
Appendix

TOKYO OHKA KOGYO CO., LTD. and Subsidiaries

Fiscal year ended December 31, 2020
(January 1, 2020 — December 31, 2020)

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

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries

Consolidated Balance Sheets December 31, 2020 and 2019

<u>ASSETS</u>	<u>Millions of yen</u>		<u>Thousands of</u> <u>U.S. dollars</u> <u>(Note 1)</u>
	<u>2020</u>	<u>2019</u>	<u>2020</u>
CURRENT ASSETS:			
Cash and deposits (Notes 6 and 18)	¥ 41,728	¥ 28,230	\$ 405,132
Time deposits (Note 18)	6,094	18,175	59,165
Receivables:			
Trade notes and accounts (Note 18)	26,302	23,887	255,365
Securities (Notes 6, 7 and 18)	2,999	2,999	29,125
Other	563	557	5,466
Allowance for doubtful accounts	(96)	(95)	(932)
Inventories (Note 8)	17,659	17,439	171,447
Prepaid expenses and other current assets	1,691	2,087	16,427
Total current assets	96,943	93,282	941,197
PROPERTY, PLANT AND EQUIPMENT (Note 9):			
Land	8,589	8,880	83,388
Buildings and structures	71,891	69,871	697,980
Machinery and equipment	60,264	57,284	585,093
Furniture and fixtures	21,757	21,271	211,233
Right-of-use assets	553	514	5,374
Construction in progress	4,566	6,618	44,330
Total	167,622	164,441	1,627,399
Accumulated depreciation	(114,510)	(109,384)	(1,111,749)
Net property, plant and equipment	53,112	55,057	515,650
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 7 and 18)	17,604	14,815	170,921
Investments in and advanced to an unconsolidated subsidiary and associated companies	7	7	72
Investment in capital	100	100	970
Net defined benefit asset (Note 11)	3,683	3,204	35,762
Long-term time deposits (Note 18)	28,000	18,000	271,844
Deferred tax assets (Note 15)	346	395	3,362
Other assets	1,388	1,624	13,476
Total investments and other assets	51,130	38,147	496,411
TOTAL	¥ 201,185	¥ 186,486	\$ 1,953,259

See notes to consolidated financial statements.

<u>LIABILITIES AND EQUITY</u>	<u>Millions of yen</u>		<u>Thousands of</u>
	<u>2020</u>	<u>2019</u>	<u>U.S. dollars</u> <u>(Note 1)</u>
			<u>2020</u>
CURRENT LIABILITIES:			
Payables:			
Trade notes and accounts (Note 18)	¥ 13,745	¥ 10,345	\$ 133,454
Construction and other	3,520	4,351	34,181
Income taxes payable	2,219	700	21,549
Accrued expenses	4,661	3,871	45,253
Advances from customers	14	50	142
Other current liabilities	1,031	996	10,017
Total current liabilities	<u>25,193</u>	<u>20,316</u>	<u>244,598</u>
LONG-TERM LIABILITIES:			
Long-term loans payable (Note 10 and 18)	10,962	11,272	106,432
Deferred tax liabilities (Note 15)	2,046	887	19,864
Net defined benefit liability (Note 11)	484	436	4,701
Other long-term liabilities (Note 12)	2,504	1,840	24,319
Total long-term liabilities	<u>15,997</u>	<u>14,437</u>	<u>155,317</u>
EQUITY (Notes 13 and 21):			
Common stock - authorized, 197,000,000 shares in 2020 and 2019 issued, 45,100,000 shares in 2020 and 2019	14,640	14,640	142,140
Capital surplus	15,207	15,207	147,649
Retained earnings	125,795	120,908	1,221,320
Treasury stock - at cost, 3,591,418 shares in 2020 and 3,711,937 shares in 2019	(14,477)	(14,969)	(140,561)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	7,669	5,695	74,458
Foreign currency translation adjustments	2,606	2,866	25,308
Remeasurements of defined benefit plans	113	145	1,104
Total	<u>151,556</u>	<u>144,495</u>	<u>1,471,419</u>
Stock acquisition rights	304	379	2,958
Non-controlling interests	8,133	6,858	78,966
Total equity	<u>159,994</u>	<u>151,733</u>	<u>1,553,343</u>
TOTAL	<u>¥ 201,185</u>	<u>¥ 186,486</u>	<u>\$ 1,953,259</u>

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries

Consolidated Statement of Income Years Ended December 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
NET SALES	¥117,585	¥102,820	\$1,141,602
COST OF SALES (Notes 8, 14 and 16)	76,372	69,604	741,481
Gross profit	41,212	33,215	400,121
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 11, 14 and 16)	25,623	23,669	248,767
Operating income	15,589	9,546	151,354
OTHER INCOME (EXPENSES):			
Interest and dividend income	474	447	4,602
Foreign exchange gain (loss) - net	27	(410)	263
(Loss) gain on valuation of derivatives	(52)	95	(510)
Loss on impairment of long-lived assets (Note 9)	(605)	(477)	(5,878)
Loss on valuation of investments in capital (Note 7)	-	(540)	-
Loss on valuation of investment securities (Note 7)	(269)	(29)	(2,612)
Other—net	186	27	1,808
Other expenses - net	(239)	(888)	(2,327)
INCOME BEFORE INCOME TAXES AND NON- CONTROLLING INTERESTS	15,349	8,657	149,026
INCOME TAXES (Note 15):			
Current	3,123	1,972	30,329
Deferred	225	49	2,189
Total income taxes	3,349	2,021	32,518
NET INCOME BEFORE NON-CONTROLLING INTERESTS	12,000	6,635	116,508
NON-CONTROLLING INTERESTS IN NET INCOME	2,073	1,225	20,133
PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 9,926	¥ 5,410	\$ 96,375

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries

Consolidated Statement of Income Years Ended December 31, 2020 and 2019

	Yen		U.S. dollars
	<u>2020</u>	<u>2019</u>	<u>2020</u>
PER SHARE OF COMMON STOCK (Notes 13 and 21):			
Basic earnings per share	¥ 239.42	¥ 130.02	\$ 2.32
Diluted earnings per share	238.78	129.62	2.31
Cash dividends attributable to the year	154.00	120.00	1.49

See notes to consolidated financial statements.

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income
Years Ended December 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
NET INCOME BEFORE NON-CONTROLLING INTERESTS	¥ 12,000	¥ 6,635	\$ 116,508
OTHER COMPREHENSIVE INCOME (Note 20):			
Unrealized gain on available-for-sale securities	1,973	1,380	19,159
Foreign currency translation adjustments	(174)	(284)	(1,694)
Remeasurements of defined benefit plans	(31)	385	(306)
Total other comprehensive income	<u>1,767</u>	<u>1,481</u>	<u>17,158</u>
COMPREHENSIVE INCOME	<u>¥ 13,767</u>	<u>¥ 8,117</u>	<u>\$ 133,666</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥ 11,608	¥ 6,904	\$ 112,705
Non-controlling interests	2,159	1,212	20,961

See notes to consolidated financial statements.

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries

**Consolidated Statement of Changes in Equity
Years Ended December 31, 2020 and 2019**

	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, 2019	41,663	¥ 14,640	¥ 15,207	¥ 120,885	¥(13,816)	¥ 4,315	¥ 3,137	¥ (239)	¥ 144,130	¥ 310	¥ 6,416	¥ 150,857
Cumulative effect of changes in accounting policy				(332)					(332)			(332)
Restated balance	41,663	14,640	15,207	120,552	(13,816)	4,315	3,137	(239)	143,797	310	6,416	150,525
Profit attributable to owners of the parent	—	—	—	5,410	—	—	—	—	5,410	—	—	5,410
Cash dividends paid:												
Final for prior year, ¥60.0 per share	—	—	—	(2,499)	—	—	—	—	(2,499)	—	—	(2,499)
Interim for current year, ¥60.0 per share	—	—	—	(2,501)	—	—	—	—	(2,501)	—	—	(2,501)
Purchase of treasury stock	(329)	—	—	—	(1,371)	—	—	—	(1,371)	—	—	(1,371)
Disposal of treasury stock	53	—	—	(53)	218	—	—	—	165	(12)	—	153
Net change in items other than shareholders' equity during the year	—	—	—	0	—	1,380	(271)	385	1,495	81	441	2,018
BALANCE, DECEMBER 31, 2019	<u>41,388</u>	<u>¥ 14,640</u>	<u>¥ 15,207</u>	<u>¥ 120,908</u>	<u>¥(14,969)</u>	<u>¥ 5,695</u>	<u>¥ 2,866</u>	<u>¥ 145</u>	<u>¥ 144,495</u>	<u>¥ 379</u>	<u>¥ 6,858</u>	<u>¥ 151,733</u>
Profit attributable to owners of the parent	—	—	—	9,926	—	—	—	—	9,926	—	—	9,926
Cash dividends paid:												
Final for prior year, ¥60.0 per share	—	—	—	(2,501)	—	—	—	—	(2,501)	—	—	(2,501)
Interim for current year, ¥60.0 per share	—	—	—	(2,505)	—	—	—	—	(2,505)	—	—	(2,505)
Purchase of treasury stock	(0)	—	—	—	(2)	—	—	—	(2)	—	—	(2)
Disposal of treasury stock	120	—	—	(32)	494	—	—	—	462	(96)	—	365
Net change in items other than shareholders' equity during the year	—	—	—	—	—	1,973	(259)	(31)	1,682	22	1,274	2,978
BALANCE, DECEMBER 31, 2020	<u>41,508</u>	<u>14,640</u>	<u>15,207</u>	<u>125,795</u>	<u>(14,477)</u>	<u>7,669</u>	<u>2,606</u>	<u>113</u>	<u>151,556</u>	<u>304</u>	<u>8,133</u>	<u>159,994</u>

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries

**Consolidated Statement of Changes in Equity
Years Ended December 31, 2020 and 2019**

Thousands of U.S. dollars (Note 1)

	Common stock	Capital surplus	Retained earnings	Treasury stock	Accumulated other comprehensive income (loss)			Total	Subscription rights to shares	Non- controlling interests	Total equity
					Unrealized (loss) gain on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans				
BALANCE, DECEMBER 31, 2019	\$ 142,140	\$ 147,649	\$ 1,173,870	\$(145,334)	\$ 55,298	\$ 27,830	\$ 1,411	\$ 1,402,866	\$ 3,684	\$ 66,589	\$ 1,473,141
Profit attributable to owners of the parent	—	—	96,375	—	—	—	—	96,375	—	—	96,375
Cash dividends paid:											
Final for prior year, \$0.58 per share	—	—	(24,286)	—	—	—	—	(24,286)	—	—	(24,286)
Interim for current year, \$0.58 per share	—	—	(24,326)	—	—	—	—	(24,326)	—	—	(24,326)
Purchase of treasury stock	—	—	—	(25)	—	—	—	(25)	—	—	(25)
Disposal of treasury stock	—	—	(312)	4,798	—	—	—	4,485	(940)	—	3,545
Net change in items other than shareholders' equity during the year	—	—	—	—	19,159	(2,522)	(306)	16,330	214	12,376	28,921
BALANCE, DECEMBER 31, 2020	<u>\$ 142,140</u>	<u>\$ 147,649</u>	<u>\$ 1,221,320</u>	<u>\$(140,561)</u>	<u>\$ 74,458</u>	<u>\$ 25,308</u>	<u>\$ 1,104</u>	<u>\$ 1,471,419</u>	<u>\$ 2,958</u>	<u>\$ 78,966</u>	<u>\$ 1,553,343</u>

See notes to consolidated financial statements.

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows Years Ended December 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
OPERATING ACTIVITIES:			
Income before income taxes and non-controlling interests	¥ 15,349	¥ 8,657	\$ 149,026
Adjustments for:			
Depreciation and amortization	6,772	7,216	65,753
Loss on impairment of long-lived assets	605	477	5,878
Provision for doubtful accounts	0	(56)	1
Provision for bonuses	547	(56)	5,312
Provision for officers' bonuses	249	8	2,423
Increase in net defined benefit asset	(469)	(289)	(4,559)
Decrease in net defined benefit liability	(22)	(154)	(219)
Interest and dividend income	(474)	(447)	(4,602)
Interest expenses	60	62	591
Foreign exchange loss - net	44	580	432
Loss (gain) on valuation of derivatives	52	(95)	510
Gain on sales of non-current assets	(150)	(118)	(1,465)
Loss on retirement of non-current assets	58	127	570
Loss on valuation of investments in capital	—	540	—
Loss on valuation of investment securities	269	29	2,612
Increase in trade notes and accounts receivable	(2,356)	(1,367)	(22,873)
Increase in inventories	(228)	(388)	(2,215)
Increase (decrease) in trade notes and accounts payable	2,993	(943)	29,063
Decrease in advances received	(36)	(37)	(350)
Interest and dividend received	487	441	4,735
Income taxes paid	(1,637)	(2,302)	(15,895)
Other - net	836	859	8,118
Net cash provided by operating activities	<u>22,953</u>	<u>12,743</u>	<u>222,848</u>
INVESTING ACTIVITIES:			
Decrease in time deposits - net	2,108	47	20,469
Purchase of securities	(8,000)	(6,000)	(77,669)
Proceeds from redemption of securities	8,000	4,000	77,669
Purchases of property, plant and equipment	(5,881)	(14,774)	(57,102)
Proceeds from sale of property, plant and equipment	457	48	4,437
Purchases of intangible assets	(127)	(145)	(1,238)
Payments into long-term time deposits	(23,000)	(14,000)	(223,300)
Withdrawal of long-term time deposits	23,000	14,000	223,300
Purchases of investment securities	(99)	(430)	(970)
Other - net	62	(31)	606
Net cash used in investing activities	<u>(3,481)</u>	<u>(17,286)</u>	<u>(33,797)</u>
FINANCING ACTIVITIES:			
Proceeds of long-term loans payable	—	1,372	—
Repayments of long-term loans payable	(309)	(99)	(3,007)
Dividends paid	(4,994)	(4,989)	(48,490)
Dividends paid for non-controlling interests	(884)	(770)	(8,584)
Proceeds from sale of treasury stock	310	143	3,011
Purchases of treasury stock	(2)	(1,371)	(25)
Other - net	(56)	(74)	(553)
Net cash used in financing activities	<u>(5,937)</u>	<u>(5,789)</u>	<u>(57,649)</u>

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows
Years Ended December 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	¥ (35)	¥ (289)	\$ (346)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	13,498	(10,621)	131,054
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	29,229	39,851	283,786
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 6)	<u>¥ 42,728</u>	<u>¥ 29,229</u>	<u>\$ 414,840</u>

See notes to consolidated financial statements.

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements Years Ended December 31, 2020 and 2019

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.

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 ¥103 to \$1, the approximate rate of exchange at December 31, 2020. 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 off. 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 seven 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 effect 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 products 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 products.

- 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 (i), are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method.

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

- 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 10 to 50 years for buildings and structures, and from 3 to 8 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. *Other 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.

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 8 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, except for leases which existed at April 1, 2008 and do not transfer ownership of the leased property to the lessee which are accounted for as operating lease transactions.

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. 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.

p. 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 were recorded in “Foreign currency translation adjustments” and “Non-controlling interests” in Equity.

q. 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.

r. 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. ACCOUNTING STANDARD ISSUED BUT NOT YET ADOPTED

New or revised accounting standards issued as of December 31, 2020 but not yet adopted by the Group are as follows.

1. Accounting standard for revenue recognition, etc.

The Company and its domestic consolidated subsidiaries

- Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020)
- Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 31, 2020)
- Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

(1) Outline

The International Accounting Standards Board (IASB) and the U.S. Financial Accounting Standards Board (FASB) jointly developed comprehensive accounting standards for revenue recognition and issued Revenue from Contracts with Customers in May 2014 as IFRS 15 by IASB and as Topic 606 by FASB, which became effective for annual reporting periods beginning on or after January 1, 2018, and those beginning after December 15, 2017, respectively. In light of this situation, the Accounting Standards Board of Japan (ASBJ) developed and issued a comprehensive accounting standard for revenue recognition along

with its implementation guidance.

The basic policy of ASBJ in developing the accounting standard for revenue recognition was to incorporate the fundamental principles of IFRS 15 as a starting point from the perspective of comparability between financial statements, which is one of the benefits of maintaining consistency with IFRS 15, with alternative treatments added for items requiring consideration of practices which have been generally accepted in Japan, if any, to the extent that comparability would not be impaired.

- (2) Scheduled date of application
The standard and its implementation guidance are scheduled to be applied from January 1, 2022.
- (3) Impact of the application of the accounting standard, etc.
The Company is currently evaluating the impact of applying *Accounting Standard for Revenue Recognition*, etc. on the consolidated financial statements.

2. Accounting standard for fair value measurement, etc.

The Company and its domestic consolidated subsidiaries

- Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019)
- Accounting Standard for Measurement of Inventories (ASBJ Statement No. 9, July 4, 2019)
- Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019)
- Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, July 4, 2019)
- Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

(1) Outline

In light of the fact that both IASB and FASB have published similar detailed guidance on fair value measurement (i.e., International Financial Reporting Standard (IFRS) 13 *Fair Value Measurement* under IFRS and Accounting Standards Codification Topic 820 *Fair Value Measurement* under U.S. GAAP), ASBJ worked to promote consistency between Japanese standards and international accounting standards mainly regarding the guidance and disclosure on fair value of financial instruments and published *Accounting Standard for Fair Value Measurement*, etc.

The basic policy of ASBJ in developing the accounting standard for fair value measurement was to basically adopt all provisions of IFRS 13 with an aim to improve comparability of financial statements of companies in Japan and overseas by using a unified measurement method and also to provide other treatments for individual items in consideration of practices which have been generally accepted in Japan to the extent that comparability of financial statements would not be seriously impaired.

- (2) Scheduled date of application
The accounting standard, etc. are scheduled to be applied from January 1, 2022.
- (3) Impact of the application of the accounting standard, etc.
The Company is currently evaluating the impact of applying *Accounting Standard for Fair Value Measurement*, etc. on the consolidated financial statements.

3. Accounting standard for accounting policy disclosures, accounting changes and error corrections

The Company and its domestic consolidated subsidiaries

- Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections (ASBJ Statement No. 24, March 31, 2020)

(1) Outline

In response to a proposal to consider the enhancement of information in notes on “principles and procedures of accounting treatments adopted when the provisions of related accounting standards, etc. are not clear,” ASBJ made necessary revisions and published them as *Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections*.

In pursuing the enhancement of information in notes on “principles and procedures of accounting treatments adopted when the provisions of related accounting standards, etc. are not clear,” the provisions of the Annotations to Corporate Accounting Principles (Annotation 1-2) must continue to be applied so as not to affect the accounting practices which have been adopted when the provisions of related accounting standards, etc. are clear.

(2) Scheduled date of application

The accounting standard is scheduled to be applied from December 31, 2021.

4. Accounting standard for disclosure of accounting estimates

The Company and its domestic consolidated subsidiaries

- Accounting Standard for Disclosures of Accounting Estimates (ASBJ Statement No. 31, March 31, 2020)

(1) Outline

With regard to “sources of estimation uncertainty” required to be disclosed by Paragraph 125 of International Accounting Standard (IAS) 1 *Presentation of Financial Statements* (“IAS 1”) issued by IASB in 2003, ASBJ received requests to consider requiring such disclosure in the notes under Japanese GAAP as information highly useful to users of the financial statements, and accordingly developed and published *Accounting Standard for Disclosures of Accounting Estimates*.

ASBJ developed the accounting standard, by reference to Paragraph 125 of IAS 1, with the basic policy to present the principle (purpose of disclosure) instead of enhancing individual notes and allow companies to determine specific information to be disclosed in light of the purpose of disclosure.

(2) Scheduled date of application

The accounting standard is scheduled to be applied from December 31, 2021.

4. CHANGES IN PRESENTATION

(Consolidated statement of income)

“Loss on valuation of investment securities” which was included in “Other-net” under “Other income (expenses)” for the year ended December 31, 2019 is presented separately for the year ended December 31, 2020 as the amount became material. To reflect this change in presentation, the consolidated financial statements for the year ended December 31, 2019 were reclassified.

As a result, in the consolidated statement of income for the year ended December 31, 2019, ¥(2) million which was presented as “Other-net” under “Other income (expenses)” was reclassified to “Loss on valuation of investment securities” (¥(29) million) and “Other-net” (¥27 million).

(Consolidated statement of cash flows)

“Provision for officers’ bonuses” and “Loss on valuation of investment securities” which were included in “Other-net” under “Cash flows from operating activities” for the year ended December 31, 2019 are presented separately for the year ended December 31, 2020 as the amount became material. Also, “Proceeds from sale of property, plant and equipment” which was included in “Other-net” under “Cash flows from investing activities” for the year ended December 31, 2019 is presented separately for the year ended December 31, 2020 as the amount became material. To reflect these changes in presentation, the consolidated financial statements for the year ended December 31, 2019 were reclassified.

As a result, in the consolidated statement of cash flows for the year ended December 31, 2019, ¥898 million which was presented as “Other-net” under “Cash flows from operating activities” was reclassified to “Provision for officers’ bonuses” (¥8 million), “Loss on valuation of investment securities” (¥29 million) and “Other-net” (¥859 million), and ¥16 million which was presented as “Other-net” under “Cash flows from investing activities” was reclassified to “Proceeds from sale of property, plant and equipment” (¥48 million) and “Other-net” (¥(31) million).

5. 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, 2020 and 2019 were ¥1,049 million (\$10,190 thousand) and 251 thousand shares and ¥1,268 million and 304 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, 2020	¥ 962	\$ 9,344
December 31, 2019	¥ 1,272	

(Accounting estimates regarding impacts of COVID-19)

Although it is difficult to accurately forecast the impact of COVID-19 such that how the infection will spread or when it will end, the impact on earnings of the Group is insignificant, and therefore, there is no impact on accounting estimates for the year ended December 31, 2020.

6. CASH AND CASH EQUIVALENTS

The balances of cash and deposits reflected in the consolidated balance sheets at December 31, 2020 and 2019 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
	2020	2019	2020
Cash and deposits	¥ 41,728	¥ 28,230	\$ 405,132
Securities	999	999	9,708
Cash and cash equivalents	<u>¥ 42,728</u>	<u>¥ 29,229</u>	<u>\$ 414,840</u>

7. INVESTMENT SECURITIES

Investment securities as of December 31, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Current:			
Trust beneficiary interests	¥ 2,000	¥ 2,000	\$ 19,417
Commercial paper	999	999	9,708
Total	<u>¥ 2,999</u>	<u>¥ 2,999</u>	<u>\$ 29,125</u>
Non-current:			
Marketable equity securities	¥ 17,603	¥ 14,811	\$ 170,908
Total	<u>¥ 17,603</u>	<u>¥ 14,811</u>	<u>\$ 170,908</u>

The costs and aggregate fair values of investment securities at December 31, 2020 and 2019 were as follows:

	Millions of yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
<u>December 31, 2020</u>				
Securities classified as:				
Held to maturity	¥ 2,999	¥ —	¥ —	¥ 2,999
Available-for-sale	¥ 6,644	¥11,457	¥(498)	¥ 17,603
	Millions of yen			
<u>December 31, 2019</u>	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Held to maturity	¥ 2,999	¥ —	¥ —	¥ 2,999
Available-for-sale	¥ 6,812	¥ 8,269	¥(270)	¥ 14,811
	Thousands of U.S. dollars			
<u>December 31, 2020</u>	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Held to maturity	\$ 29,125	\$ —	\$ —	\$ 29,125
Available-for-sale	\$ 64,507	\$ 111,236	\$ (4,836)	\$ 170,908

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, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2019
Amount sold	¥ 2	¥ 11	\$ 27
Total gains	2	1	20
Total losses	—	—	—

Impairment of securities

For the year ended December 31, 2020, impairment loss of ¥269 million (\$2,612 thousand) was recorded for available-for-sale securities. For the year ended December 31, 2019, impairment loss of ¥570 million was recorded for securities (¥29 million for available-for sale securities and ¥540 million for investments in capital).

The Company generally recognizes impairment loss for securities with market value when their market values at year-end are more than 50% lower than their costs. When the decline in value is between 30% and 50%, the amount deemed necessary in consideration of the materiality and recoverability is recognized as impairment loss.

For securities whose market value is not readily available, impairment loss is recognized when the net asset value is more than approximately 50% lower than the cost in consideration of recoverability and other relevant factors.

8. INVENTORIES

Inventories at December 31, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Merchandise and finished products	¥ 6,943	¥ 7,022	\$ 67,416
Work in process	4,197	4,312	40,753
Raw materials and supplies	<u>6,517</u>	<u>6,105</u>	<u>63,278</u>
Total	<u>¥ 17,659</u>	<u>¥ 17,439</u>	<u>\$ 171,447</u>

9. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of December 31, 2020 and 2019, and recognized impairment losses of ¥605 million (\$5,878 thousand) and ¥477million, respectively for the following assets. The carrying amount of those assets was written down to the recoverable amount.

For the year ended December 31, 2020

Use	Type of assets	Location (Prefecture/Country)	Amount	
			Millions of yen	Thousands of U.S. dollars
Business assets for Material business	Building and structures, Machinery and equipment, Furniture and fixtures, Land and Construction in progress	Kanagawa, Kumamoto, Saitama, and Tochigi	¥ 487	\$ 4,736
Business assets for Equipment business	Building and structures, Machinery and equipment, Furniture and fixtures, and Construction in progress	Kanagawa	54	530
Idle assets	Building and structures and Intangible fixed assets	Kanagawa	63	611
Total			¥ 605	\$ 5,878

For the year ended December 31, 2019

Use	Type of assets	Location (Prefecture/Country)	Amount
			Millions of yen
Business assets for Equipment business	Machinery and equipment, Furniture and fixtures and Construction in progress	Kanagawa and Kumamoto	¥ 56
Business assets for Material business	Building and structures, Machinery and equipment, Furniture and fixtures	Tochigi	421
Total			¥ 477

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 or value in use calculated by discounting future cash flows at 6.3%. Assets other than land and buildings are considered to have no real value and evaluated at their memorandum value.

10. LONG-TERM LOANS PAYABLE

Long-term loans payable at December 31, 2020 and 2019 consisted of the following:

	<u>Millions of yen</u>		<u>Thousands of</u>
	<u>2020</u>	<u>2019</u>	<u>U.S. dollars</u>
			<u>2020</u>
Unsecured loan from a bank, with average interest rate of 0.47% for the years ended December 31, 2020	¥ 10,962	¥ 11,272	\$ 106,432
Total	<u>¥ 10,962</u>	<u>¥ 11,272</u>	<u>\$ 106,432</u>

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

<u>Years ending December 31,</u>	<u>Millions of yen</u>	<u>Thousands of</u>
		<u>U.S. dollars</u>
2021	¥ —	\$ —
2022	3,900	37,864
2023	—	—
2024	962	9,344
2025	3,900	37,864
2026 and thereafter	2,200	21,359
Total	<u>¥ 10,962</u>	<u>\$ 106,432</u>

11. 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.

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
 - (1) Retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Beginning balance	¥ 15,854	¥ 16,064	\$ 153,930
Service cost	661	657	6,419
Interest cost	87	88	851
Actuarial differences incurred during the year	(105)	(145)	(1,019)
Payment of retirement benefit	(811)	(793)	(7,878)
Effect of transfer to defined contribution pension plan	—	(17)	—
Ending balance	<u>¥ 15,687</u>	<u>¥ 15,854</u>	<u>\$ 152,303</u>

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

- (2) Pension assets

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Beginning balance	¥ 13,414	¥ 12,611	\$ 130,237
Expected return on plan assets	335	315	3,255
Actuarial differences incurred during the year	(54)	473	(531)
Contributions from employer	694	688	6,747
Payment of retirement benefit	(702)	(673)	(6,824)
Ending balance	<u>¥ 13,687</u>	<u>¥ 13,414</u>	<u>\$ 132,883</u>

- (3) Employee retirement benefit trust

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Beginning balance	¥ 5,208	¥ 5,213	\$ 50,566
Expected return on plan assets	13	13	126
Actuarial differences incurred during the year	(21)	(17)	(212)
Ending balance	<u>¥ 5,199</u>	<u>¥ 5,208</u>	<u>\$ 50,480</u>

(4) 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
	2020	2019	2020
Retirement benefit obligations under the funded plan	¥ 15,477	¥ 15,690	\$ 150,262
Pension assets	(13,687)	(13,414)	(132,883)
Employee retirement benefit trust	(5,199)	(5,208)	(50,480)
	(3,409)	(2,932)	(33,101)
Retirement benefit obligations under the unfunded plan	210	164	2,040
Net liabilities or assets recorded on the consolidated balance sheet	(3,199)	(2,767)	(31,060)
Net defined benefit liabilities	484	436	4,701
Net defined benefit assets	(3,683)	(3,204)	(35,762)
Net liabilities or assets recorded on the consolidated balance sheet	<u>¥ (3,199)</u>	<u>¥ (2,767)</u>	<u>\$ (31,060)</u>

(5) Net periodic benefit cost and its components

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Service cost	¥ 661	¥ 657	\$ 6,419
Interest cost	87	88	851
Expected return on plan assets	(348)	(328)	(3,382)
Amortized actuarial differences	182	209	1,773
Amortized prior service cost	(256)	(256)	(2,489)
Net periodic benefit cost of defined benefit plan	<u>¥ 326</u>	<u>¥ 370</u>	<u>\$ 3,171</u>

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

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Prior service cost	¥ (256)	¥ (256)	\$ (2,489)
Actuarial differences	210	809	2,048
Total	<u>¥ (45)</u>	<u>¥ 553</u>	<u>\$ (440)</u>

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Unrecognized prior service cost	¥ 769	¥ 1,025	\$ 7,467
Unrecognized actuarial differences	(605)	(816)	(5,880)
Total	<u>¥ 163</u>	<u>¥ 208</u>	<u>\$ 1,586</u>

(8) Plan assets and employee retirement benefit trust

(a) Components of plan assets

	<u>2020</u>	<u>2019</u>
Debt securities	45%	48%
Equity securities	33%	30%
Other	22%	22%
Total	<u>100%</u>	<u>100%</u>

(b) Components of employee retirement benefit trust

	<u>2020</u>	<u>2019</u>
Debt securities	92%	98%
Other	8%	2%
Total	<u>100%</u>	<u>100%</u>

(c) 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.

(9) Basis for calculation of actuarial differences

	<u>2020</u>	<u>2019</u>
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

Contributions to defined contribution pension plans by the Company and its consolidated subsidiaries

	<u>Millions of yen</u>		<u>Thousands of</u>
	<u>2020</u>	<u>2019</u>	<u>U.S. dollars</u>
			<u>2020</u>
	¥ 188	¥ 185	\$ 1,832

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 is ¥17 million (\$171 thousand), and the transfer is expected to complete in four years. The remaining balance as of December 31, 2020 was ¥8 million (\$85 thousand) and is recorded in Other payables and Long-term other payables (“Other” in Long-term liabilities).

12. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations during the year ended December 31, 2020 and 2019 were as follows:

	<u>Millions of yen</u>		<u>Thousands of</u>
	<u>2020</u>	<u>2019</u>	<u>U.S. dollars</u>
			<u>2020</u>
Balance at beginning of year	¥ 81	¥ 87	\$ 787
Adjustments associated with passage of time	1	1	10
Others	<u>(0)</u>	<u>(7)</u>	<u>(6)</u>

Balance at end of year	<u>¥ 81</u>	<u>¥ 81</u>	<u>\$ 792</u>
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13. EQUITY

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

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. 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.

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

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

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

c. Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by 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 ¥94 (\$0.91) per share approved at the general shareholders’ meeting held on March 30, 2021, aggregating ¥3,925 million (\$38,111 thousand) in respect of the year ended December 31, 2020. Total dividends include dividends declared on the Company’s shares held by “Tokyo Ohka Employee Stockholding Association Trust” of ¥23 million (\$229 thousand).

14. STOCK OPTIONS

(1) Share-based compensation expenses which were accounted for as cost of sales and selling, general and administrative expenses

	Millions of yen		Thousands of
	2020	2019	U.S. dollars
Cost of sales	¥ 2	¥ 11	\$ 27
Selling, general and administrative expenses	175	74	1,708

(2) Outline, number and changes of stock options

(a) Outline of stock options

Stock options outstanding as of December 31, 2020 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	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	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, 2020 was as follows:

	Number of shares		
	2019	2018	2017
Unvested stock options:			
As of December 31, 2019	—	—	—
Granted	—	—	—
Forfeited	—	—	—
Vested	—	—	—
Unvested options as of December 31, 2020	—	—	—
Vested stock options:			
As of December 31, 2019	32,800	20,200	14,500
Vested	—	—	—
Exercised	5,900	4,500	3,400
Forfeited	—	—	—
Unexercised options as of December 31, 2020	26,900	15,700	11,100
	Yen		
Exercise price	¥ 1	¥ 1	¥ 1
Average share price at the time of exercise	¥ 3,925	¥ 3,925	¥ 3,925
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	\$ 38.10	\$ 38.10	\$ 38.10
Fair value per share at grant date	\$ 26.11	\$ 40.42	\$ 32.65

	Number of shares		
	2016	2015	2014
Unvested stock options:			
As of December 31, 2019	—	—	—
Granted	—	—	—
Forfeited	—	—	—
Vested	—	—	—
Unvested options as of December 31, 2020	—	—	—
Vested stock options:			
As of December 31, 2019	27,200	17,100	22,200
Vested	—	—	—
Exercised	6,500	5,000	7,400
Forfeited	—	—	—
Unexercised options as of December 31, 2020	20,700	12,100	14,800
	Yen		
Exercise price	¥ 1	¥ 1	¥ 1
Average share price at the time of exercise	¥ 3,925	¥ 3,925	¥ 3,925
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	\$ 38.10	\$ 38.10	\$ 38.10
Fair value per share at grant date	\$ 26.76	\$ 30.99	\$ 22.25

(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.

15. 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, 2020 and 2019. 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, 2020 and 2019 were as follows:

	<u>Millions of yen</u>		<u>Thousands of U.S. dollars</u>
	<u>2020</u>	<u>2019</u>	<u>2020</u>
Deferred tax assets:			
Accrued bonuses for employees	¥ 679	¥ 507	\$ 6,594
Unrealized gains on finished goods	686	485	6,664
Loss on valuation of inventories	327	404	3,177
Loss on valuation of investment securities	351	350	3,413
Loss on valuation of investment in capital	164	164	1,595
Net defined benefit liability and asset	583	717	5,664
Loss on impairment of long-lived assets	861	957	8,362
Allowance for doubtful accounts	26	25	252
Other	1,281	1,034	12,440
Less valuation allowance	<u>(890)</u>	<u>(869)</u>	<u>(8,640)</u>
Total	<u>4,071</u>	<u>3,778</u>	<u>39,521</u>
Deferred tax liabilities:			
Reserve for advanced depreciation	(188)	(200)	(1,827)
Unrealized gain on available-for-sale securities	(3,290)	(2,303)	(31,942)
Undistributed earnings of foreign subsidiaries	(1,726)	(1,378)	(16,763)
Accelerated depreciation	(522)	(343)	(5,075)
Other	<u>(43)</u>	<u>(43)</u>	<u>(417)</u>
Total	<u>(5,770)</u>	<u>(4,270)</u>	<u>(56,026)</u>
Net deferred tax assets (liabilities)	<u>¥ (1,699)</u>	<u>¥ (491)</u>	<u>\$ (16,501)</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, 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Normal effective statutory tax rate	30.4%	30.4%
Adjustments:		
Non-taxable dividend income	(3.8)	(6.0)
Different income tax rates applicable to income in certain foreign countries	(8.3)	(6.4)
Dividends from consolidated foreign subsidiaries eliminated for consolidation purposes	3.7	6.0
Tax credit for research and development costs	(3.2)	(2.4)
Other—net	<u>3.0</u>	<u>1.9</u>
Actual effective tax rate	<u>21.8%</u>	<u>23.4%</u>

16. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were as follows:

	Millions of yen		Thousands of
	2020	2019	U.S. dollars
Selling, general and administrative expenses	¥ 9,413	¥ 8,725	\$ 91,388
Cost of sales	<u>132</u>	<u>154</u>	<u>1,288</u>
Total	<u>¥ 9,545</u>	<u>¥ 8,879</u>	<u>\$ 92,677</u>

17. 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, 2020 and 2019 were as follows:

	Millions of yen		Thousands of
	2020	2019	U.S. dollars
Due within one year	¥ 20	¥ 25	\$ 196
Due after one year	<u>17</u>	<u>19</u>	<u>170</u>
Total	<u>¥ 37</u>	<u>¥ 44</u>	<u>\$ 367</u>

18. 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 and accounts 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 payables, such as trade notes and accounts, 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 market risks from changes in foreign exchange rates of receivables and payables. Please see Note 19 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 international financial institutions.

The maximum credit risk exposure of financial assets is limited to their carrying amounts as of December 31, 2020.

Market risk management (foreign exchange and interest rate risk)

Foreign currency 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 based on quoted price in active markets. When quoted price is not available, other values calculated using reasonable valuation techniques are used. Please see Note 19 for the detail of fair value for derivatives.

(a) *Fair value of financial instruments*

<u>December 31, 2020</u>	Millions of yen		
	<u>Carrying amount</u>	<u>Fair value</u>	<u>Unrealized gain/loss</u>
Cash and deposits	¥ 41,728	¥ 41,728	¥ —
Time deposits	6,094	6,094	—
Receivables - Trade notes and accounts	26,302	26,302	—
Securities and Investment securities:			
Held to maturity	2,999	2,999	—
Available-for-sale securities	17,603	17,603	—
Long-term time deposits	<u>28,000</u>	<u>28,001</u>	<u>1</u>
Total	<u>¥ 122,728</u>	<u>¥ 122,730</u>	<u>¥ 1</u>
Payables - Trade notes and accounts	¥ 13,745	¥ 13,745	¥ —
Long-term loans payable	<u>10,962</u>	<u>11,034</u>	<u>71</u>
Total	<u>¥ 24,708</u>	<u>¥ 24,779</u>	<u>¥ 71</u>
Derivative transactions	<u>¥ (210)</u>	<u>¥ (210)</u>	<u>¥ —</u>

<u>December 31, 2019</u>	Millions of yen		
	<u>Carrying amount</u>	<u>Fair value</u>	<u>Unrealized gain/loss</u>
Cash and deposits	¥ 28,230	¥ 28,230	¥ —
Time deposits	18,175	18,175	—
Receivables - Trade notes and accounts	23,887	23,887	—
Securities and Investment securities:			
Held to maturity	2,999	2,999	—
Available-for-sale securities	14,811	14,811	—
Long-term time deposits	<u>18,000</u>	<u>17,999</u>	<u>(0)</u>
Total	<u>¥ 106,104</u>	<u>¥ 106,104</u>	<u>¥ (0)</u>
Payables - Trade notes and accounts	¥ 10,345	¥ 10,345	¥ —
Long-term loans payable	<u>11,272</u>	<u>11,331</u>	<u>58</u>
Total	<u>¥ 21,617</u>	<u>¥ 21,676</u>	<u>¥ 58</u>
Derivative transactions	<u>¥ (180)</u>	<u>¥ (180)</u>	<u>¥ —</u>

<u>December 31, 2020</u>	Thousands of U.S. dollars		
	<u>Carrying amount</u>	<u>Fair value</u>	<u>Unrealized gain/loss</u>
Cash and deposits	\$ 405,132	\$ 405,132	\$ —
Time deposits	59,165	59,165	—
Receivables - Trade notes and accounts	255,365	255,365	—
Securities and Investment securities:			
Held to maturity	29,125	29,125	—
Available-for-sale securities	170,908	170,908	—
Long-term time deposits	<u>271,844</u>	<u>271,859</u>	<u>14</u>
Total	<u>\$ 1,191,541</u>	<u>\$ 1,191,556</u>	<u>\$ 14</u>
Payables - Trade notes and accounts	\$ 133,454	\$ 133,454	\$ —
Long-term loans payable	<u>106,432</u>	<u>107,127</u>	<u>695</u>
Total	<u>\$ 239,886</u>	<u>\$ 240,581</u>	<u>\$ 695</u>
Derivative transactions	<u>\$ (2,046)</u>	<u>\$ (2,046)</u>	<u>\$ —</u>

Cash and deposits, Time Deposits and Receivables - Trade Notes and Accounts

The carrying amount of cash and deposits, time deposits and receivables - trade notes and accounts approximates their fair value because of their short maturities.

Securities and Investment Securities

The carrying amount of debt securities held to maturity approximates their fair value because of their short maturities. The fair value of equity instruments is measured at the quoted market price of the stock exchange. The information of securities by classification is included in Note 7.

Long-Term Time Deposits

The 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.

Payables - Trade Notes and Accounts

The carrying amount of payables - trade notes and accounts approximates their fair value because of their short maturities.

Long-Term Loans Payable

The carrying amount of long-term loans payable with floating interest rates approximates their fair value as floating rates reflect market rates within a short period of time. The fair value of long-term loans payable with fixed interest rates is measured by discounting the sum of principal and interest by the rates assumed to be applied to a similar new loans payable.

Derivatives

The information on the fair value of derivatives is included in Note 19.

(b) *Financial instruments whose fair value cannot be reliably determined*

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	<u>2020</u>	<u>2019</u>	<u>2020</u>
Unlisted equity instruments	¥ 8	¥ 10	\$ 86
Investments in capital	100	100	970

(5) *Maturity Analysis for Financial Assets and Securities with Contractual Maturities*

	Millions of yen		
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years
<u>December 31, 2020</u>			
Cash and deposits	¥ 41,728	¥ —	¥ —
Time deposits	6,094	—	—
Receivables - Trade notes and accounts	26,302	—	—
Securities and Investment securities:			
Held to maturity			
Trust beneficiary interests	2,000	—	—
Commercial paper	999	—	—
Long-term time deposits	—	28,000	—
Total	<u>¥ 77,125</u>	<u>¥ 28,000</u>	<u>¥ —</u>

	Millions of yen		
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years
<u>December 31, 2019</u>			
Cash and deposits	¥ 28,230	¥ —	¥ —
Time deposits	18,175	—	—
Receivables - Trade notes and accounts	23,887	—	—
Securities and Investment securities:			
Held to maturity			
Trust beneficiary interests	2,000	—	—
Commercial paper	999	—	—
Long-term time deposits	—	18,000	—
Total	<u>¥ 73,293</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 through 10 years
<u>December 31, 2020</u>			
Cash and deposits	\$ 405,132	\$ —	\$ —
Time deposits	59,165	—	—
Receivables - Trade notes and accounts	255,365	—	—
Securities and Investment securities:			
Held to maturity			
Trust beneficiary interests	19,417	—	—
Commercial paper	9,708	—	—
Long-term time deposits	—	271,844	—
Total	<u>\$ 748,788</u>	<u>\$ 271,844</u>	<u>\$ —</u>

19. 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.

Derivative Transactions to Which Hedge Accounting is not Applied

	Millions of yen							
	2020				2019			
	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:								
EUR	¥ —	¥ —	¥ —	¥ —	¥ 121	¥ —	¥ (1)	¥ (1)
NT\$	122	—	(1)	(1)	93	—	(2)	(2)
KRW	4,895	1,421	(208)	(208)	7,562	2,936	(176)	(176)
Total	<u>¥ 5,017</u>	<u>¥ 1,421</u>	<u>¥ (210)</u>	<u>¥ (210)</u>	<u>¥ 7,777</u>	<u>¥ 2,936</u>	<u>¥ (180)</u>	<u>¥ (180)</u>

	Thousands of U.S. dollars			
	2020			
	Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)
Foreign currency forward contracts:				
Sell:				
NT\$	\$ 1,185	\$ —	\$ (18)	\$ (18)
KRW	47,531	13,805	(2,028)	(2,028)
Total	<u>\$ 48,717</u>	<u>\$ 13,805</u>	<u>\$ (2,046)</u>	<u>\$ (2,046)</u>

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

Derivative Transactions to Which Hedge Accounting is Applied

<u>December 31, 2020</u>	<u>Hedged Item</u>	<u>Millions of yen</u>		
		<u>Contract amount</u>	<u>Contract amount due after one year</u>	<u>Fair value</u>
Foreign currency forward contracts:				
Selling U.S.\$	Receivables—Trade accounts	¥ 3,304	¥ —	*
Selling EUR	Receivables—Trade accounts	294	—	*
Selling NT\$	Receivables—Trade accounts	368	—	*

<u>December 31, 2019</u>	<u>Hedged Item</u>	<u>Millions of yen</u>		
		<u>Contract amount</u>	<u>Contract amount due after one year</u>	<u>Fair value</u>
Foreign currency forward contracts:				
Selling U.S.\$	Receivables—Trade accounts	¥ 2,776	¥ —	*
Selling EUR	Receivables—Trade accounts	190	—	*
Selling NT\$	Receivables—Trade accounts	466	—	*

<u>December 31, 2020</u>	<u>Hedged Item</u>	<u>Thousands of U.S. dollars</u>		
		<u>Contract amount</u>	<u>Contract amount due after one year</u>	<u>Fair value</u>
Foreign currency forward contracts:				
Selling U.S.\$	Receivables—Trade accounts	\$ 32,086	\$ —	*
Selling EUR	Receivables—Trade accounts	2,860	—	*
Selling NT\$	Receivables—Trade accounts	3,579	—	*

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

20. OTHER COMPREHENSIVE INCOME

Reclassification adjustments and tax effects regarding other comprehensive income for the years ended December 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of
	2020	2019	U.S. dollars
			2020
Unrealized gain on available-for-sale securities:			
Recognized during the year	¥ 2,961	¥ 1,935	\$ 28,755
Reclassification adjustments	(2)	(1)	(20)
Before tax effects adjustment	2,959	1,933	28,734
Tax effects	(986)	(553)	(9,574)
Unrealized gain on available-for-sale securities	1,973	1,380	19,159
Foreign currency translation adjustments:			
Recognized during the year	(174)	(284)	(1,694)
Reclassification adjustments	—	—	—
Foreign currency translation adjustments	(174)	(284)	(1,694)
Remeasurements of defined benefit plans:			
Recognized during the year	28	600	275
Reclassification adjustments	(73)	(47)	(716)
Before tax effects adjustment	(45)	553	(440)
Tax effects	13	(168)	134
Remeasurements of defined benefit plans	(31)	385	(306)
Total other comprehensive income	¥ 1,767	¥ 1,481	\$ 17,158

21. EARNINGS PER SHARE

Basic earnings per share (“EPS”) for the years ended December 31, 2020 and 2019 was as follows:

	Yen		U.S. dollars
	2020	2019	2020
Basic EPS	¥ 239.42	¥ 130.02	\$ 2.32
Diluted EPS	238.78	129.62	2.31

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Profit attributable to owners of the parent	¥ 9,926	¥ 5,410	\$ 96,375

	Thousands of shares	
	2020	2019
Earnings per share:		
Weighted-average number of shares*	41,460	41,608
Diluted earnings per share:		
Increase in number of common stock	110	125
(Of those, stock acquisition rights)	(110)	(125)

* Weighted-average shares for the years ended December 31, 2020 and 2019 excluded the Company’s shares held by the “Tokyo Ohka Employees Stockholding Association.”

22. SEGMENT INFORMATION

For the years ended December 31, 2020 and 2019

(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 the amounts of sales, profit (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."

(3) Information about sales, profit (loss), assets and other items was as follows:

	Millions of yen				
	2020				
	Reportable segment		Total	Reconciliations	Consolidated
Material business	Equipment business				
Sales:					
Sales to customers	¥114,773	¥ 2,811	¥117,585	¥ —	¥ 117,585
Intersegment sales or transfers	<u>2</u>	<u>63</u>	<u>66</u>	<u>(66)</u>	<u>—</u>
Total sales	<u>¥114,776</u>	<u>¥ 2,875</u>	<u>¥117,651</u>	<u>¥ (66)</u>	<u>¥ 117,585</u>
Segment profit (loss)	¥ 20,395	¥ (310)	¥ 20,084	¥ (4,494)	¥ 15,589
Segment assets	119,695	2,015	121,711	79,474	201,185
Other:					
Depreciation	6,518	32	6,551	221	6,772
Increase in property, plant and equipment and intangible assets	5,489	122	5,612	146	5,758

Note: Reconciliations to

— Segment profit (loss) amounting to ¥(4,494) million (\$43,640 thousand) includes common costs of ¥(4,494) million (\$43,640 thousand), which are not allocated to reportable segments.

— Segment assets amounting to ¥79,474 million (\$771,595 thousand) include working capital (the Company's cash, deposits, securities and long-term time deposits) and investment securities of ¥72,700 million (\$705,825 thousand), which are not allocated to reportable segments.

— Increase in property, plant and equipment and intangible assets of ¥146 million (\$1,418 thousand) is related to common assets.

	Millions of yen				
	2019				
	Reportable segment			Reconciliations	Consolidated
Material business	Equipment business	Total			
Sales:					
Sales to customers	¥ 98,986	¥ 3,833	¥102,820	¥ —	¥ 102,820
Intersegment sales or transfers	<u>1</u>	<u>46</u>	<u>48</u>	<u>(48)</u>	<u>—</u>
Total sales	<u>¥ 98,988</u>	<u>¥ 3,880</u>	<u>¥102,869</u>	<u>¥ (48)</u>	<u>¥ 102,820</u>
Segment profit (loss)	¥ 13,462	¥ (286)	¥ 13,175	¥ (3,628)	¥ 9,546
Segment assets	113,079	3,612	116,691	69,795	186,486
Other:					
Depreciation	7,009	36	7,046	170	7,216
Increase in property, plant and equipment and intangible assets	14,159	57	14,217	238	14,455

Note: Reconciliations to

- Segment profit (loss) amounting to ¥(3,628) million includes common costs of ¥(3,628) million, which are not allocated to reportable segments.
- Segment assets amounting to ¥69,795 million include working capital (the Company's cash, deposits, securities and long-term time deposits) and investment securities of ¥62,445 million, which are not allocated to reportable segments.
- Increase in property, plant and equipment and intangible assets of ¥238 million is related to common assets.

	Thousands of U.S. dollars				
	2020				
	Reportable segment			Reconciliations	Consolidated
Material business	Equipment business	Total			
Sales:					
Sales to customers	\$1,114,306	\$ 27,295	\$1,141,602	\$ —	\$ 1,141,602
Intersegment sales or transfers	<u>27</u>	<u>619</u>	<u>647</u>	<u>(647)</u>	<u>—</u>
Total sales	<u>\$1,114,334</u>	<u>\$ 27,915</u>	<u>\$1,142,249</u>	<u>\$ (647)</u>	<u>\$ 1,141,602</u>
Segment profit (loss)	\$ 198,013	\$ (3,018)	\$ 194,994	\$ (43,640)	\$ 151,354
Segment assets	1,162,093	19,570	1,181,664	771,595	1,953,259
Other:					
Depreciation	63,289	312	63,602	2,151	65,753
Increase in property, plant and equipment and intangible assets	53,299	1,192	54,491	1,418	55,909

【Related Information】

For the years ended December 31, 2020 and 2019

(1) Information about geographical areas

(a) Sales

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Japan	¥ 24,819	¥ 24,549	\$ 240,969
Taiwan	47,474	40,552	460,914
Korea	13,747	11,659	133,472
U.S.A.	10,093	9,709	97,994
China	15,217	10,676	147,740
Other areas	6,232	5,672	60,511
Total	<u>¥ 117,585</u>	<u>¥ 102,820</u>	<u>\$1,141,602</u>

(b) Property, plant and equipment

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Japan	¥ 31,599	¥ 33,165	\$ 306,791
Taiwan	6,975	7,456	67,718
Korea	8,990	9,244	87,287
U.S.A.	5,177	4,795	50,269
Other areas	369	394	3,583
Total	<u>¥ 53,112</u>	<u>¥ 55,057</u>	<u>\$ 515,650</u>

(2) Information about major customers

Name of customers	Relevant segment	Sales amount		Thousands of
		Millions of yen		U.S. dollars
		2020	2019	2020
Taiwan Semiconductor Manufacturing Company, Ltd.	Material Business Equipment Business	¥ 31,321	¥ 24,289	\$ 304,093

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.