ended December 31, 2022 and 2021**

	Yen		U.S. dollars
	2022	2021	2022
PER SHARE OF COMMON STOCK (Notes 14 and 22):			
Basic earnings per share	¥ 489.56	¥ 430.73	\$ 3.70
Diluted earnings per share	488.81	429.91	3.70
Cash dividends attributable to the year	160.00	156.00	1.21

See notes to consolidated financial statements.

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income Years Ended December 31, 2022 and 2021

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
NET INCOME BEFORE NON-CONTROLLING INTERESTS	¥ 23,155	¥ 19,526	\$ 175,420
OTHER COMPREHENSIVE INCOME (Note 21):			
Unrealized gain on available-for-sale securities	(1,571)	(817)	(11,904)
Foreign currency translation adjustments	3,649	3,881	27,644
Remeasurements of defined benefit plans	(1,153)	409	(8,740)
Total other comprehensive income	923	3,472	6,999
COMPREHENSIVE INCOME	<u>¥ 24,079</u>	<u>¥ 22,998</u>	<u>\$ 182,419</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥ 20,226	¥ 20,352	\$ 153,234
Non-controlling interests	3,852	2,646	29,185

See notes to consolidated financial statements.

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries
**Consolidated Statement of Changes in Equity
Years Ended December 31, 2022 and 2021**

	Thousands	Millions of yen										
	Number of shares of common stock outstanding	Common stock	Capital surplus	Retained earnings	Treasury stock	Accumulated other comprehensive income (loss)			Total	Subscription rights to shares	Non- controlling interests	Total equity
						Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans				
BALANCE, JANUARY 1, 2021	41,508	¥ 14,640	¥ 15,207	¥ 125,795	¥ (14,477)	¥ 7,669	¥ 2,606	¥ 113	¥ 151,556	¥ 304	¥ 8,133	¥ 159,994
Profit attributable to owners of the parent	—	—	—	17,748	—	—	—	—	17,748	—	—	17,748
Cash dividends paid:												
Final for prior year, ¥94.0 per share	—	—	—	(3,925)	—	—	—	—	(3,925)	—	—	(3,925)
Interim for current year, ¥62.0 per share	—	—	—	(2,592)	—	—	—	—	(2,592)	—	—	(2,592)
Purchase of treasury stock	(1,444)	—	—	—	(10,002)	—	—	—	(10,002)	—	—	(10,002)
Disposal of treasury stock	2,596	—	45	—	395	—	—	—	441	(89)	—	352
Retirement of treasury stock	(2,500)	—	(45)	(12,220)	12,266	—	—	—	—	—	—	—
Net change in items other than shareholders' equity during the year	—	—	—	—	—	(817)	3,011	409	2,603	—	1,012	3,615
BALANCE, DECEMBER 31, 2021	<u>40,160</u>	<u>¥ 14,640</u>	<u>¥ 15,207</u>	<u>¥ 124,806</u>	<u>¥ (11,818)</u>	<u>¥ 6,851</u>	<u>¥ 5,618</u>	<u>¥ 522</u>	<u>¥ 155,829</u>	<u>¥ 215</u>	<u>¥ 9,146</u>	<u>¥ 165,190</u>
Profit attributable to owners of the parent	—	—	—	19,693	—	—	—	—	19,693	—	—	19,693
Cash dividends paid:												
Final for prior year, ¥94.0 per share	—	—	—	(3,794)	—	—	—	—	(3,794)	—	—	(3,794)
Interim for current year, ¥78.0 per share	—	—	—	(3,153)	—	—	—	—	(3,153)	—	—	(3,153)
Purchase of treasury stock	0	—	—	—	(0)	—	—	—	(0)	—	—	(0)
Disposal of treasury stock	118	—	95	—	542	—	—	—	638	(40)	—	598
Net change in items other than shareholders' equity during the year	—	—	—	—	—	(1,571)	3,258	(1,153)	533	—	1,893	2,426
BALANCE, DECEMBER 31, 2022	<u>40,278</u>	<u>¥ 14,640</u>	<u>¥ 15,303</u>	<u>¥ 137,551</u>	<u>¥ (11,276)</u>	<u>¥ 5,280</u>	<u>¥ 8,877</u>	<u>¥ (630)</u>	<u>¥ 169,745</u>	<u>¥ 174</u>	<u>¥ 11,039</u>	<u>¥ 180,960</u>

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries

Consolidated Statement of Changes in Equity
Years Ended December 31, 2022 and 2021

	Thousands of U.S. dollars (Note 1)										
	Accumulated other comprehensive income (loss)							Total	Subscription rights to shares	Non-controlling interests	Total equity
	Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans				
BALANCE, DECEMBER 31, 2021	\$ 110,912	\$ 115,211	\$ 945,500	\$ (89,530)	\$ 51,905	\$ 42,565	\$ 3,961	\$ 1,180,526	\$ 1,631	\$ 69,288	\$ 1,251,445
Profit attributable to owners of the parent	—	—	149,195	—	—	—	—	149,195	—	—	149,195
Cash dividends paid:											
Final for prior year, \$0.71 per share	—	—	(28,746)	—	—	—	—	(28,746)	—	—	(28,746)
Interim for current year, \$0.59 per share	—	—	(23,892)	—	—	—	—	(23,892)	—	—	(23,892)
Purchase of treasury stock	—	—	—	(7)	—	—	—	(7)	—	—	(7)
Disposal of treasury stock	—	725	—	4,112	—	—	—	4,838	(306)	—	4,531
Net change in items other than shareholders' equity during the year	—	—	—	—	(11,904)	24,684	(8,740)	4,039	—	14,345	18,384
BALANCE, DECEMBER 31, 2022	<u>\$ 110,912</u>	<u>\$ 115,937</u>	<u>\$ 1,042,057</u>	<u>\$ (85,425)</u>	<u>\$ 40,000</u>	<u>\$ 67,250</u>	<u>\$ (4,779)</u>	<u>\$ 1,285,952</u>	<u>\$ 1,324</u>	<u>\$ 83,633</u>	<u>\$ 1,370,910</u>

See notes to consolidated financial statements.

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows Years Ended December 31, 2022 and 2021

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
OPERATING ACTIVITIES:			
Income before income taxes and non-controlling interests	¥ 30,790	¥ 25,799	\$ 233,260
Adjustments for:			
Depreciation and amortization	6,762	6,430	51,227
Impairment loss on long-lived assets	195	439	1,483
(Decrease) increase in provision for doubtful accounts	(31)	16	(239)
Increase in provision for bonuses	593	90	4,493
(Decrease) increase in provision for officers' bonuses	(401)	343	(3,044)
Increase in net defined benefit asset	(371)	(273)	(2,811)
Decrease in net defined benefit liability	(77)	(11)	(584)
Interest and dividend income	(644)	(530)	(4,883)
Interest expenses	73	72	555
Foreign exchange gain - net	(1,066)	(918)	(8,079)
Loss on valuation of derivatives	326	162	2,474
Gain on sale of non-current assets	(14)	1	(113)
Loss on retirement of non-current assets	239	163	1,812
Gain on sale of investment securities	(243)	(4,820)	(1,848)
Increase in trade receivables	(858)	(6,052)	(6,502)
Increase in inventories	(7,510)	(2,830)	(56,895)
Increase in trade payables	1,870	4,515	14,168
Increase in advances received	66	16	501
Interest and dividend received	646	532	4,898
Interest paid	(73)	(72)	(555)
Income taxes paid	(8,557)	(4,650)	(64,827)
Other - net	(2,721)	1,334	(20,614)
Net cash provided by operating activities	18,991	19,758	143,876
INVESTING ACTIVITIES:			
Purchase of securities	(12,000)	(13,000)	(90,909)
Proceeds from redemption of securities	12,000	12,000	90,909
Purchases of property, plant and equipment	(10,698)	(7,833)	(81,048)
Proceeds from sale of property, plant and equipment	10	39	79
Purchases of intangible assets	(752)	(296)	(5,699)
Purchases of investment securities	(2,082)	(399)	(15,778)
Proceeds from sale of investment securities	371	5,008	2,813
Net decrease in time deposits	982	—	7,443
Payments into long-term time deposits	(14,000)	(4,000)	(106,060)
Withdrawal of long-term time deposits	14,000	4,000	106,060
Other - net	(214)	(93)	(1,625)
Net cash used in investing activities	(12,383)	(4,576)	(93,815)
FINANCING ACTIVITIES:			
Proceeds from long-term loans payable	3,900	—	29,545
Repayments of long-term loans payable	(4,289)	(350)	(32,498)
Proceeds from issuance of stock	184	195	1,399
Proceeds from sale of treasury stock	769	469	5,826
Purchases of treasury stock	(0)	(10,053)	(7)
Dividends paid	(6,941)	(6,511)	(52,590)
Dividends paid to non-controlling interests	(2,160)	(1,829)	(16,369)
Other - net	(71)	(34)	(540)
Net cash used in financing activities	(8,610)	(18,114)	(65,234)

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows **Years Ended December 31, 2022 and 2021**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	¥ 1,389	¥ 1,673	\$ 10,529
NET DECREASE IN CASH AND CASH EQUIVALENTS	(612)	(1,258)	(4,643)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	41,469	42,728	314,164
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 7)	<u>¥ 40,856</u>	<u>¥ 41,469</u>	<u>\$ 309,520</u>

See notes to consolidated financial statements.

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements Years Ended December 31, 2022 and 2021

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain amounts reported in prior years have been reclassified to conform to the current year’s presentation.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which TOKYO OHKA KOGYO CO., LTD. (the “Company”) is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥132 to \$1, the approximate rate of exchange at December 31, 2022. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

Amounts of less than one million yen have been rounded down. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sum of the individual amounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Consolidation*— The consolidated financial statements include the accounts of the Company and its nine significant subsidiaries (together, the “Group”).

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

Investments in an unconsolidated subsidiary and an associated company are not accounted for by the equity method but are stated at cost as their impact on the consolidated financial statements is immaterial.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

- b. Cash Equivalents*— Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with original maturities of three months or less that are readily convertible into cash and exposed to insignificant risk of changes in value.
- c. Allowance for Doubtful Accounts*— The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Group’s past credit loss experience and an evaluation of potential losses in the receivables outstanding.
- d. Inventories*— Merchandise, work in process, raw materials and supplies are stated at the lower of cost, determined by the first-in, first-out method, or net selling value. Finished goods are stated at the lower of cost, determined by the average method, or net selling value. Inventories of manufacturing equipment are stated at the lower of cost, determined by the specific identification method, or net selling value, which are included in raw materials, work in process and finished goods.

- e. **Investment Securities**— Investment securities are classified and accounted for, depending on management's intent, as follows: (i) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, are reported at cost and (ii) available-for-sale securities, other than stocks, etc. without market value, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Stocks, etc. without market value are stated at cost determined by the moving-average method.

For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

- f. **Property, Plant and Equipment**— Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment, except for lease assets and right-of-use assets, of the Company and its consolidated domestic subsidiaries is computed by the straight-line method. The range of useful lives is principally from ten to 50 years for buildings and structures, and from three to eight years for machinery and equipment, and furniture and fixtures.
- g. **Long-Lived Assets**— The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.
- h. **Intangible Assets**— Intangible assets are stated at cost less accumulated amortization, which is calculated by the straight-line method principally over 5 years.
- i. **Retirement Benefits**
Retirement benefits to employees (including officers)— The Company and its certain consolidated subsidiaries have funded defined benefit pension plans and lump-sum retirement payment plans. The Company has set up a retirement benefit trust. On April 1, 2014, the Company transferred part of its funded defined benefit pension plans to defined contribution pension plans.
- The companies principally accounted for the retirement benefit obligations based on the projected benefit obligations and plan assets at each balance sheet date.
- Prior service cost is amortized by the straight-line method over 10 years. Actuarial gains and losses are amortized by the straight-line method over 10 years from the next period in which they arise.
- j. **Asset Retirement Obligations**— The Group recognizes assets retirement obligation for buildings and sub stations in the domestic offices in accordance with the relevant laws. The amount of the asset retirement obligations is calculated with the estimated usable years of eight to 50 years from the acquisition and the discount rate ranging from 0.4% to 2.3%.
- k. **Research and Development Costs**— Research and development costs are charged to income as incurred.
- l. **Leases** — Leased assets under the finance lease arrangements where the ownership is not transferred to lessees at the end of lease terms are capitalized to recognize lease assets and lease obligations in the balance sheet.
- All other leases are accounted for as operating leases.
- m. **Bonuses to Directors and Corporate Auditors**— Bonuses to directors and corporate auditors are accrued at the year-end to which such bonuses are attributable.

n. Income Taxes— The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

o. Revenue and Expenses—The Group manufactures and sells finished goods in two segments, the Material Business and Equipment Business, and recognizes revenue when merchandise or finished goods are delivered to a customer. However, revenue from domestic sales is recognized when the shipment is completed if control of the merchandise or finished goods is transferred to customers within a normal period after the shipment. Revenue from export sales is recognized when the risk is transferred to a customer based on trade terms set mainly by the Incoterms, etc.

Variable consideration included in contracts with customers is included in the transaction price only to the extent that it is probable that a significant decrease in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Revenue from transactions in which the Group is determined to be acting as an agent is recognized at the amount received in exchange for the merchandise provided by another party net of the amount to be paid to another party.

No significant financing component is included in transaction consideration as consideration is generally received within one year after the performance obligation is satisfied.

p. Foreign Currency Transactions— All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the current exchange rates as of the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income to the extent that they are not hedged by forward exchange contracts.

q. Foreign Currency Financial Statements— The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Revenue and expense accounts of consolidated foreign subsidiaries are translated into Japanese yen at the average exchange rate during the period. Differences arising from such translation are recorded in “Foreign currency translation adjustments” and “Non-controlling interests” in Equity.

r. Derivative and Hedging Activities— The Group uses derivative financial instruments to manage its exposures to the fluctuation in foreign currency exchange. Foreign currency forward contracts are utilized by the Group to hedge foreign exchange risk. The Group does not enter into derivatives for trading or speculative purposes.

Trade receivables and payables denominated in foreign currencies for which foreign currency forward contracts are used to hedge foreign exchange risk are translated at the contracted rate if the forward contracts qualify for hedge accounting.

s. Per Share Information— Basic earnings per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding during the period.

Diluted earnings per share reflects the potential dilution that could occur if securities with dilutive effects were exercised. Diluted earnings per share of common stock assumes full exercise of outstanding warrants at the beginning of the year.

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

3. SIGNIFICANT ACCOUNTING ESTIMATES

There was no accounting estimate which may have significant impacts on the consolidated financial statements for the year ending December 31, 2023.

4. CHANGES IN ACCOUNTING POLICIES

(1) Application of the accounting standard for revenue recognition

The Company applied *Accounting Standard for Revenue Recognition* (ASBJ Statement No. 29, March 31, 2020, “Accounting Standard for Revenue Recognition”), etc. from January 1, 2022, and recognizes revenue at an amount that it expects to receive in exchange for the promised goods or services when the control of the goods or services is transferred to a customer.

The Group’s performance obligation is sales of goods, and we recognize revenue from domestic sales of merchandise and finished goods when the shipment is completed if control of the merchandise or finished goods is transferred to customers within a normal period after the shipment in accordance with the alternative treatment provided for in Paragraph 98 of *Implementation Guidance on Accounting Standard for Revenue Recognition* (ASBJ Implementation Guidance No. 30, March 26, 2021).

We applied the Accounting Standard for Revenue Recognition, etc. from January 1, 2022 pursuant to the transitional treatment provided for in the proviso of Paragraph 84 of the Accounting Standard for Revenue Recognition, with the cumulative effect of the retrospective application, assuming the new accounting policy had been applied to periods prior to January 1, 2022, adjusted to the beginning balance of retained earnings as of January 1, 2022, but there was no impact on the beginning balance. There was also no impact on per share information.

As a result of the application of the Accounting Standard for Revenue Recognition, etc., “Trade notes and accounts” presented in current assets in the consolidated balance sheets as of December 31, 2021 is presented as “Trade notes receivable” and “Accounts receivable” from the year ended December 31, 2022.

Pursuant to the transitional treatment provided for in Paragraph 89-3 of the Accounting Standard for Revenue Recognition, the notes on revenue recognition for the year ended December 31, 2021 is omitted.

(2) Application of the accounting standard for fair value measurement

The Company applied *Accounting Standard for Fair Value Measurement* (ASBJ Statement No. 30, July 4, 2019, “Accounting Standard for Fair Value Measurement”), etc. from January 1, 2022, and the new accounting policies stipulated in the Accounting Standard for Fair Value Measurement, etc. are applied prospectively pursuant to the transitional treatment stipulated by Paragraph 19 of the Accounting Standard for Fair Value Measurement and Paragraph 44-2 of *Accounting Standard for Financial Instruments* (ASBJ Statement No. 10, July 4, 2019).

The application had no impact on the consolidated financial statements.

The breakdown of fair value of financial instruments by level is disclosed as part of the notes on financial instruments in Note 19. However, pursuant to the transitional treatment stipulated by Paragraph 7-4 of *Implementation Guidance on Disclosures about Fair Value of Financial Instruments* (ASBJ Guidance No. 19, July 4, 2019), the information for the year ended December 31, 2021 is omitted.

5. ACCOUNTING STANDARD ISSUED BUT NOT YET ADOPTED

New or revised accounting standards issued as of December 31, 2022 but not yet adopted by the Group are as follows.

(Implementation Guidance on Accounting Standard for Fair Value Measurement)

The Company and its domestic consolidated subsidiaries

- Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, June 17, 2021)

(1) Outline

Revised Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31) was announced on June 17, 2021, which revised the statement included at the time of its original announcement on July 4, 2019 that it would take approximately one year to consider “fair value measurement of investment trusts” as it would take some time to discuss with relevant parties and also to

consider the notes on the fair value of “equity investments in association, etc. stated on a net basis on the balance sheet.”

- (2) Scheduled date of application
The implementation guidance is scheduled to be applied from January 1, 2023.
- (3) Impact of the application of the accounting standard, etc.
The Company is currently evaluating the impact of applying *Implementation Guidance on Accounting Standard for Fair Value Measurement* on the consolidated financial statements.

6. ADDITIONAL INFORMATION

(Transaction to grant the Company’s shares to employees, etc. through a trust)

Based on the resolution at the Board of Directors meeting held on August 7, 2019, the Company introduced “Trust-Type Employee Stock Ownership Plan” (“Plan”) with an aim to enhance the Company’s welfare program as well as to improve its medium- to long-term corporate value by providing employees with incentives for an increase in stock prices.

- (1) Overview of the transaction
The Plan is an incentive plan for all employees in the “Tokyo Ohka Employees Stockholding Association” (“Stockholding Association”). Under the Plan, the Company sets up the “Tokyo Ohka Employee Stockholding Association Trust” (“Stockholding Trust”) at a trust bank, and the Stockholding Trust purchases in advance the number of the Company’s shares expected to be purchased by the Stockholding Association over five years from the date the trust is set up and sells the shares to the Stockholding Association every month on a certain date. Any gains on sale of shares accumulated in the trust upon expiry of the Stockholding Trust will be distributed as residual assets to those satisfying the beneficiary eligibility requirements. As the Company provides guarantee for the loans payable made by the Stockholding Trust to purchase the Company’s shares, the Company is liable to pay the outstanding balance of the loans payable, equivalent to loss on sale of shares accumulated in the Stockholding Trust due to a decline in stock prices, upon expiry of the Stockholding Trust.

The Plan aims to improve our medium- to long-term corporate value by providing employees with incentives for an increase in stock prices and also to support employees’ asset building as a measures to enhance our welfare program by promoting purchase and holding of shares through enhancement of the Stockholding Association.

- (2) The Company’s shares remaining in the Trust
The Company’s shares remaining in the Trust are recorded as Treasury stock in Net assets at the carrying amount at the Trust (excluding ancillary expenses). The carrying amount and number of treasury stock as of December 31, 2022 and 2021 were ¥643 million (\$4,875 thousand) and 154 thousand shares and ¥862 million and 206 thousand shares, respectively.
- (3) The carrying amount of the loans payable recorded under the gross method

	Millions of yen	Thousands of U.S dollars
December 31, 2022	¥ 222	\$ 1,683
December 31, 2021	¥ 611	

7. CASH AND CASH EQUIVALENTS

The balances of cash and deposits reflected in the consolidated balance sheets at December 31, 2022 and 2021 were reconciled to the balances of cash and cash equivalents as presented in the consolidated statements of cash flows for the years then ended as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Cash and deposits	¥ 39,856	¥ 40,469	\$ 301,945
Securities	999	999	7,575
Cash and cash equivalents	<u>¥ 40,856</u>	<u>¥ 41,469</u>	<u>\$ 309,520</u>

8. INVESTMENT SECURITIES

Investment securities as of December 31, 2022 and 2021 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Current:			
Trust beneficiary interests	¥ 3,000	¥ 3,000	\$ 22,727
Commercial paper	999	999	7,575
Total	<u>¥ 3,999</u>	<u>¥ 3,999</u>	<u>\$ 30,302</u>
Non-current:			
Stocks	¥ 15,995	¥ 16,504	\$ 121,179
Total	<u>¥ 15,995</u>	<u>¥ 16,504</u>	<u>\$ 121,179</u>

The costs and aggregate fair values of investment securities at December 31, 2022 and 2021 were as follows:

		Millions of yen		
		Cost	Unrealized Gains	Unrealized Losses
December 31, 2022				Fair Value
Securities classified as:				
Held-to-maturity	¥ 3,999	¥ —	¥ —	¥ 3,999
Available-for-sale	¥ 8,712	¥ 8,113	¥(830)	¥ 15,995
		Millions of yen		
		Cost	Unrealized Gains	Unrealized Losses
December 31, 2021				Fair Value
Securities classified as:				
Held-to-maturity	¥ 3,999	¥ —	¥ —	¥ 3,999
Available-for-sale	¥ 6,856	¥10,102	¥(454)	¥ 16,504
		Thousands of U.S. dollars		
		Cost	Unrealized Gains	Unrealized Losses
December 31, 2022				Fair Value
Securities classified as:				
Held-to-maturity	\$ 30,302	\$ —	\$ —	\$ 30,302
Available-for-sale	\$ 66,000	\$ 61,469	\$ (6,290)	\$ 121,179

The difference between the sum of the above fair values of the available-for-sale securities and cost of the held-to-maturity securities, and the amounts shown in the accompanying consolidated balance sheets consists of nonmarketable securities whose fair values are not readily determinable.

Available-for-sale securities sold during the year ended December 31, 2022 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Amount sold	¥ 371	¥ 5,008	\$ 2,812
Total gains	243	4,820	1,848
Total losses	—	—	—

9. INVENTORIES

Inventories at December 31, 2022 and 2021 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Merchandise and finished goods	¥ 11,084	¥ 9,451	\$ 83,971
Work in process	7,000	4,606	53,037
Raw materials and supplies	11,920	7,292	90,310
Total	<u>¥ 30,006</u>	<u>¥ 21,350</u>	<u>\$ 227,319</u>

10. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of December 31, 2022 and 2021, and recognized impairment losses of ¥195 million (\$1,483 thousand) and ¥439 million, respectively for the following assets. The carrying amount of those assets was written down to the recoverable amount.

For the year ended December 31, 2022

Use	Type of assets	Location (Prefecture/Country)	Amount	
			Millions of yen	Thousands of U.S. dollars
Business assets for Material Business	Machinery and equipment, Furniture and fixtures, and Construction in progress	Kumamoto	¥ 81	\$ 620
Business assets for Equipment Business	Machinery and equipment, Furniture and fixtures, Construction in progress and Intangible fixed assets	Kanagawa	101	772
Idle assets	Machinery and equipment and Furniture and fixtures	Kanagawa	12	91
Total			¥ 195	\$ 1,483

For the year ended December 31, 2021

Use	Type of assets	Location (Prefecture/Country)	Amount
			Millions of yen
Business assets for Material Business	Building and structures, Machinery and equipment, Furniture and fixtures, and Construction in progress	Kumamoto	¥ 420
Business assets for Equipment Business	Machinery and equipment, and Furniture and fixtures	Kanagawa	18
Total			¥ 439

For the purpose of evaluating and measuring impairment, assets used for business are considered to constitute a group by each business unit. Idle properties are individually evaluated.

The recoverable amount is measured by net selling price based on an appraisal value. Assets other than land and buildings are considered to have no real value and evaluated at their memorandum value.

11. LONG-TERM LOANS PAYABLE

Long-term loans payable at December 31, 2022 and 2021 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Current portion of long-term loans payable	¥ —	¥ 3,900	\$ —
Unsecured loan from a bank, with average interest rate of 0.45% and 0.57% for the years ended December 31, 2022 and 2021	<u>10,222</u>	<u>6,711</u>	<u>77,441</u>
Total	<u>¥ 10,222</u>	<u>¥ 10,611</u>	<u>\$ 77,441</u>

The aggregate annual maturities of long-term loans payable are summarized below:

<u>Years ending December 31,</u>	Millions of yen	Thousands of U.S. dollars
2023	¥ —	\$ —
2024	222	1,683
2025	3,900	29,545
2026	—	—
2027	—	—
2028 and thereafter	<u>6,100</u>	<u>46,212</u>
Total	<u>¥ 10,222</u>	<u>\$ 77,441</u>

12. RETIREMENT AND PENSION PLANS

The Company and its certain consolidated subsidiaries have funded defined benefit pension plans and lump-sum retirement payment plans. The Company has set up a retirement benefit trust. On April 1, 2014, the Company transferred part of its funded defined benefit pension plans to defined contribution pension plans.

The defined benefit corporate pension plans provide lump-sum payment or pension based on salary and service period.

The lump-sum retirement payment plans provide lump-sum payment as retirement benefit based on factors such as service period.

The details of the plans were as follows:

(1) Defined benefit pension plans

(a) Retirement benefit obligations	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Beginning balance	¥ 15,598	¥ 15,687	\$ 118,170
Service cost	615	690	4,661
Interest cost	85	86	648
Actuarial differences incurred during the year	(2)	(70)	(19)
Payment of retirement benefit	(748)	(795)	(5,672)
Ending balance	<u>¥ 15,548</u>	<u>¥ 15,598</u>	<u>\$ 117,789</u>

Note: Certain consolidated subsidiaries apply a simplified method to calculate retirement benefit obligations.

(b) Pension assets	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Beginning balance	¥ 14,482	¥ 13,687	\$ 109,713
Expected return on plan assets	362	342	2,742
Actuarial differences incurred during the year	(956)	615	(7,247)
Contributions from employer	401	518	3,040
Payment of retirement benefit	(646)	(681)	(4,894)
Ending balance	<u>¥ 13,642</u>	<u>¥ 14,482</u>	<u>\$ 103,355</u>

(c) Employee retirement benefit trust	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Beginning balance	¥ 5,165	¥ 5,199	\$ 39,130
Expected return on plan assets	12	12	97
Actuarial differences incurred during the year	(443)	(47)	(3,360)
Ending balance	<u>¥ 4,734</u>	<u>¥ 5,165</u>	<u>\$ 35,867</u>

(d) Reconciliation between ending balance of retirement benefit obligations and pension assets and net defined benefit liability and net defined benefit asset recorded on the consolidated balance sheet

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Retirement benefit obligations under the funded plan	¥ 15,294	¥ 15,316	\$ 115,870
Pension assets	(13,642)	(14,482)	(103,355)
Employee retirement benefit trust	(4,734)	(5,165)	(35,867)
	(3,082)	(4,330)	(23,351)
Retirement benefit obligations under the unfunded plan	253	281	1,918
Net liabilities or assets recorded on the consolidated balance sheet	(2,829)	(4,048)	(21,433)
Net defined benefit liabilities	853	609	6,468
Net defined benefit assets	(3,682)	(4,658)	(27,901)
Net liabilities or assets recorded on the consolidated balance sheet	¥ (2,829)	¥ (4,048)	\$ (21,433)

(e) Net periodic benefit cost and its components

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Service cost	¥ 615	¥ 690	\$ 4,661
Interest cost	85	86	648
Expected return on plan assets	(374)	(355)	(2,840)
Amortized actuarial differences	(3)	205	(27)
Amortized prior service cost	(256)	(256)	(1,942)
Net periodic benefit cost of defined benefit plan	¥ 65	¥ 371	\$ 499

Note: Net periodic benefit cost of consolidated subsidiaries applying the simplified method is recorded as "Service cost."

(f) Remeasurements of defined benefit plans (Other comprehensive income)

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Prior service cost	¥ (256)	¥ (256)	\$ (1,942)
Actuarial differences	(1,401)	844	(10,616)
Total	¥ (1,657)	¥ 587	\$ (12,558)

(g) Remeasurements of defined benefit plans (Accumulated other comprehensive income)

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Unrecognized prior service cost	¥ 256	¥ 512	\$ 1,942
Unrecognized actuarial differences	(1,162)	238	(8,809)
Total	¥ (906)	¥ 751	\$ (6,867)

(h) Plan assets and employee retirement benefit trust

(i) Components of plan assets

	2022	2021
Debt securities	52%	48%
Stocks	30%	32%
Other	18%	20%
Total	100%	100%

(ii) Components of employee retirement benefit trust

	2022	2021
Debt securities	51%	57%
Collective investment trust	29%	41%
Other	20%	2%
Total	100%	100%

(iii) Long-term rate of return

Long-term rate of return on plan assets and employee retirement benefit trust is determined based on the current and expected allocation of plan assets and employee retirement benefit trust and current and expected long-term rate of return of various assets composing plan assets and employee retirement benefit trust.

(i) Basis for calculation of actuarial differences

	2022	2021
Discount rate	Mainly 0.53%	Mainly 0.53%
Long-term expected rate of return		
Defined benefit corporate pension plan	2.50%	2.50%
Employee retirement benefit trust	0.25%	0.25%

(2) Defined contribution plans

The amounts of required contributions to defined contribution pension plans by the Company and its consolidated subsidiaries for the years ended December 31, 2022 and 2021 were ¥227 million (\$1,722 thousand) and ¥199 million, respectively.

(3) Other retirement benefits

The amount of assets to be transferred to a defined contribution pension plan in relation to a partial transfer from a funded defined benefit plan to a defined contribution pension plan in April 2019 was ¥17 million (\$133 thousand), and the transfer was completed as of December 31, 2022.

13. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations during the years ended December 31, 2022 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Beginning balance	¥ 81	¥ 81	\$ 616
Adjustments associated with passage of time	1	1	8
Other	(2)	(1)	(16)
Ending balance	¥ 80	¥ 81	\$ 608

14. EQUITY

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

(1) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria.

The Companies Act permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

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

(2) Increases/decreases and transfer of common stock, reserve and surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, there is no limitation on the total amount of additional paid-in capital and legal reserve. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and other retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(3) Treasury stock and treasury stock acquisition rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Companies Act, stock acquisition rights are presented as a separate component of equity.

The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

The accompanying consolidated financial statements do not include any provision for the year-end dividend of ¥82 (\$0.62) per share approved at the general shareholders’ meeting held on March 30, 2023, aggregating ¥3,315 million (\$25,117 thousand) in respect of the year ended December 31, 2022. Total dividends include dividends declared on the Company’s shares held by “Tokyo Ohka Employee Stockholding Association Trust” of ¥12 million (\$95 thousand).

15. STOCK OPTIONS

(1) Outline, number and changes of stock options

(a) Outline of stock options

Stock options outstanding as of December 31, 2022 were as follows:

Stock option	2019 Stock option	2018 Stock option	2017 Stock option
Category and number of eligible person	2 representative directors of the Company 4 directors of the Company 7 executive officers of the Company	1 representative director of the Company 5 directors of the Company 6 executive officers of the Company	1 representative director of the Company 5 directors of the Company 5 executive officers of the Company
Number of options granted by share class	Common stock: 32,800 shares	Common stock: 20,200 shares	Common stock: 14,500 shares
Date of grant	May 16, 2019	May 16, 2018	August 4, 2017
Service period	Not specified	Not specified	Not specified
Exercise period	From May 17, 2019 to May 16, 2049	From May 17, 2018 to May 16, 2048	From August 5, 2017 to August 4, 2047
Stock option	2016 Stock option	2015 Stock option	2014 Stock option
Category and number of eligible person	1 representative director of the Company 5 directors of the Company 6 executive officers of the Company	1 representative director of the Company 5 directors of the Company 8 executive officers of the Company	1 representative director of the Company 5 directors of the Company 7 executive officers of the Company
Number of options granted by share class	Common stock: 29,300 shares	Common stock: 21,900 shares	Common stock: 31,500 shares
Date of grant	August 4, 2016	August 4, 2015	August 5, 2014
Service period	Not specified	Not specified	Not specified
Exercise period	From August 5, 2016 to August 4, 2046	From August 5, 2015 to August 4, 2045	From August 6, 2014 to August 5, 2044

(b) Number and price of stock options

Movement in stock options during the year ended December 31, 2022 was as follows:

	Number of shares		
	2019	2018	2017
Unvested stock options:			
As of December 31, 2021	—	—	—
Granted	—	—	—
Forfeited	—	—	—
Vested	—	—	—
Unvested options as of December 31, 2022	—	—	—
Vested stock options:			
As of December 31, 2021	21,400	11,600	8,000
Vested	—	—	—
Exercised	2,800	2,100	1,600
Forfeited	—	—	—
Unexercised options as of December 31, 2022	18,600	9,500	6,400
	Yen		
Exercise price	¥ 1	¥ 1	¥ 1
Average share price at the time of exercise	¥ 7,220	¥ 7,220	¥ 7,220
Fair value per share at grant date	¥ 2,690	¥ 4,164	¥ 3,363
	U.S. dollars		
Exercise price	\$ 0.01	\$ 0.01	\$ 0.01
Average share price at the time of exercise	\$ 54.69	\$ 54.69	\$ 54.69
Fair value per share at grant date	\$ 20.37	\$ 31.54	\$ 25.47

	Number of shares		
	2016	2015	2014
Unvested stock options:			
As of December 31, 2021	—	—	—
Granted	—	—	—
Forfeited	—	—	—
Vested	—	—	—
Unvested options as of December 31, 2022	—	—	—
Vested stock options:			
As of December 31, 2021	14,100	7,800	8,200
Vested	—	—	—
Exercised	2,700	1,700	2,600
Forfeited	—	—	—
Unexercised options as of December 31, 2022	11,400	6,100	5,600
	Yen		
Exercise price	¥ 1	¥ 1	¥ 1
Average share price at the time of exercise	¥ 7,220	¥ 7,220	¥ 7,220
Fair value per share at grant date	¥ 2,757	¥ 3,192	¥ 2,292
	U.S. dollars		
Exercise price	\$ 0.01	\$ 0.01	\$ 0.01
Average share price at the time of exercise	\$ 54.69	\$ 54.69	\$ 54.69
Fair value per share at grant date	\$ 20.88	\$ 24.18	\$ 17.36

(3) Method of estimating the fair value of stock options vested
Not applicable.

(4) Method of estimating number of stock options vested
Only the actual number of forfeited stock options is reflected because it is difficult to reasonably estimate the number of future forfeitures.

16. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 30.4% for the years ended December 31, 2022 and 2021. Foreign subsidiaries are subject to income taxes of the countries in which they operate. The tax effects of significant temporary differences, which resulted in deferred tax assets and liabilities at December 31, 2022 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Deferred tax assets:			
Accrued bonuses for employees	¥ 890	¥ 749	\$ 6,742
Unrealized gains on finished goods	1,086	801	8,233
Loss on valuation of inventories	545	329	4,136
Loss on valuation of investment securities	295	296	2,238
Loss on valuation of investment in capital	164	164	1,245
Net defined benefit liability and asset	682	321	5,169
Impairment loss on long-lived assets	586	886	4,440
Allowance for doubtful accounts	22	32	171
Other	2,259	1,963	17,117
Less valuation allowance	(899)	(916)	(6,816)
Total	<u>5,633</u>	<u>4,629</u>	<u>42,677</u>
Deferred tax liabilities:			
Reserve for advanced depreciation	(167)	(176)	(1,266)
Unrealized gain on available-for-sale securities	(2,003)	(2,795)	(15,177)
Undistributed earnings of foreign subsidiaries	(2,503)	(1,972)	(18,965)
Accelerated depreciation	(826)	(738)	(6,263)
Other	(40)	(54)	(305)
Total	<u>(5,541)</u>	<u>(5,738)</u>	<u>(41,978)</u>
Net deferred tax assets (liabilities)	<u>¥ 92</u>	<u>¥ (1,109)</u>	<u>\$ 699</u>

Reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended December 31, 2022 and 2021 were as follows:

	2022	2021
Normal effective statutory tax rate	30.4%	30.4%
Adjustments:		
Non-taxable dividend income	(3.6)	(6.2)
Different income tax rates applicable to consolidated foreign subsidiaries	(5.4)	(5.6)
Dividends from consolidated foreign subsidiaries	3.7	4.5
Tax credit for research and development costs	(3.5)	(3.2)
Other - net	<u>3.2</u>	<u>4.4</u>
Actual effective tax rate	<u>24.8%</u>	<u>24.3%</u>

17. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Selling, general and administrative expenses	¥ 10,920	¥ 9,681	\$ 82,728
Cost of sales	<u>118</u>	<u>119</u>	<u>897</u>
Total	<u>¥ 11,038</u>	<u>¥ 9,800</u>	<u>\$ 83,625</u>

18. LEASES

The Group leases certain buildings and structures, machinery, computer hardware, software and other assets. The minimum rental commitments under non-cancelable operating leases at December 31, 2022 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Due within one year	¥ 41	¥ 27	\$ 316
Due after one year	<u>61</u>	<u>17</u>	<u>463</u>
Total	<u>¥ 102</u>	<u>¥ 44</u>	<u>\$ 780</u>

19. FINANCIAL INSTRUMENTS

(1) Group policy for financial instruments

The Group raises the funds necessary for its business operation and capital expenditure by taking into consideration the capital structure suitable for the economic environment and the actual state of the entity. Derivatives are used to avoid risks described below, and not for speculative purposes.

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

Trade receivables such as trade notes receivable and accounts receivable are exposed to customer credit risk. Also, trade receivables denominated in foreign currencies arising from exporting products are exposed to the risk of exchange rate fluctuations.

Securities and investment securities consist mainly of debt securities held to maturity and stocks of companies having business relationship with the Group, and stocks are exposed to the risk of market price fluctuations.

Payment terms of trade payables, such as trade notes and accounts payable, are less than one year. A part of those trade payables is denominated in foreign currencies and exposed to the risk of exchange rate fluctuations.

Long-term loans payable has fixed interest rates to hedge the risk of interest rate fluctuations. It includes loans payable from financial institutions with a floating interest rate made through a trust account associated with the introduction of “Trust-Type Employee Stock Ownership Plan.” Although the loans payable is subject to the risk of interest rate fluctuations, the impact is limited.

Derivatives mainly include foreign currency forward contracts and currency option contracts, which are used to manage exposure to foreign exchange rate fluctuations related to receivables and payables denominated in foreign currencies. Please see Note 20 for more detail about derivatives.

(3) Risk management for financial instruments

Credit risk management

The Group manages its credit risk from receivables in accordance with internal guidelines, which include monitoring of payment terms and balances of major customers by the credit administration department to identify the default risk of customers in the early stages.

With respect to held-to-maturity securities, the Group manages its exposure to credit risk by limiting its holdings to high credit rating bonds.

With respect to derivatives, the Group manages its exposure to credit risk by limiting its counterparties to major and creditworthy financial institutions.

The maximum credit risk exposure of financial assets is limited to their carrying amounts as of December 31, 2022.

Market risk management (foreign exchange and interest rate risk)

Foreign currency-denominated trade receivables and payables are exposed to market risk resulting from fluctuations in foreign currency exchange rates. Such foreign exchange risk, which is managed monthly by currency, is hedged mainly by foreign currency forward contracts and currency option contracts. Long-term loans payable has fixed interest rates to hedge the risk of interest rate fluctuations.

Investment securities are managed by monitoring market values and financial position of issuers on a regular basis.

Derivative transactions are executed and managed in accordance with “Financial Risk Management Rules.”

(4) Fair values of financial instruments

Fair values of financial instruments are measured using variable factors, and therefore using different assumptions may result in different values. Please see Note 20 for the detail of fair value for derivatives.

The carrying amount and the fair value of financial instruments and the difference between these values are as follows:

<u>December 31, 2022</u>	Millions of yen		
	Carrying amount	Fair value	Difference
Securities and investment securities (Note 2):			
Held-to-maturity	¥ 3,999	¥ 3,999	¥ —
Available-for-sale securities	15,995	15,995	—
Long-term time deposits	18,000	18,000	—
Total	<u>¥ 37,995</u>	<u>¥ 37,995</u>	<u>¥ —</u>
Long-term loans payable	¥ 10,222	¥ 9,952	¥ 269
Total	<u>¥ 10,222</u>	<u>¥ 9,952</u>	<u>¥ 269</u>
Derivative transactions	<u>¥ 3</u>	<u>¥ 3</u>	<u>¥ —</u>

- (Notes) 1. Cash and deposits, Time deposits, Trade notes receivable, Accounts receivable, and Trade notes and accounts payable are omitted from the table above because they are either cash or settled within a short period of time and their carrying amount approximates their fair value.
2. Stocks, etc. without market value are not included in “Securities and investment securities.” Their carrying amount is as follows:

	Carrying amount	
	Millions of yen	Thousands of U.S. dollars
Unlisted stocks, etc.	¥ 108	\$ 824
Investments in capital	100	757

<u>December 31, 2021</u>	Millions of yen		
	Carrying amount	Fair value	Difference
Securities and investment securities (Note 2):			
Held-to-maturity	¥ 3,999	¥ 3,999	¥ —
Available-for-sale securities	16,504	16,504	—
Long-term time deposits	18,000	18,000	0
Total	<u>¥ 38,504</u>	<u>¥ 38,504</u>	<u>¥ 0</u>
Long-term loans payable (including current portion)	¥ 10,611	¥ 10,652	¥ 40
Total	<u>¥ 10,611</u>	<u>¥ 10,652</u>	<u>¥ 40</u>
Derivative transactions	<u>¥ (175)</u>	<u>¥ (175)</u>	<u>¥ —</u>

- (Notes) 1. Cash and deposits, Time deposits, Trade notes receivable, Accounts receivable, and Trade notes and accounts payable are omitted from the table above because they are either cash or settled within a short period of time and their carrying amount approximates their fair value.
2. The following financial instruments are not included in “Securities and investment securities” as their fair value cannot be reliably determined. Their carrying amount is as follows:

	Carrying amount
	Millions of yen
Unlisted stocks, etc.	¥ 8
Investments in capital	100

December 31, 2022	Thousands of U.S. dollars		
	Carrying amount	Fair value	Difference
Securities and investment securities:			
Held-to-maturity	\$ 30,302	\$ 30,302	\$ —
Available-for-sale securities	121,179	121,179	—
Long-term time deposits	136,363	136,363	—
Total	<u>\$ 287,845</u>	<u>\$ 287,845</u>	<u>\$ —</u>
Long-term loans payable	\$ 77,441	\$ 75,400	\$ 2,040
Total	<u>\$ 77,441</u>	<u>\$ 75,400</u>	<u>\$ 2,040</u>
Derivative transactions	\$ 23	\$ 23	\$ —

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

December 31, 2022	Millions of yen		
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years
Cash and deposits	¥ 39,856	¥ —	¥ —
Time deposits	15,514	—	—
Trade notes receivable	911	—	—
Accounts receivable	34,900	—	—
Securities and investment securities:			
Held-to-maturity			
Trust beneficiary interests	3,000	—	—
Commercial paper	999	—	—
Long-term time deposits	—	18,000	—
Total	<u>¥ 95,183</u>	<u>¥ 18,000</u>	<u>¥ —</u>

December 31, 2021	Millions of yen		
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years
Cash and deposits	¥ 40,469	¥ —	¥ —
Time deposits	16,366	—	—
Trade notes receivable	810	—	—
Accounts receivable	33,084	—	—
Securities and investment securities:			
Held-to-maturity			
Trust beneficiary interests	3,000	—	—
Commercial paper	999	—	—
Long-term time deposits	—	18,000	—
Total	<u>¥ 94,731</u>	<u>¥ 18,000</u>	<u>¥ —</u>

	Thousands of U.S. dollars		
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years
<u>December 31, 2022</u>			
Cash and deposits	\$ 301,945	\$ —	\$ —
Time deposits	117,534	—	—
Trade notes receivable	6,907		
Accounts receivable	264,396	—	—
Securities and Investment securities:			
Held-to-maturity			
Trust beneficiary interests	22,727	—	—
Commercial paper	7,575	—	—
Long-term time deposits	—	136,363	—
Total	<u>\$ 721,086</u>	<u>\$ 136,363</u>	<u>\$ —</u>

(6) Fair value, etc. of financial instruments and breakdown of fair value by level

Fair value of financial instruments is categorized into the following three levels based on observability and significance of the inputs used in fair value measurement.

Level 1: Fair value measured using observable inputs that reflect quoted prices of the assets or liabilities in active markets

Level 2: Fair value measured using observable inputs other than Level 1 inputs

Level 3: Fair value measured using unobservable inputs

When fair value is measured using inputs from more than one level, the fair value is categorized based on the lowest priority level input that is significant to the entire measurement.

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

Year ended December 31, 2022

Classification	Millions of yen			
	Fair value			Total
	Level 1	Level 2	Level 3	
Securities and investment securities				
Available-for-sale securities				
Stocks	¥ 15,995	¥ —	¥ —	¥ 15,995
Derivatives				
Currency-related	—	5	—	5
Total	<u>¥ 15,995</u>	<u>¥ 5</u>	<u>¥ —</u>	<u>¥ 16,001</u>
Derivatives				
Currency-related	¥ —	¥ 2	¥ —	¥ 2
Total	<u>¥ —</u>	<u>¥ 2</u>	<u>¥ —</u>	<u>¥ 2</u>

Classification	Thousands of U.S. dollars			
	Fair value			
	Level 1	Level 2	Level 3	Total
Securities and investment securities				
Available-for-sale securities				
Stocks	\$ 121,179	\$ —	\$ —	\$ 121,179
Derivatives				
Currency-related	—	42	—	42
Total	<u>\$ 121,179</u>	<u>\$ 42</u>	<u>\$ —</u>	<u>\$ 121,221</u>
Derivatives				
Currency-related	\$ —	\$ 18	\$ —	\$ 18
Total	<u>\$ —</u>	<u>\$ 18</u>	<u>\$ —</u>	<u>\$ 18</u>

(b) Financial instruments other than those recorded on the consolidated balance sheet at fair value
Year ended December 31, 2022

Classification	Millions of yen			
	Fair value			
	Level 1	Level 2	Level 3	Total
Securities and investment securities				
Held-to-maturity debt securities				
Other	¥ —	¥ 3,999	¥ —	¥ 3,999
Long-term time deposits	—	18,000	—	18,000
Total	<u>¥ —</u>	<u>¥ 21,999</u>	<u>¥ —</u>	<u>¥ 21,999</u>
Long-term loans payable	¥ —	¥ 9,952	¥ —	¥ 9,952
Total	<u>¥ —</u>	<u>¥ 9,952</u>	<u>¥ —</u>	<u>¥ 9,952</u>

Classification	Thousands of U.S. dollars			
	Fair value			
	Level 1	Level 2	Level 3	Total
Securities and investment securities				
Held-to-maturity debt securities				
Other	\$ —	\$ 30,302	\$ —	\$ 30,302
Long-term time deposits	—	136,363	—	136,363
Total	<u>\$ —</u>	<u>\$ 166,666</u>	<u>\$ —</u>	<u>\$ 166,666</u>
Long-term loans payable	\$ —	\$ 75,400	\$ —	\$ 75,400
Total	<u>\$ —</u>	<u>\$ 75,400</u>	<u>\$ —</u>	<u>\$ 75,400</u>

(Note) Valuation technique used to measure fair value and inputs to fair value measurement

Held-to-maturity debt securities

Fair value of debt securities is measured based on the prices provided by the counterparty financial institutions and is categorized in Level 2.

Securities and investment securities

Fair value of listed stocks is measured based on the quoted prices and is categorized in Level 1 as listed stocks are traded on active markets.

Long-term time deposits

Fair value of long-term time deposits is measured by discounting the sum of principal and interest by the interest rate assumed to be applied to a similar new deposit and is categorized in Level 2.

Long-term loans payable

Fair value of long-term loans payable is measured by discounting the sum of principal and interest by the interest rate assumed to be applied to a similar new loans payable and is categorized in Level 2.

Derivatives

Fair value of derivatives is measured based on the prices provided by the counterparty financial institutions and is categorized in Level 2.

20. DERIVATIVES

The Group enters into foreign currency forward contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies.

All derivative transactions are entered into to hedge foreign currency exposures incorporated within its business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities.

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

Derivative transactions entered into by the Group have been made in accordance with internal policies which regulate the authorization and credit limit amounts.

(1) Derivative transactions to which hedge accounting is not applied

Millions of yen									
2022					2021				
	Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)	Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)	
Foreign currency forward contracts:									
Sell:									
NT\$	¥ 191	¥ —	¥ 5	¥ 5	¥ 158	¥ —	¥ (4)	¥ (4)	
KRW	148	—	(2)	(2)	2,454	—	(171)	(171)	
Total	¥ 340	¥ —	¥ 3	¥ 3	¥ 2,612	¥ —	¥ (175)	¥ (175)	
Thousands of U.S. dollars									
2022									
	Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)					
Foreign currency forward contracts:									
Sell:									
NT\$	\$ 1,454	\$ —	\$ 42	\$ 42					
KRW	1,125	—	(18)	(18)					
Total	\$ 2,580	\$ —	\$ 23	\$ 23					

* The fair value is based on prices provided by counterparty financial institutions.

(2) Derivative transactions to which hedge accounting is applied

		Millions of yen		
<u>December 31, 2022</u>	<u>Hedged Item</u>	<u>Contract amount</u>	<u>Contract amount due after one year</u>	<u>Fair value</u>
Foreign currency forward contracts:				
Sell:				
U.S.\$	Accounts receivable	¥ 3,791	¥ —	*
EUR	Accounts receivable	32	—	*
NT\$	Accounts receivable	924	—	*
Total		<u>¥ 4,748</u>	<u>¥ —</u>	<u>—</u>

		Millions of yen		
<u>December 31, 2021</u>	<u>Hedged Item</u>	<u>Contract amount</u>	<u>Contract amount due after one year</u>	<u>Fair value</u>
Foreign currency forward contracts:				
Sell:				
U.S.\$	Accounts receivable	¥ 3,186	¥ —	*
NT\$	Accounts receivable	788	—	*
Total		<u>¥ 3,975</u>	<u>¥ —</u>	<u>—</u>

		Thousands of U.S. dollars		
<u>December 31, 2022</u>	<u>Hedged Item</u>	<u>Contract amount</u>	<u>Contract amount due after one year</u>	<u>Fair value</u>
Foreign currency forward contracts:				
Sell:				
U.S.\$	Accounts receivable	\$ 28,722	\$ —	*
EUR	Accounts receivable	246	—	*
NT\$	Accounts receivable	7,006	—	*
Total		<u>\$ 35,974</u>	<u>\$ —</u>	<u>—</u>

* The fair value of foreign currency forward contracts is included in accounts receivable, etc. as these derivative contracts are accounted for as part of the hedged items (i.e. accounts receivables).

21. OTHER COMPREHENSIVE INCOME

Reclassification adjustments and tax effects regarding other comprehensive income for the years ended December 31, 2022 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Unrealized gain on available-for-sale securities:			
Recognized during the year	¥ (2,119)	¥ 3,508	\$ (16,059)
Reclassification adjustments	(243)	(4,820)	(1,848)
Before tax effects adjustment	(2,363)	(1,311)	(17,907)
Tax effects	792	494	6,003
Unrealized gain on available-for-sale securities	(1,571)	(817)	(11,904)
Foreign currency translation adjustments:			
Recognized during the year	3,649	3,881	27,644
Reclassification adjustments	—	—	—
Foreign currency translation adjustments	3,649	3,881	27,644
Remeasurements of defined benefit plans:			
Recognized during the year	(1,397)	638	(10,588)
Reclassification adjustments	(260)	(50)	(1,970)
Before tax effects adjustment	(1,657)	587	(12,558)
Tax effects	503	(178)	3,817
Remeasurements of defined benefit plans	(1,153)	409	(8,740)
Total other comprehensive income	¥ 923	¥ 3,472	\$ 6,999

22. EARNINGS PER SHARE

Basic earnings per share (“EPS”) for the years ended December 31, 2022 and 2021 was as follows:

	Yen		U.S. dollars
	2022	2021	2022
Basic EPS	¥ 489.56	¥ 430.73	\$ 3.70
Diluted EPS	488.81	429.91	3.70

Basis for the calculation of basic and diluted earnings per share is as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Profit attributable to owners of the parent	¥ 19,693	¥ 17,748	\$ 149,195

	Thousands of shares	
	2022	2021
Earnings per share:		
Weighted-average number of shares*	40,226	41,205
Diluted earnings per share:		
Increase in number of common stock	62	78
(Of those, stock acquisition rights)	(62)	(78)

* Weighted-average shares for the years ended December 31, 2022 and 2021 excluded the Company’s shares held by the “Tokyo Ohka Employees Stockholding Association.”

23. REVENUE RECOGNITION

- (1) Disaggregation of revenue arising from contracts with customers
Disaggregation of revenue arising from contracts with customers is disclosed in Note 24, “Segment Information.”
- (2) Basic information for the understanding of revenue arising from contracts with customers
Basic information for the understanding of revenue is disclosed in Note 2, “Summary of Significant Accounting Policies, o. Revenue and Expenses.”
- (3) Relationship between satisfaction of performance obligations based on contracts with customers and cash flows arising from the contracts, and information on the amount and timing of revenue expected to be recognized in or after the year ending December 31, 2023 from contracts with customers existing as of December 31, 2022.
 - (a) Balance of contract liabilities

	2022	
	Millions of yen	Thousands of U.S. dollars
Receivables from contracts with customers (January 1)	¥ 33,895	\$ 256,782
Receivables from contracts with customers (December 31)	35,812	271,304
Contracts liabilities (January 1)	2,571	19,478
Contracts liabilities (December 31)	3,282	24,866

Contract liabilities primarily relate to considerations received from customers before products are delivered and are reclassified to revenue when revenue is recognized. Contract liabilities are included in “Other current liabilities” and “Other non-current liabilities” in the consolidated balance sheets.

The amount of revenue recognized in the year ended December 31, 2022 that was included in the contract liability balance as of January 1, 2022 was insignificant. The amount of revenue recognized in the year ended December 31, 2022 from performance obligations satisfied in previous periods was insignificant.

- (b) Transaction price allocated to the remaining obligations
The Company applied the practical expedient, and the information on the remaining obligations is omitted as there are no material contracts that have an original expected duration of one year. Also, there is no material consideration from contracts with customers that is not included in the transaction price.

24. SEGMENT INFORMATION

For the years ended December 31, 2022 and 2021

- (1) Description of reportable segments

The Group’s reportable segments are those for which separate financial information is available and regular evaluation by the Company’s management is being performed in order to decide resources allocation within the Group and to evaluate performance. Therefore, the Group consists of the Material Business engaging in manufacturing and sales of mainly electronic functional material and high-purity chemicals and Equipment Business engaging in manufacturing, sales and maintenance of semiconductor/LCD manufacturing equipment.

- (2) Methods of measuring net sales, profit or loss, assets and other items by reportable segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, “Summary of Significant Accounting Policies.” Segment income is based on operating income, and inter-segment sales or transfers are based on market prices.

(3) Changes, etc. in reportable segments

As described in Changes in Accounting Policies, we applied the Accounting Standard for Revenue Recognition, etc. from January 1, 2022 and changed the accounting treatments for revenue recognition, and accordingly, the method of measuring profit or loss of reportable segments was also changed.

The impact of this change on sales and segment profit for the year ended December 31, 2022 was insignificant.

(4) Information on sales, profit or loss, assets and other items is as follows:

Millions of yen					
2022					
	Reportable segment			Reconciliations (Note)	Total
	Material Business	Equipment Business	Total		
Net sales:					
Electronic functional materials	¥ 91,868	¥ —	¥ 91,868	¥ —	¥ 91,868
High-purity chemicals	77,460	—	77,460	—	77,460
Process equipment	—	5,105	5,105	—	5,105
Other	1,000	—	1,000	—	1,000
Revenue from contracts with customers	170,329	5,105	175,434	—	175,434
Other revenue	—	—	—	—	—
Net sales to external customers	170,329	5,105	175,434	—	175,434
Inter-segment sales or transfers	0	155	155	(155)	—
Total	¥170,329	¥ 5,260	¥175,589	¥ (155)	¥ 175,434
Segment profit	¥ 34,755	¥ 790	¥ 35,546	¥ (5,364)	¥ 30,181
Segment assets	161,813	4,697	166,510	71,564	238,075
Other items:					
Depreciation	6,470	40	6,511	250	6,762
Increase in property, plant and equipment and intangible assets	14,022	135	14,158	356	14,514

Note: Reconciliations to

- Segment profit amounting to ¥(5,364) million (\$ (40,643) thousand) includes common costs of ¥(5,364) million (\$ (40,643) thousand), which are not allocated to reportable segments.
- Segment assets amounting to ¥71,564 million (\$542,155 thousand) include working capital (the Company's cash, deposits, securities and long-term time deposits) and investment securities of ¥62,948 million (\$476,880 thousand), which are not allocated to reportable segments.
- Increase in property, plant and equipment and intangible assets of ¥356 million (\$2,698 thousand) is related to common assets.

Millions of yen					
2021					
	Reportable segment			Reconciliations (Note)	Total
	Material Business	Equipment Business	Total		
Net sales:					
Net sales to external customers	¥137,725	¥ 2,329	¥140,055	¥ —	¥ 140,055
Intersegment sales or transfers	3	110	113	(113)	—
Total	<u>¥137,728</u>	<u>¥ 2,439</u>	<u>¥140,168</u>	<u>¥ (113)</u>	<u>¥ 140,055</u>
Segment profit (loss)	¥ 26,438	¥ (290)	¥ 26,147	¥ (5,440)	¥ 20,707
Segment assets	135,794	3,016	138,811	78,452	217,264
Other items:					
Depreciation	6,158	34	6,193	237	6,430
Increase in property, plant and equipment and intangible assets	8,678	40	8,719	601	9,321
Note: Reconciliations to					
— Segment profit (loss) amounting to ¥(5,440) million includes common costs of ¥(5,440) million, which are not allocated to reportable segments.					
— Segment assets amounting to ¥78,452 million include working capital (the Company's cash, deposits, securities and long-term time deposits) and investment securities of ¥69,955 million, which are not allocated to reportable segments.					
— Increase in property, plant and equipment and intangible assets of ¥601 million is related to common assets.					

Thousands of U.S. dollars					
2022					
	Reportable segment			Reconciliations (Note)	Total
	Material Business	Equipment Business	Total		
Net sales:					
Electronic functional materials	\$ 695,970	\$ —	\$ 695,970	\$ —	\$ 695,970
High-purity chemicals	586,822	—	586,822	—	586,822
Process equipment	—	38,676	38,676	—	38,676
Other	<u>7,583</u>	<u>—</u>	<u>7,583</u>	<u>—</u>	<u>7,583</u>
Revenue from contracts with customers	1,290,376	38,676	1,329,052	—	1,329,052
Other revenue	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net sales to external customers	1,290,376	38,676	1,329,052	—	1,329,052
Inter-segment sales or transfers	0	1,174	1,174	(1,174)	—
Total	<u>\$ 1,290,376</u>	<u>\$ 39,850</u>	<u>\$ 1,330,227</u>	<u>\$ (1,174)</u>	<u>\$ 1,329,052</u>
Segment profit	\$ 263,301	\$ 5,991	\$ 269,293	\$ (40,643)	\$ 228,650
Segment assets	1,225,856	35,588	1,261,445	542,155	1,803,600
Other items:					
Depreciation	49,022	305	49,327	1,900	51,227
Increase in property, plant and equipment and intangible assets	106,233	1,024	107,258	2,698	109,956

【Related Information】

For the years ended December 31, 2022 and 2021

(1) Information about geographical areas

(a) Sales	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Japan	¥ 31,214	¥ 29,681	\$ 236,470
Taiwan	67,872	53,422	514,184
Korea	21,864	16,529	165,638
U.S.A.	14,617	11,082	110,736
China	29,888	21,534	226,427
Other areas	9,978	7,803	75,594
Total	<u>¥ 175,434</u>	<u>¥ 140,055</u>	<u>\$1,329,052</u>

(b) Property, plant and equipment	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Japan	¥ 43,271	¥ 34,046	\$ 327,816
Taiwan	7,128	7,195	54,006
Korea	8,741	8,883	66,224
U.S.A.	5,985	6,005	45,342
Other areas	882	801	6,688
Total	<u>¥ 66,010</u>	<u>¥ 56,932</u>	<u>\$ 500,077</u>

(2) Information about major customers

Name of customers	Relevant segment	Sales amount		Thousands of U.S. dollars
		Millions of yen		
		2022	2021	2022
Taiwan Semiconductor Manufacturing Company, Ltd.	Material Business Equipment Business	¥ 51,029	¥ 37,623	\$ 386,587

25. MATERIAL SUBSEQUENT EVENTS

(Company split and transfer of subsidiary stock)

The Company resolved at its Board of Directors meeting held on September 10, 2022 to enter into a share transfer agreement to transfer its Equipment Business (excluding certain parts) (the “Target Business”) to a succession preparatory company to be established as the Company’s wholly-owned subsidiary (the “New Company”) through an absorption-type company split (the Company Split”) and then transfer all of the shares of the New Company to AIMECHATEC, Ltd. (“AIMECHATEC”)(the “Share Transfer” and the “Transaction” collectively with the Company Split), and entered into the agreement on that day.

(1) Objective of the Transaction

To concentrate management resources on its core Material Business, the Company has decided to proceed with the Transaction to transfer the Target Business to AIMECHATEC, an equipment manufacturer with advanced technological and customer support capabilities, which develops, designs, manufactures and sells LCD panel manufacturing equipment, etc. and provides after-sales services in Japan and overseas with fine coating technology and high-precision bonding technology as its core technologies. The Company also expects that the collaboration between our Material Business and the Target Business after the transfer to AIMECHATEC will enhance the Target Business and achieve its sustainable growth as well as maintain and further develop our M&E strategy.

(2) Name of the company to be established for the Company Split

Process Equipment Business Split Preparatory Co., Ltd.

(3) Description and scale of the business to be split

Description of the business: Equipment Business (excluding certain parts)

Scale of the business (Year ended December 31, 2022): Net sales ¥5,260 million (\$39,850 thousand)

Operating income ¥790 million (\$5,991 thousand)

(4) Name of the reportable segment in which the business to be split was included

Equipment Business

(5) Schedule of the Company Split and the Share Transfer

March 1, 2023

(6) Form of the Company Split

A simplified absorption-type company split with the Company as the splitting company and the New Company as the successor company

(7) Name of the counterparty of the Share Transfer

AIMECHATEC, Ltd.

(8) Summary of the accounting treatment of the Transaction

The Company Split will be accounted for as a common control transaction in accordance with *Accounting Standard for Business Combinations* (ASBJ Statement No. 21, January 16, 2019) and *Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures* (ASBJ Guidance No. 10, January 16, 2019).

The Share Transfer will be accounted for in accordance with *Accounting Standard for Business Divestitures* (ASBJ Statement No. 7, September 13, 2013) and *Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures* (ASBJ Guidance No. 10, January 16, 2019).

CAUTIONARY STATEMENT

The Company’s financial statements in English have not been audited by independent auditors. However, the original Japanese financial statements on which they are based have been audited by independent auditors.