

2021

ANNUAL REPORT

|Financial Summary|

Fiscal year ended March 31, 2021

FUJI CORPORATION

CONTENTS

Five-Year Summary	2
Analysis of Operating Results	3
Business and Other Risks	10
Consolidated Balance Sheets	12
Consolidated Statements of Income	14
Consolidated Statements of Comprehensive Income	15
Consolidated Statements of Changes in Equity	16
Consolidated Statements of Cash Flows	18
Notes to Consolidated Financial Statements	19
Independent Auditor's Report	54

Five-Year Summary

FUJII CORPORATION and Consolidated Subsidiaries

Years ended March 31

	Millions of yen					Thousands of U.S. dollars (Note 1)
	2017	2018	2019	2020	2021	2021
For the Year						
Orders	¥ 94,024	¥ 123,540	¥ 124,254	¥ 146,816	¥ 150,022	\$ 1,351,550
Net sales	86,397	120,032	129,105	140,968	136,162	1,226,685
Domestic	11,877	19,515	15,360	14,779	13,655	123,018
Overseas	74,520	100,517	113,745	126,189	122,507	1,103,667
Operating profit	9,794	22,827	23,107	19,572	21,904	197,334
Profit before income taxes	9,948	24,148	23,448	20,713	24,065	216,802
Net profit attributable to owners of parent	7,055	17,524	16,855	14,964	17,168	154,667
Capital expenditures	6,175	6,765	11,223	8,642	7,856	70,775
Depreciation	5,158	5,282	6,067	6,825	7,274	65,531
Research and development expenses	6,789	8,349	7,993	8,804	9,009	81,162
Cash flows from operating activities	17,380	16,220	4,186	22,560	30,871	278,117
Cash flows from investing activities	(10,160)	(9,170)	(28,458)	(5,101)	(10,471)	(94,333)
Free cash flows	7,220	7,050	(24,272)	17,459	20,400	183,784
Cash flows from financing activities	(10,916)	(3,165)	(4,111)	(3,994)	(4,578)	(41,243)
At Year-End						
Total assets	¥ 158,407	¥ 183,038	¥ 194,367	¥ 198,504	¥ 224,671	\$ 2,024,063
Net assets	130,948	151,413	161,624	167,939	194,557	1,752,766
Cash and cash equivalents at end of year	55,359	58,924	30,853	43,907	60,389	544,045
Number of employees (Persons)	2,117	2,229	2,449	2,493	2,522	
Per Share Data (yen and U.S. dollars)						
Net profit						
Basic	¥ 76.19	¥ 195.04	¥ 184.52	¥ 163.81	¥ 184.26	\$ 1.66
Diluted	70.90	181.87	174.98	155.22	177.80	1.60
Net assets	1,461.63	1,655.29	1,767.30	1,834.76	2,014.41	18.15
Cash dividends	30.00	40.00	50.00	50.00	50.00	0.45
Ratios (%)						
Overseas sales ratio	86.3	83.7	88.1	89.5	90.0	
Operating profit ratio	11.3	19.0	17.9	13.9	16.1	
Net profit ratio	8.2	14.6	13.1	10.6	12.6	
R&D expense ratio to net sales	7.9	7.0	6.2	6.2	6.6	
Return on assets	4.5	10.3	8.9	7.6	8.1	
Return on equity	5.4	12.4	10.8	9.1	9.5	
Equity ratio	82.5	82.6	83.1	84.4	86.5	

Notes: 1) U.S. dollar amounts are converted from Japanese yen, for convenience only, at the rate of ¥111 to U.S.\$1.00.

2) Due to the application of "Partial Amendments to Accounting Standards for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) from the beginning of the fiscal year ended March 31, 2019, the principal financial data presented for the fiscal year ended March 31, 2018, are restated figures after the retrospective application of the Accounting Standards, etc.

Analysis of Operating Results

Overview

In the fiscal year ended March 31, 2021, the Japanese economy faced tremendous downward pressure due to the impact of the spread of the novel coronavirus disease (COVID-19), resulting in a deterioration in corporate earnings and a decrease in capital investments. Meanwhile, there were signs of a pickup in the manufacturing industry, while the economic outlook continues to be uncertain. In the global economy, although a trend of business recovery continued in China, business conditions in Europe and North America remained challenging due to the impact of the spread of COVID-19, and capital investments were weak in the manufacturing industry.

In this environment, under the corporate slogan of “Excite and Inspire,” the Company and its subsidiaries (hereinafter referred to as the “Group”) have taken on the challenge of reforming based on a growth strategy of capturing the times and pioneering the future using robotics technology. The Group is developing attractive products that look ahead to the future. In the area of its leading robotic mounters, the Group is promoting the market launch of the high-end model NXTR, a machine equipped with the world’s first automatic component supply system designed to fully automate electronic component mounting processes, and in the area of machine tools, the Group announced the multitasking machine “GYROFLEX T4000 (referred to as GYROFLEX),” which has a robot that combines the machining of industrial machinery and highly automated technologies. In addition, amid the COVID-19 pandemic, the Group actively implemented new sales approaches, such as promoting “WEB meetings” that do not rely on face-to-face sales, in addition to holding private showings with thorough measures against the spread of COVID-19, including the simultaneous organization of “WEB EXPO,” and worked to expand the Group’s market share. The Group also aimed to improve profitability by building a production structure that simultaneously pursues lower costs and higher efficiency, and carrying out initiatives such as further reduction of fixed costs through business reforms in which paperless operations, web conferences, and teleworking were promoted through active implementation of DX responding to the era of the new normal.

Net sales

Net sales decreased by ¥4,806 million (3.4%) from the previous fiscal year to ¥136,162 million, as sales in both the Robotic Solutions segment and the Machine Tools segment decreased.

Overseas sales decreased by ¥3,682 million (2.9%) from the previous fiscal year to ¥122,507 million, as capital investment in European and Americas markets, which mainly sell automotive-related products, was weak due to the spread of COVID-19. The percentage of overseas sales to total net sales was 90.0% (China: 52.7%, Other Asian countries: 22.3%, Europe: 7.2%, United States: 5.4%, Others: 2.4%), representing an increase of 0.5 percentage points from the previous fiscal year. Domestic sales decreased by ¥1,124 million (7.6%) from the previous fiscal year to ¥13,655 million, due to the influence of decreased sales in the Machine Tools segment because of sluggish automotive-related demand.

Operating profit

Operating profit increased by ¥2,332 million (11.9%) from the previous fiscal year to ¥21,904 million.

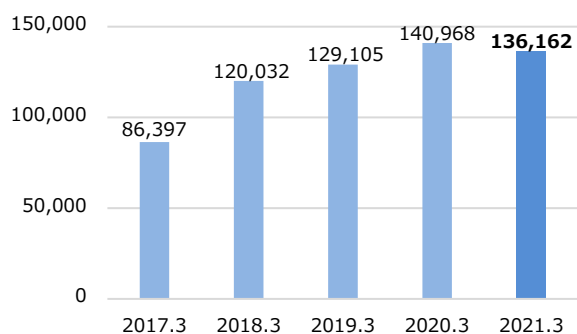
Net profit attributable to owners of parent

In terms of other income (expenses), income (net) increased by ¥1,020 million from the previous fiscal year to ¥2,161 million as a result of recording gain on sales of investment securities. Profit before income taxes increased by ¥3,352 million (16.2%) from the previous fiscal year to ¥24,065 million.

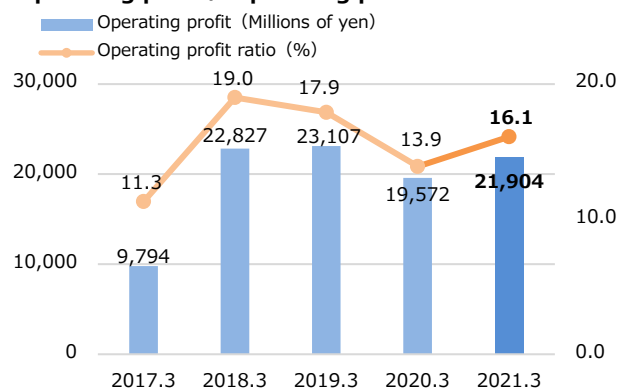
Net profit attributable to owners of parent increased by ¥2,204 million (14.7%) from the previous fiscal year, to ¥17,168 million.

As a result of the above, net profit per share was ¥184.26, up ¥20.45 from the ¥163.81 recorded in the previous fiscal year. Return on equity (ROE) was 9.5%, up 0.4 percentage points from the previous fiscal year.

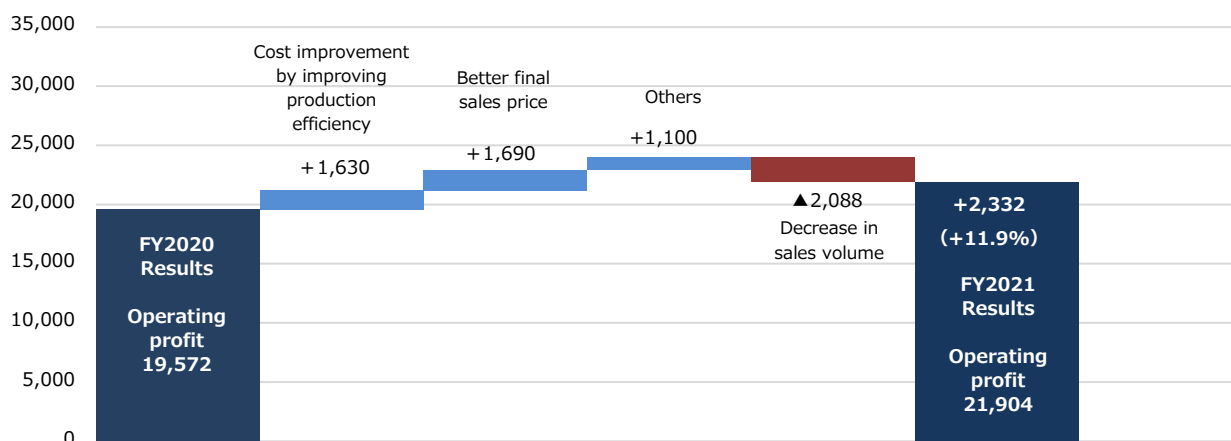
Net sales (Millions of yen)



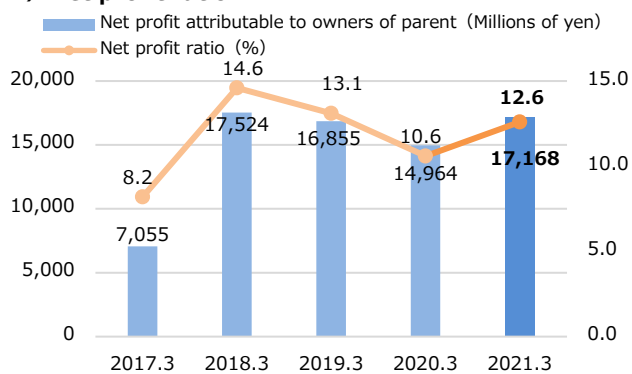
Operating profit/Operating profit ratio



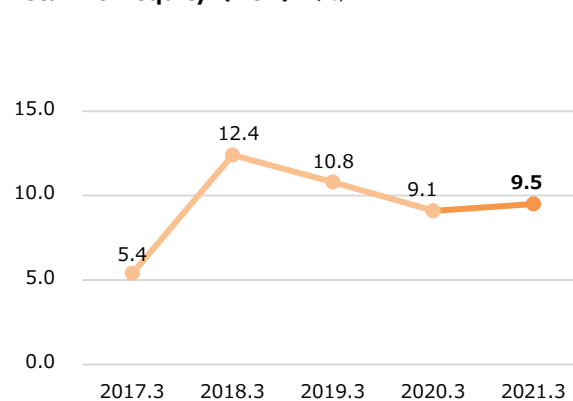
Operating profit increase/decrease analysis (Millions of yen)



Net profit attributable to owners of parent /Net profit ratio



Return on equity (ROE) (%)



Business Results by Segment

Robotic Solutions

Net sales decreased by ¥2,193 million (1.7%) from the previous fiscal year, to ¥125,570 million. Demand related to communication devices, which are the Company's main market, remained robust, in addition to the increase of capital investment demand for PCs, servers, and producing electronic components, which are essential for manufacturing those electronic devices, in China and other Asian regions, bolstered by the adoption of new lifestyles such as teleworking spreading through various countries as a measure against the spread of COVID-19. Furthermore, as for business activities, the Group expanded its market share by working to win new customers and promote solution-based sales in addition to improving the quality of software and key units. On the other hand, capital investment in European and Americas markets, which mainly sell automotive-related products, was weak and sales decreased as a business due to the impact of economic stagnation caused by the spread of COVID-19.

Operating profit increased by ¥2,953 million (12.6%) from the previous fiscal year to ¥26,307 million, mainly due to reductions in fixed costs.

Segment assets increased by ¥9,346 million (7.2%) from the previous fiscal year to ¥139,491 million. This was mainly due to an increase in notes and accounts receivable, net of allowance for doubtful accounts resulting from sales growth in China and other regions of Asia. Other factors that contributed to the increase include an increase in cash and cash equivalents at our subsidiary Fasford Technology Co., Ltd.

The current fiscal year is the final year of our medium-term management plan, but due to factors such as the decrease in the number of units sold, the Group was unable to achieve its final goal of 30% market share for mounters under the slogan of "FUJI Brand 30." Going forward, amid the expectation of an increase in demand for digital products due to the acceleration of DX, the Group will continue to work to expand its market share with the new medium-term management plan, which will start from the next fiscal year, at its core.

Machine Tools

Net sales decreased by ¥2,974 million (27.4%) from the previous fiscal year to ¥7,866 million. This was because domestic and overseas markets both continued their cautious stances on capital investment due to the restrictions on business activities as a result of the resurgence of COVID-19, and the impact of weakness in the automotive industry.

Operating loss was ¥1,325 million (operating loss for the previous fiscal year was ¥637 million).

Segment assets decreased by ¥2,710 million (17.3%) from the previous fiscal year to ¥12,979 million. This was mainly due to a decrease in notes and accounts receivable, net of allowance for doubtful accounts resulting from sales decrease, and a decrease in the book value of machinery, equipment, etc. as a result of impairment.

With regard to the medium-term management targets, the segment experienced a significant decrease in sales as well as operating losses due to the effect of the spread of COVID-19, in addition to sluggish market conditions due to the intensification of the US-China trade conflict, and the Group was unable to achieve the initial targets. The Group will aim for revolutionary growth by constructing a business model where sales, development and production have a sense of unity, while observing market trends due to the prolongation of the spread of COVID-19.

Others

Net sales of the Others segment, which includes the manufacture of control equipment and electronic equipment as well as image processing development, increased by ¥361 million (15.2%) from the previous fiscal year to ¥2,726 million. The Group recorded an operating loss of ¥4 million (operating loss for the previous fiscal year was ¥1 million).

Net sales by segment

(Millions of yen)

	2017.3	2018.3	2019.3	2020.3	2021.3
Robotic Solutions	74,105	104,003	111,536	127,763	125,570
Machine Tools	10,997	13,798	15,661	10,840	7,866
Others	1,295	2,231	1,908	2,365	2,726
Total	86,397	120,032	129,105	140,968	136,162

Operating profit by segment

(Millions of yen)

	2017.3	2018.3	2019.3	2020.3	2021.3
Robotic Solutions	14,546	25,185	25,017	23,354	26,307
Machine Tools	-713	1,017	1,662	-637	-1,325
Others	-473	-237	-89	-1	-4
Corporate and eliminations	-3,566	-3,138	-3,483	-3,144	-3,074
Total	9,794	22,827	23,107	19,572	21,904

Research and Development Expenses and Capital Expenditures

Research and development expenses

The Group focuses its efforts on the research and development of state-of-the-art automated equipment and systems to meet the needs of the world's most advanced customers, in order to develop next-generation products at the forefront of digital revolution.

Total research and development expenses increased by ¥205 million (2.3%) from the previous fiscal year, to ¥9,009 million.

Major research and development activities are as follows.

Robotic Solutions

Development, etc. was carried out for the further reinforcement of the functions of robotic mounters, including the mainstay NXT Series, and for the market launch of next term's strategic machines. In the fiscal year under review, aiming for full automation of the electronic component mounting process, the Group continued to focus on the development of the high-end model NXTR equipped with the world's first automatic component supply system.

The amount of research and development expenses pertaining to this segment was ¥6,833 million.

Machine Tools

The Group focused on the development of the multitasking machine "GYROFLEX T4000," which has a robot that combines the machining of industrial machinery and highly automated technologies, and development, etc. for the further reinforcement of the functions of machines, such as the front facing twin spindle lathe CS series.

The amount of research and development expenses pertaining to this segment was ¥987 million.

Capital expenditures

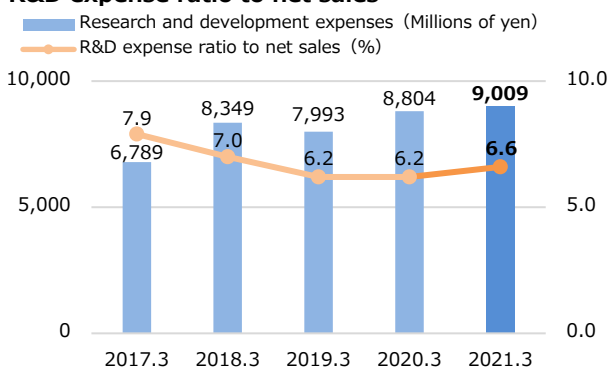
The Group makes ongoing capital investments in production, development, and sales facilities for such purposes as production capacity enhancement, rationalization of facilities, development of next-generation products that lead digital revolution, and the reinforcement of sales network.

Total capital expenditures decreased by ¥786 million (9.1%) from the previous fiscal year to ¥7,856 million. Capital expenditures by segment were ¥7,302 million for the Robotic Solutions segment.

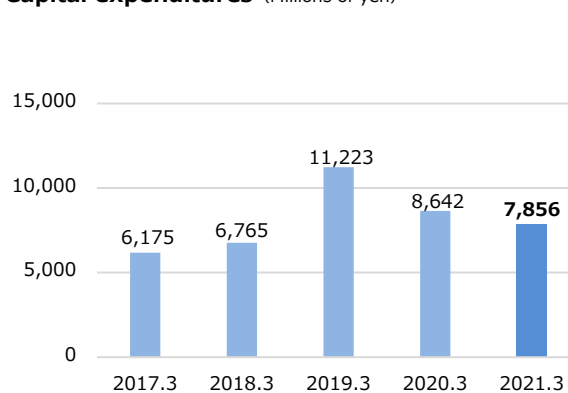
The details of major capital investments are as follows.

Company name Plant name	Location	Name of segment	Details of facilities	Amount invested (Millions of yen)
The Company's headquarters and headquarters factory	Chiryu, Aichi, Japan	Robotic Solutions	Software for market sale	3,972
The Company's Toyota Plant	Toyota, Aichi, Japan	Robotic Solutions Machine Tools	Upgrades to machining equipment	831

Research and development expenses/ R&D expense ratio to net sales



Capital expenditures (Millions of yen)



Financial Position and Cash Flows

Analysis of financial position

(Assets)

The current assets as of March 31, 2021 was ¥143,860 million, an increase of ¥17,090 million from the end of the previous fiscal year. This is mainly because cash and cash equivalents increased by ¥16,482 million. Investments and other assets and property, plant and equipment increased by ¥9,077 million from the end of the previous fiscal year, to ¥80,811 million. This is mainly because a rise in stock prices and other factors caused investment securities to increase by ¥9,126 million.

As a result, total assets increased by ¥26,167 million from the end of the previous fiscal year, to ¥224,671 million.

(Liabilities)

The current liabilities as of March 31, 2021 was ¥27,280 million, a decrease of ¥1,560 million compared with the end of the previous fiscal year. This is mainly because the current portion of bonds payable decreased by ¥7,227 million due to the exercise of rights of zero coupon convertible bonds, while notes and accounts payable increased by ¥1,632 million and income taxes payable increased by ¥2,880 million. Non-current liabilities increased by ¥1,109 million from the end of the previous fiscal year, to ¥2,834 million. This is mainly because deferred tax liabilities increased by ¥1,186 million due to a rise in the stock prices on investment securities.

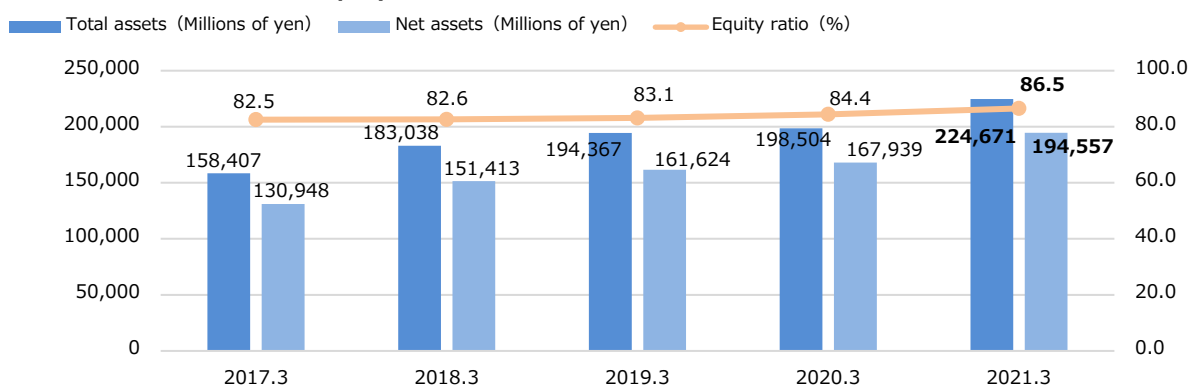
As a result, total liabilities decreased by ¥451 million from the end of the previous fiscal year, to ¥30,114 million.

(Net assets)

Total net assets as of March 31, 2021 was ¥194,557 million, an increase of ¥26,618 million from the end of the previous fiscal year. This is mainly because retained earnings increased by ¥17,168 million due to profit attributable to owners of parent, and valuation difference on available-for-sale securities increased by ¥4,595 million due to the impact of a rise in stock prices on investment securities in addition to treasury shares decreasing by ¥6,111 million due to the exercise of rights of zero coupon convertible bonds, despite a decrease of ¥4,567 million in retained earnings due to payment of dividends.

As a result, equity ratio as of March 31, 2021 was 86.5% (compared to 84.4% at the end of the previous fiscal year). Net assets per share was ¥2,014.41 (compared to ¥1,834.76 at the end of the previous fiscal year).

Total assets/Net assets/Equity ratio



Analysis of cash flows

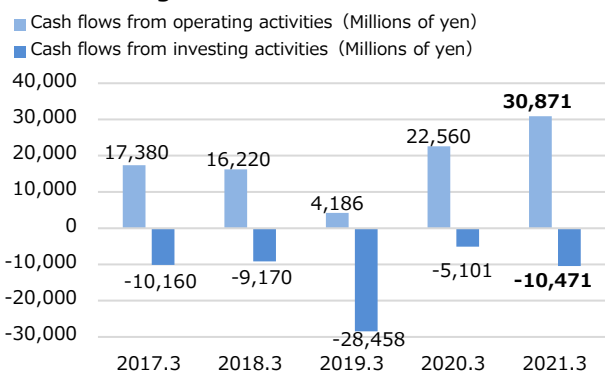
Net cash provided by operating activities was ¥30,871 million (¥22,560 million in the previous fiscal year). This was mainly due to positive factors such as profit before income taxes of ¥24,065 million and depreciation of ¥7,274 million outnumbering negative factors such as income taxes paid of ¥4,194 million.

Net cash used in investing activities was ¥10,471 million (¥5,101 million in the previous fiscal year). This was mainly due to purchase of property, plant and equipment and intangible assets of ¥7,929 million.

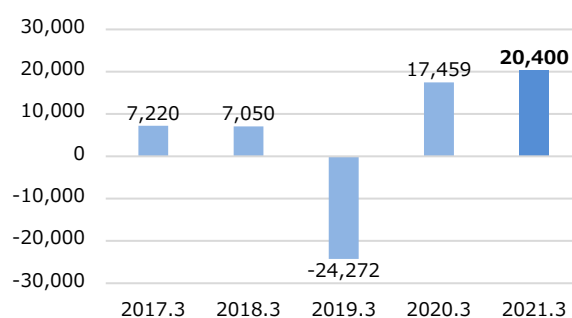
Net cash used in financing activities was ¥4,578 million (¥3,994 million in the previous fiscal year). This was mainly due to dividends paid of ¥4,558 million.

As a result of the above, the balance of cash and cash equivalents as of March 31, 2021 increased by ¥16,482 million (37.5%) from the end of the previous fiscal year to ¥60,389 million.

Cash flows from operating activities and investing activities



Free cash flows (Millions of yen)



Capital resources and fund liquidity

The Group's main working capital needs include funds to purchase raw materials and parts to manufacture products, manufacturing costs, and operating expenses such as selling, general and administrative expenses. In addition, the Group's basic policy is to meet these working capital, capital for strategic investments and capital investment needs by allocating retained earnings, and it will maintain a certain level of retained earnings in order to make strategic investments and capital investments in peripheral and new businesses aiming for future growth. Meanwhile, the Group will consider procuring funds through borrowings as necessary.

To ensure flexibility and security against capital demands and mitigating financial risks, the Company has concluded specified commitment line contracts of ¥12,000 million in total with the main financial institutions.

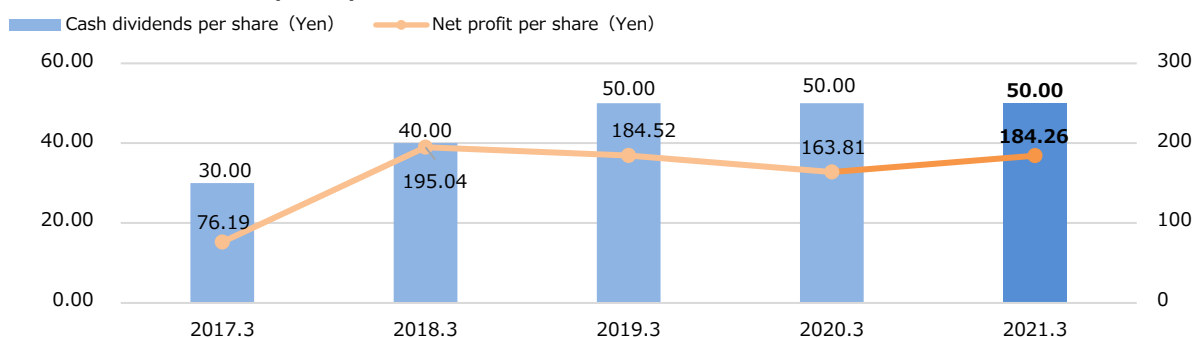
Basic Policy for Profit Distribution

With regard to the Company's basic policy for profit distribution, we strive to maintain and continue a stable payout ratio of 30%, paying attention to capital demands for future business development as well as considering the continuous return of profits to shareholders as one of the most important management measures.

In addition, retained earnings are used for proactive investments for further growth and expansion, such as developing next-generation products and building a production structure anticipating the digital revolution, as well as to improve and strengthen the Company's business structure.

Year-end dividends were ¥30.00 per share, based on the basic policy for profit distribution, and together with interim dividends of ¥20.00 per share, the Company decided to pay out total annual dividends of ¥50.00 per share.

Cash dividends and Net profit per share



Business and Other Risks

The management of the Group recognizes the following risks as the main risks that would likely have a large impact on the financial position, operating results, and cash flows of the Group's consolidated companies. However, it should be noted that they do not comprehensively cover all risks associated with the Group and the Group may be subject in the future to the effect of risks that cannot be foreseen or are not considered to be important at present. The description of the probability and the timing that such risks will materialize and the impact of those risks when they materialize on the Group's operating results, etc., are omitted as it is difficult to foresee them in a reasonable manner.

The following items in this document relating to possible future events are determined by the Group as of the end of the consolidated fiscal year.

(1) Impact of material procurement

Increased market value of the main materials which are used to build the Group's machines such as metals, castings, and electrical materials may impact financial results. For some materials, such as semiconductors, there is also a possibility of supply being stopped because of a shortage in supply caused by a rapid increase and concentration of demand or because of a disaster or accident at the supplier. The Group will strive to take appropriate measures, such as adopting a procurement policy of purchasing from multiple suppliers to ensure a stable procurement. However, if we are unable to obtain some of the necessary materials for a long term, it could destabilize production, which may impact financial results.

(2) Impact of changes in the market environment

The Group has placed sales offices in each region of the world and is engaged in global business expansion. Therefore, changes in demand for the Group's core products including robotic mounters and machine tools are influenced by political situations and economies of countries as well as capital investment trends of customers.

The Robotic Solutions business, which is the Group's main business, sells products related to communication devices including smartphones as well as products for other fields such as computers, servers, and automotive. As such, the demand for its products is significantly affected by changes in sales trends of electronic equipment and capital investment trends of customers due to business fluctuations. In the Machine Tools business, the demand for machine tools is significantly affected by capital investment trends in the automotive industry, who is the primary customer.

While working to enhance FUJI brand products and expand markets, the Group will strive to strengthen its earnings structure. However, if there is a drastic change in demand beyond the Group's expectations in the future, it may impact financial results.

(3) Impact of intensifying competition

The Group is exposed to competition in the markets in which it operates regarding various elements including price and function and continues to face a challenging situation. As competition with competitors will be intensified further going forward, it is an urgent need for the Group to develop attractive products that meet customer needs, strengthen services and distribution networks, and promote solution-based sales, taking advantage of IoT and AI technologies. In addition, while the Group is focused on improving profitability through pursuing cost reduction and other measures, there are cases in which the Group may be in a situation where it is difficult to decide upon a profitable price because of pricing competition with competitors and customers' requirements to lower equipment procurement costs to accommodate drops in market values of their products such as electronic equipment and automotive products. There may be an impact on financial results in cases where drops in sales volume and selling prices greatly exceed the Group's expectations and continue for an extended period.

(4) Impact of technology development

The Group is continuously in a state of proactive development investment and technology development based on an understanding of customer requirements. The Group is currently working to improve the performance of existing products, particularly robotic mounters and machine tools, which we regard as the pillars of our business. At the same time, it is pushing forward with business development in new fields, such as multijoint robots for industrial use, nursing care robots, atmospheric pressure plasma units, delivery lockers, and linear motors. The Group is also working to create innovative new businesses based on robot technology by actively using FUJI Innovation Lab., which is located in Silicon Valley in the U.S. However, there is a risk that financial results could be impacted if the developed products cannot be sold as planned because of elevated customer requirements or the obsolescence of technology developed by the Group caused by rapid technological innovations in the market.

The Group has acquired quality management system standard ISO9001 and we are diligently strengthening our quality assurance system and service support system to contribute to customer satisfaction. However, the Group's products use leading-edge technology, also often using development technology from new fields, and thus unexpected problems can occur, which may impact financial results.

(5) Impact of large-scale disasters

The Group operates manufacturing, sales, and service bases globally. Therefore, should there be a disaster which exceeds expectations or if there is a pandemic of an infectious disease, this may impact financial results. In particular, Aichi Prefecture, Japan, where the majority of the Group's production is concentrated, is an area which promotes disaster prevention measures against Nankai Trough earthquakes. If a large scale earthquake occurs in this area, production and delivery activities could stop because of damage to production equipment or suspension of logistics, which may impact financial results. The Group has measures in place to minimize the damage caused by a disaster including the formulation of business continuity plan, earthquake resistance measures, and emergency drills to minimize the risk.

The outbreak of COVID-19, which occurred in early 2020, has spread all over the world. The Group has implemented business reforms, such as thorough health management, paperless operations, web conferences, and the promotion of teleworking, to prevent the spread of infection. However, we are unable to make any prediction at this point about the scale of the possible further spread of infection and how soon the pandemic will end. If production and sales activities stop or the supply chain is disrupted due to the pandemic, it may impact financial results.

(6) Impact of intellectual property

The Group seeks to protect the products it develops and produces by acquiring patent rights and through trademarks, but there is a possibility that it cannot fully prevent third parties from manufacturing and selling similar products which wrongfully utilize intellectual property held by the Group. The Group is also always careful not to infringe on the intellectual property rights of a third party when developing products. However, there is a possibility that intellectual property may be infringed upon, resulting in a third party instituting legal proceedings against us, which may impact business activities.

(7) Impact of goodwill impairment

In August 2018, the Group acquired the shares of Fasford Technology Co., Ltd. (hereinafter, "FFT") to enhance its comprehensive proposal capabilities as a manufacturer of industrial robots and semiconductor manufacturing equipment, and recognized a goodwill of ¥11,894 million at the end of the fiscal year under review. If the profitability of FFT declines or synergy is not realized as initially expected for reasons such as changes in the business environment, the Company may recognize an impairment loss on goodwill, which may impact the financial results or financial condition of the Group.

Consolidated Balance Sheets

FUJI CORPORATION and Consolidated Subsidiaries

March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Assets			
Current assets:			
Cash and cash equivalents (Note 3)	¥ 60,389	¥ 43,907	\$ 544,045
Short-term investments (Notes 3 and 6)	1,647	189	14,838
Notes and accounts receivable, net of allowance for doubtful accounts (Notes 3 and 4)	42,993	41,833	387,324
Inventories (Note 5)	38,167	39,836	343,847
Other current assets	664	1,005	5,982
Total current assets	143,860	126,770	1,296,036
Investments and other assets:			
Investment securities (Notes 3 and 6)	28,510	19,384	256,847
Intangible assets (Note 8)	24,851	24,990	223,883
Deferred tax assets (Note 16)	826	1,552	7,441
Net retirement benefit asset (Note 11)	1,891	-	17,036
Other assets	391	387	3,523
Total investments and other assets	56,469	46,313	508,730
Property, plant and equipment:			
Land	5,194	5,172	46,793
Buildings and structures	30,567	30,257	275,378
Machinery, equipment and vehicles	17,416	16,896	156,901
Tools, furniture and fixtures	9,193	8,839	82,820
Construction in progress	54	91	486
Total property, plant and equipment	62,424	61,255	562,378
Less accumulated depreciation	(38,082)	(35,834)	(343,081)
Total net property, plant and equipment (Note 18)	24,342	25,421	219,297
Total assets (Note 18)	¥ 224,671	¥ 198,504	\$ 2,024,063

See accompanying Notes to Consolidated Financial Statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Liabilities and Net assets			
Current liabilities:			
Notes and accounts payable (Notes 3 and 9)	¥ 11,666	¥ 10,034	\$ 105,099
Current portion of bonds payable	-	7,227	-
Accrued expenses	4,296	4,649	38,703
Income taxes payable	4,861	1,981	43,793
Provision for product warranties	955	1,073	8,604
Other current liabilities	5,502	3,876	49,567
Total current liabilities	27,280	28,840	245,766
Non-current liabilities:			
Net retirement benefit liability (Note 11)	255	338	2,297
Deferred tax liabilities (Note 16)	2,517	1,331	22,676
Other non-current liabilities	62	56	558
Total non-current liabilities	2,834	1,725	25,531
Total liabilities	30,114	30,565	271,297
Net assets (Note 14):			
Shareholders' equity:			
Common stock: 390,000,000 shares authorized and 97,823,748 shares issued	5,879	5,879	52,964
Capital surplus	7,035	5,925	63,378
Retained earnings	170,382	157,781	1,534,973
Less treasury shares: 1,390,652 shares in 2021 and 6,479,108 shares in 2020	(1,671)	(7,782)	(15,054)
Total shareholders' equity	181,625	161,803	1,636,261
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	9,779	5,184	88,099
Deferred gains on hedges	43	16	387
Foreign currency translation adjustment	2,067	961	18,622
Remeasurements of defined benefit plans (Note 11)	742	(369)	6,685
Total accumulated other comprehensive income	12,631	5,792	113,793
Non-controlling interests	301	344	2,712
Total net assets	194,557	167,939	1,752,766
Total liabilities and net assets	¥ 224,671	¥ 198,504	\$ 2,024,063

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Income

FUJI CORPORATION and Consolidated Subsidiaries

For the Years Ended March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Operating revenue:			
Net sales (Note 18)	¥ 136,162	¥ 140,968	\$ 1,226,685
Operating costs and expenses:			
Cost of sales	85,459	89,606	769,901
Selling, general and administrative expenses	28,799	31,790	259,450
	<u>114,258</u>	<u>121,396</u>	<u>1,029,351</u>
Operating profit (Note 18)	<u>21,904</u>	<u>19,572</u>	<u>197,334</u>
Other income (expenses):			
Interest and dividend income	897	722	8,081
Interest expenses	(4)	(3)	(36)
Foreign exchange gains (losses)	231	(297)	2,081
Donations	5	11	45
Compensation for damage	15	3	135
Loss on sales and disposal of property, plant and equipment and intangible assets, net	(66)	(136)	(595)
Impairment loss on fixed assets (Note 15)	(828)	-	(7,459)
Gain on sales of investment securities (Note 6)	1,773	729	15,973
Loss on valuation of investment securities (Note 6)	(39)	-	(351)
Other, net	177	112	1,594
	<u>2,161</u>	<u>1,141</u>	<u>19,468</u>
Profit before income taxes	<u>24,065</u>	<u>20,713</u>	<u>216,802</u>
Income taxes (Note 16):			
Current	7,170	5,445	64,595
Deferred	(289)	273	(2,604)
Total income taxes	<u>6,881</u>	<u>5,718</u>	<u>61,991</u>
Net profit	17,184	14,995	154,811
Less net profit attributable to non-controlling interests	<u>16</u>	<u>31</u>	<u>144</u>
Net profit attributable to owners of parent	<u>¥ 17,168</u>	<u>¥ 14,964</u>	<u>\$ 154,667</u>
		Yen	U.S. dollars
Per share:			
Net profit			
Basic	¥ 184.26	¥ 163.81	\$ 1.66
Diluted	177.80	155.22	1.60
Cash dividends (Note 14)	50.00	50.00	0.45

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

FUJI CORPORATION and Consolidated Subsidiaries

For the Years Ended March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Net profit	¥ 17,184	¥ 14,995	\$ 154,811
Other comprehensive income (Note 19):			
Valuation difference on available-for-sale securities	4,595	(3,684)	41,396
Deferred gains or losses on hedges	27	4	243
Foreign currency translation adjustment	1,047	(770)	9,433
Remeasurements of defined benefit plans, net of tax	1,111	(251)	10,009
Total other comprehensive income	6,780	(4,701)	61,081
Comprehensive income	¥ 23,964	¥ 10,294	\$ 215,892
Comprehensive income attributable to:			
Owners of parent	¥ 24,007	¥ 10,272	\$ 216,279
Non-controlling interests	(43)	22	(387)
Total comprehensive income	¥ 23,964	¥ 10,294	\$ 215,892

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Equity

FUJI CORPORATION and Consolidated Subsidiaries

For the Years Ended March 31, 2021 and 2020

	Number of shares of common stock issued	Shareholders' equity					Accumulated other comprehensive income						
		Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available- for-sale securities	Deferred gains on hedges	Foreign currency translation adjustment	Remeasure- ments of defined benefit plans	Total accumulated other comprehen- sive income	Non- controlling interests	Total net assets
Balance at April 1, 2019	97,823,748	¥ 5,879	¥ 5,925	¥ 146,928	¥ (7,781)	¥ 150,951	¥ 8,868	¥ 12	¥ 1,721	¥ (118)	¥ 10,483	¥ 190	¥ 161,624
Net profit for the year attributable to owners of parent	-	-	-	14,964	-	14,964	-	-	-	-	-	-	14,964
Dividends of surplus	-	-	-	(4,111)	-	(4,111)	-	-	-	-	-	-	(4,111)
Purchases of treasury shares	-	-	-	-	(1)	(1)	-	-	-	-	-	-	(1)
Disposal of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-
Net changes in items other than shareholders' equity	-	-	-	-	-	-	(3,684)	4	(760)	(251)	(4,691)	154	(4,537)
Balance at March 31, 2020	97,823,748	5,879	5,925	157,781	(7,782)	161,803	5,184	16	961	(369)	5,792	344	167,939
Net profit for the year attributable to owners of parent	-	-	-	17,168	-	17,168	-	-	-	-	-	-	17,168
Dividends of surplus	-	-	-	(4,567)	-	(4,567)	-	-	-	-	-	-	(4,567)
Purchases of treasury shares	-	-	-	-	(2)	(2)	-	-	-	-	-	-	(2)
Disposal of treasury shares	-	-	1,110	-	6,113	7,223	-	-	-	-	-	-	7,223
Net changes in items other than shareholders' equity	-	-	-	-	-	-	4,595	27	1,106	1,111	6,839	(43)	(6,796)
Balance at March 31, 2021	<u>97,823,748</u>	<u>¥ 5,879</u>	<u>¥ 7,035</u>	<u>¥ 170,382</u>	<u>¥ (1,671)</u>	<u>¥ 181,625</u>	<u>¥ 9,779</u>	<u>¥ 43</u>	<u>¥ 2,067</u>	<u>¥ 742</u>	<u>¥ 12,631</u>	<u>¥ 301</u>	<u>¥ 194,557</u>

	Shareholders' equity				Accumulated other comprehensive income							Total net assets
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	
Thousands of U.S. dollars (Note 1)												
Balance at March 31, 2020	\$ 52,964	\$ 53,378	\$ 1,421,450	\$ (70,108)	\$ 1,457,684	\$ 46,703	\$ 144	\$ 8,658	\$ (3,324)	\$ 52,181	\$ 3,099	\$ 1,512,964
Net profit for the year attributable to owners of parent	-	-	154,667	-	154,667	-	-	-	-	-	-	154,667
Dividends of surplus	-	-	(41,144)	-	(41,144)	-	-	-	-	-	-	(41,144)
Purchases of treasury shares	-	-	-	(18)	(18)	-	-	-	-	-	-	(18)
Disposal of treasury shares	-	10,000	-	55,072	65,072	-	-	-	-	-	-	65,072
Net changes in items other than shareholders' equity	-	-	-	-	-	41,396	243	9,964	10,009	61,612	(387)	61,225
Balance at March 31, 2021	<u>\$ 52,964</u>	<u>\$ 63,378</u>	<u>\$ 1,534,973</u>	<u>\$ (15,054)</u>	<u>\$ 1,636,261</u>	<u>\$ 88,099</u>	<u>\$ 387</u>	<u>\$ 18,622</u>	<u>\$ 6,685</u>	<u>\$ 113,793</u>	<u>\$ 2,712</u>	<u>\$ 1,752,766</u>

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

FUJI CORPORATION and Consolidated Subsidiaries

For the Years Ended March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Cash flows from operating activities:			
Profit before income taxes	¥ 24,065	¥ 20,713	\$ 216,802
Adjustments for:			
Depreciation	7,274	6,825	65,531
Impairment loss on fixed assets	828	-	7,459
Amortization of goodwill	951	951	8,568
Increase (decrease) in provision for product warranties	(123)	3	(1,108)
Increase or decrease in retirement benefit asset and liability	(373)	(601)	(3,360)
Interest and dividend income	(897)	(722)	(8,081)
Loss (gain) on sales and disposal of property, plant and equipment and intangible assets	66	136	595
Loss (gain) on sales of investment securities	(1,773)	(729)	(15,973)
Decrease (increase) in trade receivables	(984)	(68)	(8,865)
Decrease (increase) in inventories	2,059	(477)	18,550
Increase (decrease) in trade payables	1,677	2,024	15,108
Other, net	1,381	403	12,441
Subtotal	34,151	28,458	307,667
Interest and dividends received	899	730	8,099
Interest paid	(4)	(3)	(36)
Proceeds from insurance income	19	429	171
Income taxes paid	(4,194)	(7,054)	(37,784)
Net cash provided by operating activities	30,871	22,560	278,117
Cash flows from investing activities:			
Net (increase) decrease in short-term investments	(1,459)	6,526	(13,144)
Purchases of property, plant and equipment and intangible assets	(7,929)	(11,912)	(71,432)
Proceeds from sales of property, plant and equipment and intangible assets	51	95	459
Purchases of investment securities	(3,375)	(548)	(30,405)
Proceeds from sales of investment securities	2,270	780	20,450
Other, net	(29)	(42)	(261)
Net cash used in investing activities	(10,471)	(5,101)	(94,333)
Cash flows from financing activities:			
Dividends paid	(4,558)	(4,109)	(41,063)
Proceeds from share issuance to non-controlling shareholders	-	132	-
Other, net	(20)	(17)	(180)
Net cash used in financing activities	(4,578)	(3,994)	(41,243)
Effect of exchange rate changes on cash and cash equivalents	660	(411)	5,946
Net increase (decrease) in cash and cash equivalents	16,482	13,054	148,487
Cash and cash equivalents at beginning of year	43,907	30,853	395,558
Cash and cash equivalents at end of year	¥ 60,389	¥ 43,907	\$ 544,045

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

FUJI CORPORATION and Consolidated Subsidiaries

1. Basis of Consolidated Financial Statements

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

The accompanying consolidated financial statements have been reformatted and translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Japanese Financial Instrument and Exchange Act. In preparing these consolidated financial statements, certain reclassifications have been made to the consolidated financial statements issued domestically in order to present them in a form that is more familiar to readers outside Japan. Certain supplementary information included in the statutory Japanese language consolidated financial statements is not presented in the accompanying consolidated financial statements.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translation of the Japanese yen amounts into U.S. dollar amounts has been included solely for the convenience of readers outside Japan, using the approximate rate prevailing at March 31, 2021, which was ¥111 to U.S. \$1.00. The translation should not be construed as a representation that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

Certain comparative figures have been reclassified to conform to the current year's presentation.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. Investments in affiliated companies not accounted for using the equity method are stated at cost. If the equity method of accounting had been applied to investments in these companies, the effect on the accompanying consolidated financial statements would have been immaterial. All significant intercompany accounts and transactions have been eliminated on consolidation. All material unrealized profits included in assets resulting from transactions within the Group have also been eliminated.

The number of consolidated subsidiaries for the years ended March 31, 2021 and 2020 was as follows:

	<u>2021</u>	<u>2020</u>
Consolidated subsidiaries:		
Domestic	4	4
Overseas	7	8

An overseas subsidiary has been excluded from the scope of consolidation as a consolidated subsidiary starting from the fiscal year ended March 31, 2021 because it disappeared due to an absorption merger on August 24, 2020, with another overseas subsidiary.

Three overseas subsidiaries close their books on December 31, three months earlier than the Company and the other consolidated subsidiaries. The Company uses the financial statements of one of the subsidiaries as of its year-end date because the difference between its fiscal year-end date and that of the Company was not more than three months. Significant transactions for the period between the subsidiary's fiscal year-end date and the Company's year-end date have been adjusted for on consolidation. For the other two subsidiaries, the Company uses the financial statements which are compiled by temporary closings of their accounts as of March 31.

(Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements)

The Company has adopted ASBJ Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements." PITF No. 18 requires that the accounting policies and procedures applied by a parent company and its subsidiaries to similar transactions and events under similar circumstances should, in principle, be unified for the preparation of the consolidated financial statements. PITF No. 18, however, as a tentative measure, allows a parent company to prepare consolidated financial statements using its foreign subsidiaries' financial statements prepared in accordance with either IFRS or U.S. generally accepted accounting principles ("U.S. GAAP"). In this case, adjustments for the following five items are required in the consolidation process so that the impact on net profit is accounted for in accordance with Japanese GAAP, unless the impact is not material.

- (a) Goodwill not subject to amortization
- (b) Actuarial gains and losses of defined benefit retirement plans recognized outside profit or loss
- (c) Capitalized expenditures for research and development activities
- (d) Fair value measurement of investment properties and revaluation of property, plant and equipment and intangible assets
- (e) Reclassification adjustments in the case of electing to present subsequent changes in the fair value of an equity instrument in other comprehensive income.

(b) Cash equivalents

The Group considers short-term, highly liquid instruments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value purchased with an original maturity of three months or less to be cash equivalents.

(c) Investments and marketable securities

The Group classifies certain investments in debt and equity securities as “held-to-maturity,” “trading” or “available-for-sale” securities. The classification determines the respective accounting method to be applied under the accounting standards for financial instruments. According to the investment policy of the Group, its securities portfolio consists of held-to-maturity and available-for-sale securities. The accounting standard requires that held-to-maturity securities be stated at amortized cost and available-for-sale securities for which fair value is available be stated at fair value and that net unrealized gains and losses on such securities be recorded as a component of accumulated other comprehensive income, net of applicable income taxes. Gains and losses on the disposition of available-for-sale securities are computed using the moving average method. Available-for-sale securities without available fair values are carried at cost determined using the moving average method. Adjustments in the carrying value of individual investment securities are charged to income through write-downs when a decline in value is deemed to be other than temporary.

(d) Derivatives

The market value method is applied.

(e) Inventories

In accordance with the accounting standard for measurement of inventories, inventories held for sale in the ordinary course of business are stated at the lower of cost or net realizable value. If the net realizable value falls below the cost at the end of the period, the cost basis is reduced to the net realizable value and the reduction regarded as decreased profitability of inventories. Merchandise, finished goods and work-in-process are measured principally using the specific identification method. Raw materials and supplies are measured principally using the moving average method.

(f) Allowance for doubtful accounts

An allowance for doubtful accounts is provided at the aggregate amount of estimated credit loss based on individual reviews of certain doubtful or troubled receivables. A general reserve for other receivables is also provided based on the historical loss experience for certain past periods.

(g) Property, plant and equipment and depreciation

Property, plant and equipment, including significant renewals and additions, are stated at cost and depreciated principally by the declining balance method over the estimated useful life of the asset.

(h) Intangible assets

Intangible assets are amortized using the straight-line method. Software for sale is amortized using the straight-line method over the estimated economic life of the asset. Software for internal use is amortized using the straight-line method over the estimated useful life of the asset. Goodwill is amortized on a straight-line basis over 15 years.

(i) Impairment of fixed assets

The Company and its domestic consolidated subsidiaries have adopted the "Accounting Standard for Impairment of Fixed Assets" and the related practical guidance. The standard requires fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss is recognized in the income statement by reducing the carrying amount of the impaired asset or group of assets to the recoverable amount, measured by the higher of the asset's net selling price or value in use. Fixed assets include land, buildings and other forms of property, including intangible assets, and are to be grouped at the lowest levels for which there are identifiable cash flows separate from other groups of assets. For the purpose of recognition and measurement of an impairment loss, fixed assets of the Company and its domestic consolidated subsidiaries, other than idle or unused property, are grouped into cash generating units based on managerial accounting classifications.

(j) Employee retirement benefits

The difference between retirement benefit obligations and plan assets has been recognized as net retirement benefit liability. To calculate retirement benefit obligations, the benefit formula basis is used to allocate estimated retirement benefits to periods of service. Actuarial differences that are yet to be recognized are recognized in the year following the year in which they arise. A net retirement benefit liability and retirement benefit costs of certain consolidated subsidiaries are calculated using the simplified method as permitted by the accounting standard for retirement benefits. In calculating retirement benefit liability and retirement benefit expenses, some of the domestic consolidated subsidiaries apply a simplified method in which an assumed amount of benefits to be paid for basic voluntary retirement at the fiscal year-end is deemed as retirement benefit obligations.

(k) Significant hedge accounting methods

(1) Hedge accounting methods

Deferred hedge accounting is applied.

Forward exchange contracts are accounted for using the "furiate-shori" method, under which foreign currency denominated receivables and payables are translated at the applicable forward foreign exchange rates if requirements for such treatment are satisfied.

(2) Hedging instruments and hedged items

Hedging instruments: Forward exchange contracts

Hedged items: Foreign currency denominated trade receivables

(3) Hedging policy

Forward exchange contracts are used to manage operating transactions denominated in a foreign currency to manage exchange fluctuation risks associated with them.

(4) Method of hedge effectiveness assessment

The assessment of hedge effectiveness is omitted as critical terms and conditions of the hedging instruments and the hedged items are identical, and it is expected that the effect of changes in foreign exchange rates or cash flows is fully offset at the commencement of the hedge and throughout the hedge period.

(l) Provision for product warranties

A provision for product warranties to provide for future repairs during free of charge product warranty periods is calculated based on the actual historical ratio of repair costs per corresponding product sales.

(m) Translation of foreign currency accounts

Receivables, payables and securities, other than stocks of subsidiaries and certain other securities, are translated into Japanese yen at the exchange rate prevailing at the fiscal year-end. For financial statement items of overseas consolidated subsidiaries, all asset and liability accounts are translated into Japanese yen by applying the exchange rate in effect at the respective fiscal year-end. All income and expense accounts are translated at the average rate of exchange for the fiscal year. Translation differences, after allocating portions attributable to non-controlling interests, have been reported in foreign currency translation adjustment as a component of accumulated other comprehensive income in the accompanying consolidated balance sheets.

(n) Research and development expenses

Expenses related to research and development activities are charged to income as incurred. Research and development expenses for the years ended March 31, 2021 and 2020 were included in selling, general and administrative expenses in the accompanying consolidated statements of income in the amount of ¥ 9,009 million (\$81,162 thousand) and ¥8,804 million, respectively.

(o) Enterprise taxes

The Group calculates and records enterprise taxes based on the “added value” and “capital” amounts when levied as size-based corporate taxes for local government enterprise taxes. Such taxes are included in selling, general and administrative expenses.

(p) Income taxes

Income taxes are accounted for using the asset-liability method. Deferred tax assets and liabilities are recognized as the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in the period that includes the enactment date.

(q) Appropriation of retained earnings

Dividends of surplus are recorded in the fiscal year when a proposed appropriation of retained earnings is approved by the Board of Directors or the general meeting of stockholders.

(r) Per share data

Basic net profit per share is based on the weighted average number of shares of common stock outstanding during the year. Unless there is an antidilutive effect, diluted net profit per share is calculated to reflect the potential dilution assuming that all outstanding convertible bonds are converted to shares.

Dividends of surplus per share shown for each fiscal year in the accompanying consolidated statements of income represent dividends declared by the Company as applicable to the respective year.

(s) Significant accounting estimates

Goodwill arising from the acquisition of Fasford Technology Co., Ltd. ("FFT")

(1) Amount recorded in financial statements for the fiscal year ended March 31, 2021:

¥11,894 million (\$107,153 thousand)

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

- Calculation method and major assumptions of the amount recorded for the fiscal year ended March 31, 2021 were as follows.

	<u>Millions of yen</u>
Acquisition cost	¥ 21,800
Acquisition assets	13,458
Acquisition liabilities	<u>5,930</u>
Amount of goodwill derived	<u>¥ 14,272</u>

The goodwill is amortized on a straight-line basis over 15 years, which is the investment recovery period based on the business plan made upon acquisition. The unamortized amount at March 31, 2021 was ¥11,894 million (\$107,153 thousand). There is no indication of impairment as the business performance of FFT outperformed the business plan made upon acquisition through the fiscal year ended March 31, 2021. Therefore, the Company has determined that the goodwill is not impaired.

- Impact on consolidated financial statements for the fiscal year ending March 31, 2022.

Amortization based on the straight-line method is continuously applied; as a result, for the fiscal year ending March 31, 2022, amortization of goodwill of ¥951 million will be recorded in selling, general and administrative expenses as in the fiscal year ended March 31, 2021.

(t) New standards and interpretations not yet adopted by the Company

- “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020, Accounting Standards Board of Japan)
- “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, March 26, 2021, Accounting Standards Board of Japan)
- “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19, March 31, 2020, Accounting Standards Board of Japan)

(1) Outline

The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) jointly developed a comprehensive accounting standard for revenue recognition and, in May 2014, issued “Revenue from Contracts with Customers” (IFRS 15 by IASB, Topic 606 by FASB). In light of the fact that IFRS 15 and Topic 606 are effective from the fiscal year commencing on or after January 1, 2018 and the fiscal year commencing after December 15, 2017, respectively, the Accounting Standards Board of Japan developed a comprehensive accounting standard for revenue recognition and issued it with implementation guidance.

The basic policy of the Accounting Standards Board of Japan in developing the accounting standard for revenue recognition was to employ the basic principle of comparability between financial statements, which was one of the benefits of maintaining consistency with IFRS 15. If there is any item that requires additional consideration of circumstances such as conventional accounting practices in Japan, alternate treatment will be added to the extent that comparability is not compromised.

(2) Effective date

From the beginning of the fiscal year ending March 31, 2022

(3) Impact of adoption

The impact of the application of “Accounting Standard for Revenue Recognition” on the consolidated financial statements is expected to be minor.

(u) Changes in presentation methods

(Application of “Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No. 31, March 31, 2020, Accounting Standards Board of Japan))

The Company applied “Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No. 31, March 31, 2020) to the consolidated financial statements for the end of the fiscal year ended March 31, 2021, and provided notes to significant accounting estimates in the consolidated financial statements. However, in line with the transitional treatment stipulated in the proviso of Paragraph 11 of this accounting standard, details for the previous fiscal year are not provided in these notes.

(Consolidated Statements of Income)

“Donations” and “Compensation for damage, ” which were included in “Other, net” under “Other income(expenses)” for the previous fiscal year, have been presented separately from the fiscal year ended March 31, 2021 because of changing materiality of the account. The consolidated financial statements for the previous fiscal year have been reclassified in order to reflect this change in the presentation methods. As a result, ¥126 million presented in “Other, net” under “Other income (expenses)” in the consolidated statements of income for the previous fiscal year, has been reclassified into “Donations” of ¥11 million, “Compensation for damage” of ¥3 million, and “Other, net” of ¥112 million.

(v) Additional Information

In response to the spread of the novel coronavirus disease (COVID-19), the Group has continued its business activities while implementing measures to reduce the risk of spread of infection in conducting its business activities. The spread of COVID-19 has also created opportunities, such as the increased use of teleworking, and the Group expects capital investments to be made in infrastructure, such as servers and networks, PCs, and smartphones, as well as in the semiconductor-related fields that support them. On the other hand, the spread of COVID-19 has become a world-wide pandemic and its effects on the economy continue to emerge. At this point in time, although the Group’s forecasts of business results and accounting estimates are based on the assumption that the impact of COVID-19 on the global economy will continue for some time, if uncertainty rises further, future results based on actual figures may differ from these estimates and assumptions.

3. Financial Instruments

(1) Matters related to status of financial instruments

(a) Policies for financial instruments

The Group restricts its investment of funds to deposits and held-to-maturity debt securities, etc., while raises funds through borrowings from financial institutions, including banks.

Derivative instruments are used for the purpose of hedging against the risks described later. The Group does not enter into derivative instruments for speculative purposes.

(b) Financial instruments and risk management

The Group is exposed to credit risk primarily with respect to trade receivables. In order to reduce the credit risk of these receivables, the Group manages settlement dates and amounts due for counterparties according to its Credit Management Rules and reviews the credit capacity of principal customers on a regular basis.

Securities and investment securities are chiefly held-to-maturity debt securities and shares of companies with which the Group has business relationships. While these securities are exposed to risks of market price fluctuations, the Group marks to market on a regular basis.

Trade payables are generally due within one year.

The Group acquires funds for its business plans from bank borrowings and the issuance of bonds. Borrowings with floating interest rates expose the Group to the risks associated with fluctuations in interest rates. In connection with some long term borrowings, the Group enters into interest rate swaps to avoid the risk of interest rate fluctuation and to fix interest payments.

A certain domestic consolidated subsidiary uses forward exchange contracts (derivative instruments) for avoiding exchange rate fluctuation risk involving operating transactions denominated in foreign currency.

The Group is a party to derivative financial instruments such as interest rate swaps in the normal course of business. Pursuant to the Group's internal rules for risk management, contract balances for derivatives are limited to certain anticipated transactions, and credit risk is reduced by limiting the counterparties to highly creditworthy financial institutions. Trade payables are exposed to liquidity risk that the Group manages in ways such as preparing monthly cash management plans.

(2) Fair values of financial instruments

The fair value and carrying value of financial statements other than unlisted equity securities for which the fair value was extremely difficult to determine at March 31, 2021 and 2020 were as follows.

	Carrying value	Fair value	Differences
	Millions of yen		
At March 31, 2021:			
Financial assets:			
Cash and cash equivalents	¥ 60,389	¥ 60,389	¥ -
Short-term investments	1,647	1,646	(1)
Trade notes and accounts receivable	36,374	36,374	-
Investment securities:			
Held-to-maturity debt securities	3,100	3,098	(2)
Available-for-sale securities	24,521	24,521	-
Total	<u>¥ 126,031</u>	<u>¥ 126,028</u>	<u>¥ (3)</u>
Financial liabilities:			
Trade notes and accounts payable	¥ 11,026	¥ 11,026	¥ -
Bonds	-	-	-
Total	<u>¥ 11,026</u>	<u>¥ 11,026</u>	<u>¥ -</u>
Derivative instruments (*)	<u>¥ 61</u>	<u>¥ 61</u>	<u>¥ -</u>
	Carrying value	Fair value	Differences
	Millions of yen		
At March 31, 2020:			
Financial assets:			
Cash and cash equivalents	¥ 43,907	¥ 43,907	¥ -
Short-term investments	189	189	-
Trade notes and accounts receivable	35,174	35,174	-
Investment securities:			
Held-to-maturity debt securities	-	-	-
Available-for-sale securities	18,795	18,795	-
Total	<u>¥ 98,065</u>	<u>¥ 98,065</u>	<u>¥ -</u>
Financial liabilities:			
Trade notes and accounts payable	¥ 9,050	¥ 9,050	¥ -
Bonds	7,227	8,314	1,087
Total	<u>¥ 16,277</u>	<u>¥ 17,364</u>	<u>¥ 1,087</u>
Derivative instruments (*)	<u>¥ 10</u>	<u>¥ 10</u>	<u>¥ -</u>
	Thousands of U.S. dollars		
At March 31, 2021:			
Financial assets:			
Cash and cash equivalents	\$ 544,045	\$ 544,045	\$ -
Short-term investments	14,838	14,829	(9)
Trade notes and accounts receivable	327,694	327,694	-
Investment securities:			
Held-to-maturity debt securities	27,928	27,910	(18)
Available-for-sale securities	220,910	220,910	-
Total	<u>\$ 1,135,415</u>	<u>\$ 1,135,388</u>	<u>\$ (27)</u>
Financial liabilities:			
Trade notes and accounts payable	\$ 99,333	\$ 99,333	\$ -
Bonds	-	-	-
Total	<u>\$ 99,333</u>	<u>\$ 99,333</u>	<u>\$ -</u>
Derivative instruments (*)	<u>\$ 550</u>	<u>\$ 550</u>	<u>\$ -</u>

(*) Net debts and credits arising from derivative instruments are presented in net amounts, and a net debt is presented in parentheses.

Notes:

(1) Details of the methods and assumptions used to estimate the fair value of financial instruments are summarized below:

(i) Cash and cash equivalents and trade notes and accounts receivable

The fair value is approximately equal to the carrying value due to their short-term maturities.

(ii) Short-term investments and investment securities

The fair value of equity securities is based on quoted market prices. The fair value of debt securities is based on prices provided by correspondent financial institutions. The fair value of short-term investments is approximately equal to the carrying value due to their short-term maturities.

(iii) Trade notes and accounts payable

The fair value is approximately equal to the carrying value due to their short-term maturities.

(iv) Bonds

The fair value of convertible bonds is based principally on prices provided by correspondent financial institutions.

(v) Derivative instruments

See Note 7 for the methods used to determine the fair value of derivative instruments such as foreign currency forward exchange contracts.

(2) The following securities were not included in the table above because their fair values were extremely difficult to determine.

	Millions of yen		Thousands of U.S. dollars	
	2021	2020	2021	
Unlisted equity securities	¥ 889	¥ 589	\$	8,009

(3) Expected maturities of financial assets at March 31, 2021 and 2020 were as follows:

	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Millions of yen				
At March 31, 2021:				
Financial assets:				
Cash and cash equivalents	¥ 60,389	¥ -	¥ -	¥ -
Short-term investments	1,647	-	-	-
Trade notes and accounts receivable	36,374	-	-	-
Investment securities				
Bonds	-	2,900	200	-
Other securities with maturities	-	-	400	-
Total	<u>¥ 98,410</u>	<u>¥ 2,900</u>	<u>¥ 600</u>	<u>¥ -</u>

	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Millions of yen				
At March 31, 2020:				
Financial assets:				
Cash and cash equivalents	¥ 43,907	¥ -	¥ -	¥ -
Short-term investments	189	-	-	-
Trade notes and accounts receivable	35,174	-	-	-
Investment securities				
Bonds	-	-	-	-
Other securities with maturities	-	-	400	-
Total	<u>¥ 79,270</u>	<u>¥ -</u>	<u>¥ 400</u>	<u>¥ -</u>

	Thousands of U.S. dollars			
At March 31, 2021:				
Financial assets:				
Cash and cash equivalents	\$ 544,045	\$ -	\$ -	\$ -
Short-term investments	14,838	-	-	-
Trade notes and accounts receivable	327,694	-	-	-
Investment securities				
Bonds	-	26,126	1,802	-
Other securities with maturities	-	-	3,603	-
Total	<u>\$ 886,577</u>	<u>\$ 26,126</u>	<u>\$ 5,405</u>	<u>\$ -</u>

(4) Contractual maturities of bonds and long-term debt at March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Year ending March 31,			
Bonds			
2021	<u>¥ -</u>	<u>¥ 7,220</u>	<u>\$ -</u>

4. Notes and Accounts Receivable

At March 31, 2021 and 2020, notes and accounts receivable consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Trade	¥ 36,374	¥ 35,174	\$ 327,694
Other	6,705	6,686	60,405
Less allowance for doubtful accounts	(86)	(27)	(775)
Total	¥ 42,993	¥ 41,833	\$ 387,324

5. Inventories

At March 31, 2021 and 2020, inventories consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Merchandise and finished goods	¥ 9,997	¥ 8,399	\$ 90,063
Work-in-process	20,805	22,796	187,433
Raw materials and supplies	7,365	8,641	66,351
Total	¥ 38,167	¥ 39,836	\$ 343,847

Losses on the write-down of ¥(638) million (\$ (5,748) thousand) and ¥963 million were recognized as cost of sales for the years ended March 31, 2021 and 2020, respectively.

6. Investment Securities

(1) At March 31, 2021 and 2020, short-term investments consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Securities with fair value:			
Held-to-maturity debt securities			
Bonds	¥ 1,500	¥ -	\$ 13,513
Other	-	-	-
Time deposits with an original maturity of more than three months	147	189	1,325
Total	¥ 1,647	¥ 189	\$ 14,838

(2) At March 31, 2021 and 2020, investment securities consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Securities with fair value:			
Held-to-maturity debt securities			
Bonds	¥ 3,100	¥ -	\$ 27,928
Available-for-sale securities			
Equity securities	24,113	18,386	217,234
Bonds	408	409	3,676
Total securities with fair value	27,621	18,795	248,838
Unlisted securities without fair value	889	589	8,009
Total	¥ 28,510	¥ 19,384	\$ 256,847

At March 31, 2021, the carrying value and fair value of held-to-maturity debt securities were as follows:

	Carrying value	Gross unrealized gains	Gross unrealized losses	Fair value
	Millions of yen			
At March 31, 2021:				
Bonds	¥ 4,600	¥ 0	¥ (3)	¥ 4,597
	Thousands of U.S. dollars			
At March 31, 2021:				
Bonds	\$ 41,441	\$ 0	\$ (27)	\$ 41,414

There was no carrying value or fair value of held-to-maturity debt securities for the year ended March 31, 2020.

At March 31, 2021 and 2020, the cost and the fair and carrying value of available-for-sale securities were as follows:

	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
Millions of yen				
At March 31, 2021:				
Equity securities	¥ 10,621	¥ 13,619	¥ (127)	¥ 24,113
Bonds	418	0	(10)	408
Total	<u>¥ 11,039</u>	<u>¥ 13,619</u>	<u>¥ (137)</u>	<u>¥ 24,521</u>
At March 31, 2020:				
Equity securities	¥ 11,118	¥ 7,854	¥ (586)	¥ 18,386
Bonds	418	0	(9)	409
Total	<u>¥ 11,536</u>	<u>¥ 7,854</u>	<u>¥ (595)</u>	<u>¥ 18,795</u>
Thousands of U.S. dollars				
At March 31, 2021:				
Equity securities	\$ 95,684	\$ 122,694	\$ (1,144)	\$ 217,234
Bonds	3,766	0	(90)	3,676
Total	<u>\$ 99,450</u>	<u>\$ 122,694</u>	<u>\$ (1,234)</u>	<u>\$ 220,910</u>

(3) At March 31, 2021 and 2020, sales of available-for-sale securities consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Sales proceeds:			
Equity securities	¥ 2,270	¥ 780	\$ 20,450
Aggregate gains:			
Equity securities	¥ 1,773	¥ 729	\$ 15,973
Aggregate losses:			
Equity securities	¥ 0	¥ -	\$ 0

(4) At March 31, 2021 and 2020, loss on valuation of available-for-sale securities consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Securities with fair value	¥ 39	¥ -	\$ 351

For available-for-sale securities with fair values that have declined by 30% or more of the acquisition costs and are deemed to be unrecoverable, loss on valuation is recognized. For available-for-sale securities without fair values that have declined by more than 50% of the acquisition costs, loss on valuation is generally recognized.

7. Derivative Instruments

At March 31, 2021 and 2020, derivative instruments to which hedge accounting was applied consisted of the following:

Currency related transactions

Hedged items	Contract amount	Contract amount of more than 1 year		Fair value
		Millions of yen		
At March 31, 2021:				
Translated at the contract rate				
Foreign exchange forward contracts (Sell USD)	Accounts receivable	¥ 2,644	¥ -	¥ 61
At March 31, 2020:				
Translated at the contract rate				
Foreign exchange forward contracts (Sell USD)	Accounts receivable	¥ 1,902	¥ -	¥ 10
Thousands of U.S. dollars				
At March 31, 2021:				
Translated at the contract rate				
Foreign exchange forward contracts (Sell USD)	Accounts receivable	\$ 23,820	\$ -	\$ 550

Notes: Fair values are based on prices quoted by the Company's main financial institutions.

8. Intangible Assets

At March 31, 2021 and 2020, intangible assets consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Goodwill	¥ 11,894	¥ 12,845	\$ 107,153
Software	8,130	7,091	73,244
Other intangible assets	4,827	5,054	43,486
Total	¥ 24,851	¥ 24,990	\$ 223,883

9. Notes and Accounts Payable

At March 31, 2021 and 2020, notes and accounts payable consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Trade	¥ 11,026	¥ 9,050	\$ 99,333
Other	640	984	5,766
Total	¥ 11,666	¥ 10,034	\$ 105,099

10. Bonds Payable

At March 31, 2021 and 2020, bonds payable consisted of the following:

	Millions of yen		Thousands of
	2021	2020	U.S. dollars
Zero-coupon unsecured convertible bonds, due March 2021	¥ -	¥ 7,227	\$ -
(Current portion of bonds payable)	-	(7,227)	-

To ensure flexibility and security against the demand for capital and to mitigate financial risks, the Company has arranged specific commitment line contracts in the total amount of ¥12,000 million with its main financial institutions.

The status of such agreements as of March 31, 2021 is summarized as follows:

	Millions of yen		Thousands of
	2021	2020	U.S. dollars
Committed lines of credit in total	¥ 12,000	¥ 12,000	\$ 108,108
Loans utilized	-	-	-
Available credit	¥ 12,000	¥ 12,000	\$ 108,108

11. Employee Retirement Benefits

The Company has adopted a defined contribution pension plan and a defined benefit corporate pension plan. Some of the domestic consolidated subsidiaries participate in a small- and medium-sized enterprise mutual aid plans or adopt lump-sum retirement payment plans and defined benefit corporate pension plans, while some other consolidated subsidiaries have adopted defined contribution plans.

For the small- and medium-sized enterprise mutual aid plans participated in or the lump-sum retirement payment plans and defined benefit corporate pension plans adopted by some of the domestic consolidated subsidiaries, net retirement benefit liability and retirement benefit expenses are calculated using the simplified method.

The defined benefit corporate pension plans and small- and medium-sized enterprise mutual aid plans of the Company and some of its domestic consolidated subsidiaries are funded plans, and their lump-sum retirement payment plans are unfunded plans.

Employee retirement benefits for the years ended March 31, 2021 and 2020 were as follows:

Defined benefit plans based on the principle method

(1) Movements in retirement benefit obligations:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Balance at April 1	¥ 9,707	¥ 9,388	\$ 87,450
Service cost	728	721	6,559
Interest cost	10	-	90
Actuarial differences	(14)	(112)	(126)
Benefits paid	(319)	(290)	(2,874)
Balance at March 31	¥ 10,112	¥ 9,707	\$ 91,099

(2) Movements in plan assets:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Balance at April 1	¥ 9,667	¥ 9,035	\$ 87,090
Expected return on plan assets	271	254	2,441
Actuarial differences	1,055	(644)	9,505
Contributions paid by the employer	1,326	1,312	11,946
Benefits paid	(319)	(290)	(2,874)
Balance at March 31	¥ 12,000	¥ 9,667	\$ 108,108

(3) Reconciliation from retirement benefit obligations and plan assets to net retirement benefit liability and asset:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Funded retirement benefit obligations	¥ 10,112	¥ 9,707	\$ 91,099
Plan assets	(12,000)	(9,667)	(108,108)
Total net retirement benefit liability and asset at March 31	<u>(1,888)</u>	<u>40</u>	<u>(17,009)</u>
Net retirement benefit liability	-	40	-
Net retirement benefit asset	(1,888)	-	(17,009)
Total net retirement benefit liability and asset at March 31	<u>¥ (1,888)</u>	<u>¥ 40</u>	<u>\$ (17,009)</u>

(4) Retirement benefit costs:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Service cost	¥ 728	¥ 721	\$ 6,559
Interest cost	10	-	90
Expected return on plan assets	(271)	(254)	(2,441)
Amortization of actuarial differences	532	170	4,792
Total retirement benefit costs for the fiscal year	<u>¥ 999</u>	<u>¥ 637</u>	<u>\$ 9,000</u>

(5) Remeasurements of defined benefit plans included in other comprehensive income before adjustment for tax effects:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Actuarial differences	¥ (1,601)	¥ 362	\$ (14,423)

(6) Remeasurements of defined benefit plans included in accumulated other comprehensive income before adjustment for tax effects:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Unrealized actuarial differences	¥ (1,069)	¥ 532	\$ (9,631)

(7) Plan assets:

(i) Plan assets comprise:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Bonds	¥ 5,351	¥ 4,467	\$ 48,207
Equity securities	4,012	3,098	36,144
Short-term funds	169	307	1,522
General accounts of life insurance companies	1,067	962	9,613
Other	1,401	833	12,622
Total	¥ 12,000	¥ 9,667	\$ 108,108

(ii) Long-term expected rate of return

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

(8) Actuarial assumptions

The principal actuarial assumptions at March 31, 2021 and 2020 were as follows:

	2021	2020
Discount rate	0.1%	0.1%
Long-term expected rate of return	2.8%	2.8%

The index for increase in salary based on age at March 31, 2018 was used as the rate of increase in salary.

Defined benefit plans based on the simplified method

(1) Movement in retirement benefit liability:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Balance at April 1	¥ 298	¥ 224	\$ 2,685
Benefits cost	56	181	504
Benefits paid	(17)	(23)	(153)
Contributions to defined benefit plans	(85)	(84)	(766)
Balance at March 31	¥ 252	¥ 298	\$ 2,270

(2) Reconciliation from retirement benefit obligations and plan assets to net retirement benefit liability and asset:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Funded retirement benefit obligations	¥ 1,701	¥ 1,663	\$ 15,324
Plan assets	(1,648)	(1,493)	(14,847)
	53	170	477
Unfunded retirement benefit obligations	199	128	1,793
Total net retirement benefit liability and asset at March 31	252	298	2,270
Net retirement benefit liability	255	298	2,297
Net retirement benefit asset	(3)	-	(27)
Total net retirement benefit liability and asset at March 31	¥ 252	¥ 298	\$ 2,270

(3) Benefits cost:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Benefits cost based on the simplified method	¥ 56	¥ 181	\$ 504

Defined contribution plans

The amounts of required contributions to defined contribution plans of the consolidated subsidiaries were ¥224 million (\$2,018 thousand) and ¥223 million for the years ended March 31, 2021 and 2020, respectively.

12. Lease Commitments

At March 31, 2021 and 2020, the Group had commitments under non-cancelable operating leases as lessee. The aggregate future minimum payments under these leases were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Operating leases:			
Due within one year	¥ 13	¥ 14	\$ 117
Due after one year	30	47	270
	<u>¥ 43</u>	<u>¥ 61</u>	<u>\$ 387</u>

13. Contingent Liabilities

There were no contingent liabilities at March 31, 2021 or 2020.

14. Net Assets

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as share capital. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the issue price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases in which a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of share capital the total of the additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. The additional paid-in-capital and legal earnings reserve have been included in capital surplus and retained earnings, respectively, in the accompanying consolidated balance sheets. Under the Law, legal earnings reserve and additional paid-in capital can be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting. Additional paid-in capital and legal earnings reserve may not be distributed as dividends. All additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

At March 31, 2021 and 2020, capital surplus consisted principally of additional paid-in capital. In addition, retained earnings included legal earnings reserve of the Company in the amount of ¥1,450 million (\$13,063 thousand) and ¥1,450 million at March 31, 2021 and 2020 respectively.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations. During the year ended March 31, 2021, the Company paid interim dividends of ¥20.00 per share, amounting to ¥1,827 million (\$16,459 thousand). In addition, on June 29, 2021, the annual meeting of stockholders of the Company approved cash dividends as an appropriation of retained earnings in the amount of ¥30.00 per share, amounting to ¥2,893 million (\$26,063 thousand), to the shareholders of record at March 31, 2021.

15. Impairment Loss on Fixed Assets

Impairment loss recognized on fixed assets for the year ended March 31, 2021 was as follows:

Location	Usage	Assets	Millions of yen	Thousands of U.S. dollars
			2021	2021
Aichi, Japan	Production facilities	Machinery, equipment and vehicles	¥ 645	\$ 5,811
		Buildings and structures	97	874
		Tools, furniture and fixtures	52	468
		Other	34	306
		Total	¥ 828	\$ 7,459

In principle, business assets are classified into groups on which separate financial information is reported for management accounting purposes, and idle assets are grouped by individual asset.

During the fiscal year ended March 31, 2021, the Machine Tools business continued to record operating losses due to decreased profitability caused by a significant deterioration in its business environment. Accordingly, the Group wrote down the book value of machinery, equipment, etc., to its recoverable amount and recorded the decrease as impairment loss.

The recoverable amount of this asset group was measured at value in use, which is equal to the memorandum value because the future cash flows are estimated to be negative.

There was no impairment loss on fixed assets for the year ended March 31, 2020.

16. Income Taxes

The tax effects of temporary differences that gave rise to a significant portion of deferred tax assets and liabilities at March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Deferred tax assets:			
Loss on valuation of inventories	¥ 1,115	¥ 1,425	\$ 10,045
Accrued expenses	1,053	840	9,486
Intercompany unrealized gains on inventories	979	890	8,820
Impairment loss on fixed assets	509	264	4,586
Loss on valuation of investment securities	425	413	3,829
Accrued enterprise taxes	313	148	2,820
Provision for product warranties	276	306	2,486
Net retirement benefit liability	81	104	730
Other	259	254	2,333
Subtotal of deferred tax assets	5,010	4,644	45,135
Less valuation allowance	(767)	(733)	(6,910)
Total deferred tax assets	4,243	3,911	38,225
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	(3,758)	(2,087)	(33,856)
Valuation difference for a consolidated subsidiary	(1,349)	(1,500)	(12,153)
Net retirement benefit asset	(579)	-	(5,217)
Retained earnings of foreign subsidiaries	(129)	-	(1,162)
Other	(119)	(103)	(1,072)
Total deferred tax liabilities	(5,934)	(3,690)	(53,460)
Net deferred tax assets (liabilities)	¥ (1,691)	¥ 221	\$ (15,235)

In assessing the realizability of deferred tax assets, the management of the Group considers whether some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which the temporary differences become deductible. At March 31, 2021 and 2020, a valuation allowance was provided to reduce deferred tax assets to the amount the management believed would be realizable.

Reconciliation of the differences between the Japanese statutory tax rate and the effective tax rate on pretax income reflected in the accompanying consolidated statements of income for the years ended March 31, 2021 and 2020 was as follows:

	Percentage of pretax income	
	2021	2020
Japanese statutory tax rate	30.6 %	30.6 %
Increase (decrease) due to:		
Tax exempt income	(0.2)	(0.3)
Changes in valuation allowances	(0.2)	(0.3)
Tax credits	(2.9)	(2.9)
Amortization of goodwill	1.2	1.4
Differences in tax rates of subsidiaries	0.4	0.0
Other	(0.3)	(0.9)
Effective income tax rate	<u>28.6 %</u>	<u>27.6 %</u>

17. Business Combinations

Transactions under common control

Absorption merger between consolidated subsidiaries

1. Outline of business combination:

(1) Name and business description of each combined company

-Name of the surviving company

FUJI EUROPE CORPORATION GmbH

-Business description of the surviving company

Sales of the robotic mounter

-Name of the extinct company

Tower-Factory GmbH

-Business description of the extinct company

Manufacturing and sales of peripheral devices for robotic mounter

(2) Date of business combination:

August 24, 2020

(3) Legal form of business combination:

Absorption merger with FUJI EUROPE CORPORATION GmbH as the surviving company and Tower-Factory GmbH as the extinct company

(4) Name of the entity after business combination:

FUJI EUROPE CORPORATION GmbH

(5) Other matters related to the outline of transactions:

The purpose of the merger of consolidated subsidiaries is to improve management efficiency and reduce cost.

2. Outline of the accounting treatment applied

Based on “Accounting Standard for Business Combinations” and “Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures,” the transactions are treated under common control.

18. Segment Information

(a) Outline of reportable segments:

Of the units that comprise the Group, financial information is available for each segment and is subject to periodic reviews by the Company’s Board of Directors for determination of the allocation of management resources and for evaluation of operating performance.

The Group operates separate divisions based on the type of product and service provided, and each of the divisions plans comprehensive domestic and international strategies for its products and services and is engaged in developing its respective business activities. Thus, the Group has two reportable segments based on the two main types of products and services offered: Robotic Solutions and Machine Tools business. In the Robotic Solutions business, we mainly produce robotic mounters. In the Machine Tools business, we mainly produce machine tools.

(b) Methods for calculating the value of net sales, profit or loss, assets, liabilities, and other items by reportable segment:

The accounting method for the reported business segments is the same as those for preparation of consolidated financial statements. Income in reportable segments is based on operating profit. Intersegment sales or transfers are based on current market prices.

(c) Information about reportable segments:

Information about reportable segment net sales, profit or loss, assets and other items for the years ended March 31, 2021 and 2020 was as follows:

	Reportable segments						Consolidated financial statements
	Robotic Solutions	Machine Tools	Total	Others (*1)	Total	Adjustments	
	Millions of yen						
For the year ended March 31, 2021:							
Net sales:							
External customers	¥ 125,570	¥ 7,866	¥ 133,436	¥ 2,726	¥ 136,162	¥ -	¥ 136,162
Intersegment sales/transfers	11	-	11	170	181	(181)	-
Total	¥ 125,581	¥ 7,866	¥ 133,447	¥ 2,896	¥ 136,343	¥ (181)	¥ 136,162
Segment income (loss) (*2)	26,307	(1,325)	24,982	(4)	24,978	(3,074)	21,904
Segment assets (*3)	139,491	12,979	152,470	3,142	155,612	69,059	224,671
Other items:							
Depreciation (*4)	6,348	682	7,030	110	7,140	134	7,274
Increase in property, plant and equipment and intangible assets (*4)	¥ 7,302	¥ 398	¥ 7,700	¥ 95	¥ 7,795	¥ 61	¥ 7,856
	Reportable segments						
	Robotic Solutions	Machine Tools	Total	Others (*1)	Total	Adjustments	Consolidated financial statements
	Millions of yen						
For the year ended March 31, 2020:							
Net sales:							
External customers	¥ 127,763	¥ 10,840	¥ 138,603	¥ 2,365	¥ 140,968	¥ 0	¥ 140,968
Intersegment sales/transfers	10	-	10	124	134	(134)	-
Total	¥ 127,773	¥ 10,840	¥ 138,613	¥ 2,489	¥ 141,102	¥ (134)	¥ 140,968
Segment income (loss) (*2)	23,354	(637)	22,717	(1)	22,716	(3,144)	19,572
Segment assets (*3)	130,145	15,689	145,834	3,034	148,868	49,636	198,504
Other items:							
Depreciation (*4)	5,987	632	6,619	75	6,694	131	6,825
Increase in property, plant and equipment and intangible assets (*4)	¥ 7,441	¥ 843	¥ 8,284	¥ 99	¥ 8,383	¥ 259	¥ 8,642

	Reportable segments					Adjustments	Consolidated financial statements
	Robotic Solutions	Machine Tools	Total	Others (*1)	Total		
	Thousands of U.S. dollars						
For the year ended March 31, 2021:							
Net sales:							
External customers	\$ 1,131,261	\$ 70,865	\$ 1,202,126	\$ 24,559	\$ 1,226,685	\$ -	\$ 1,226,685
Intersegment sales/transfers	99	-	99	1,531	1,630	(1,630)	-
Total	\$ 1,131,360	\$ 70,865	\$ 1,202,225	\$ 26,090	\$ 1,228,315	\$ (1,630)	\$ 1,226,685
Segment income (loss) (*2)	237,000	(11,937)	225,063	(36)	225,027	(27,693)	197,334
Segment assets (*3)	1,256,676	116,928	1,373,604	28,306	1,401,910	622,153	2,024,063
Other items:							
Depreciation (*4)	57,189	6,144	63,333	991	64,324	1,207	65,531
Increase in property, plant and equipment and intangible assets (*4)	\$ 65,784	\$ 3,585	\$ 69,369	\$ 856	\$ 70,225	\$ 550	\$ 70,775

*1) "Others" is a business segment that is not considered a reportable segment. It includes the manufacture of control equipment and electronic equipment and image processing development for the years ended March 31, 2021 and 2020.

*2) Segment income adjustments consisted of corporate expenses in the amount of ¥(3,083) million (\$ (27,775) thousand) and ¥(3,149) million, net of intersegment elimination of ¥9 million (\$82 thousand) and ¥5 million, respectively, for the years ended March 31, 2021 and 2020. These corporate expenses consisted mainly of general and administrative expenses and research and development expenses not attributable to the reportable segments.

*3) Segment assets adjustments consisted of corporate assets in the amount of ¥69,084 million (\$622,378 thousand) and ¥49,664 million, net of intersegment elimination of ¥(25) million (\$ (225) thousand) and ¥(28) million, respectively, at March 31, 2021 and 2020. These corporate assets consisted mainly of surplus funds (cash and deposits), long-term investments (investment securities), assets related to technological research and administration divisions and other assets not attributable to the reportable segments.

*4) Adjustments were attributable to technological research and administration divisions related items.

(d) Related information:

For the year ended March 31, 2021

(1) Information about products and services:

As this information has been presented under segment information above, it is omitted here.

(2) Information about geographic areas:

As of and for the year ended March 31, 2021, net sales and property, plant and equipment by geographic area were as follows:

	<u>Japan</u>	<u>China</u>	<u>Other Asia</u>	<u>United States</u>	<u>Other North America</u>	<u>Europe</u>	<u>Other</u>	<u>Total</u>	
	Millions of yen								
Net sales	¥ 13,655	¥ 71,754	¥ 30,276	¥ 7,391	¥ 1,654	¥ 9,841	¥ 1,591	¥ 136,162	
Ratio	10.0%	52.7%	22.3%	5.4%	1.2%	7.2%	1.2%	100.0%	
	Thousands of U.S. dollars								
Net sales	\$ 123,018	\$ 646,432	\$ 272,757	\$ 66,586	\$ 14,901	\$ 88,658	\$ 14,333	\$ 1,226,685	
	<u>Japan</u>	<u>China</u>	<u>United States</u>	<u>Europe</u>	<u>Other</u>	<u>Total</u>			
	Millions of yen								
Property, plant and equipment	¥ 21,390	¥ 730	¥ 955	¥ 1,154	¥ 113	¥ 24,342			
Ratio	87.9%	3.0%	3.9%	4.7%	0.5%	100.0%			
	Thousands of U.S. dollars								
Property, plant and equipment	\$ 192,703	\$ 6,576	\$ 8,604	\$ 10,396	\$ 1,018	\$ 219,297			

(3) Information about major customers:

For the year ended March 31, 2021, information about major customers was as follows:

<u>Name of customer</u>	<u>Net sales</u>		<u>Segment</u>
	<u>Millions of yen</u>	<u>Thousands of U.S. dollars</u>	
American Tec Co., Ltd. (China)	¥ 25,718	\$ 231,694	Robotic Solutions

For the year ended March 31, 2020

(1) Information about products and services:

As this information has been presented under segment information above, it is omitted here.

(2) Information about geographic areas:

As of and for the year ended March 31, 2020, net sales and property, plant and equipment by geographic area were as follows:

	Japan		China		Other Asia		United States		Other North America		Europe		Other		Total	
	Millions of yen															
Net sales	¥	14,779	¥	64,394	¥	32,726	¥	9,021	¥	4,324	¥	13,837	¥	1,887	¥	140,968
Ratio		10.5%		45.7%		23.2%		6.4%		3.1%		9.8%		1.3%		100.0%

	Japan		China		United States		Europe		Other		Total	
	Millions of yen											
Property, plant and equipment	¥	22,551	¥	625	¥	1,025	¥	1,104	¥	116	¥	25,421
Ratio		88.7%		2.5%		4.0%		4.3%		0.5%		100.0%

(3) Information about major customers:

For the year ended March 31, 2020, information about major customers was as follows:

Name of customer	Net sales		Segment
	Millions of yen		
American Tec Co., Ltd. (China)	¥	41,682	Robotic Solutions

(e) Information about impairment loss on fixed assets in reportable segments:

Impairment loss on fixed assets for the year ended March 31, 2021 was recognized in the amount of ¥828 million (\$7,459 thousand). However, as reportable segment income is based on operating profit, the impairment loss was not allocated to each reportable segment. There was no impairment loss on fixed assets for the year ended March 31, 2020.

(f) Information about goodwill in reportable segments:

Amortization of goodwill and unamortized balance

	Robotic Solutions	Machine Tools	Others	Corporate/ adjustments	Total
	Millions of yen				
For the year ended March 31, 2021:					
Amortization of goodwill	¥ 951	¥ -	¥ -	¥ -	¥ 951
Balance of goodwill at March 31, 2021	11,894	-	-	-	11,894
For the year ended March 31, 2020:					
Amortization of goodwill	¥ 951	¥ -	¥ -	¥ -	¥ 951
Balance of goodwill at March 31, 2020	12,845	-	-	-	12,845
	Thousands of U.S. dollars				
For the year ended March 31, 2021:					
Amortization of goodwill	\$ 8,568	\$ -	\$ -	\$ -	\$ 8,568
Balance of goodwill at March 31, 2021	107,153	-	-	-	107,153

Gain on bargain purchases

There was no gain on bargain purchases for the year ended March 31, 2021.

19. Other Comprehensive Income

Amounts reclassified to net income (loss) in the current period that were recognized in other comprehensive income in the current or previous periods and the tax effects for each component of other comprehensive income for the years ended March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Valuation difference on available-for-sale securities			
Increase during the year	¥ 8,000	¥ (4,306)	\$ 72,072
Reclassification adjustments	(1,734)	(729)	(15,622)
Subtotal, before tax	6,266	(5,035)	56,450
Tax effect	(1,671)	1,351	(15,054)
Subtotal, net of tax	4,595	(3,684)	41,396
Deferred gains or losses on hedges			
Increase during the year	39	6	351
Tax effect	(12)	(2)	(108)
Subtotal, net of tax	27	4	243
Foreign currency translation adjustment			
Increase during the year	1,047	(770)	9,433
Remeasurements of defined benefit plans			
Increase during the year	1,069	(532)	9,631
Reclassification adjustments	532	170	4,792
Subtotal, before tax	1,601	(362)	14,423
Tax effect	(490)	111	(4,414)
Subtotal, net of tax	1,111	(251)	10,009
Total other comprehensive income	¥ 6,780	¥ (4,701)	\$ 61,081

20. Cash Flow Information

Description of important non-cash transactions

Exercise of share options in Zero-coupon convertible bonds:

	Millions of yen		Thousands of U.S. dollars	
	2021		2021	
Gain on disposal of treasury shares due to exercise of share options	¥ 1,110		\$ 10,000	
Reduction in treasury shares due to exercise of share options	6,113		55,072	
Reduction in Zero-coupon convertible bonds due to exercise of share options	¥ 7,223		\$ 65,072	

21. Significant Subsequent Event

(Significant capital investment)

The Company resolved to carry out the reconstruction of the Okazaki Plant and the expansion of the multistory parking structure at the Board of Directors' meeting held on May 11, 2021.

1. Purpose of capital investment:

The Okazaki Plant, which is the production base for products in the Robotic Solutions business, such as the Company's core product, the "NXT" series, has been deteriorating as some buildings have been in use for over 30 years. Accordingly, by carrying out the reconstruction of some buildings at the Okazaki Plant, the Company will upgrade equipment and enhance production capacity. Furthermore, to respond to the increase in employees associated with the above-mentioned enhancement of production capacity, the Company will carry out the expansion of the multistory parking structure connected to the Okazaki Plant at the same time.

2. Description of capital investment:

(1) Location

Aichi, Japan

(2) Usage

The reconstruction of some buildings at the Okazaki Plant and the expansion of the multistory parking structure

(3) Planned investment amount

¥ 10,062 million (\$90,649 thousand)

3. Timing for the introduction of facilities

The expansion of the multistory parking structure is expected to be completed in January 2022.

The reconstruction of some buildings at the Okazaki Plant is expected to be completed in May 2024.

(Business combination through acquisition)

The Company resolved to acquire all issued shares of Sojitz Corporation's subsidiary FUJI MACHINE ASIA PTE. LTD. (hereinafter, "FMA"), and concluded a share transfer agreement with Sojitz Corporation on June 30, 2021.

1. Outline of business combination

(1) Name of the acquired entity and business description:

-Name of the acquired entity

FUJI MACHINE ASIA PTE. LTD.

-Business description

Sales of the robotic moulder

(2) Main reason for business combination:

Southeast Asia is an area where further growth is expected in the future due to it becoming the third largest market in the world after the Chinese and European regions in the SMT (Surface Mounting Technology) market. FMA has been selling the Company's products and providing services for many years in this area. The Company concluded the share transfer agreement as it believes that being directly involved in management by making FMA a subsidiary will lead to the improvement of marketing and service capabilities in addition to the expansion of its market share in Southeast Asia.

(3) Date of business combination:

July 12, 2021

(4) Legal form of business combination:

Acquisition of shares by cash

(5) Name of the entity after business combination:

No change

(6) The ratio of voting rights acquired:

- Ratio of voting rights owned immediately before acquisition

14.0%

- Ratio of voting rights additionally acquired on the business combination date

86.0%

- Ratio of voting rights after acquisition

100.0%

(7) Grounds for determining the acquired company:

The Company acquired the voting rights of FMA by cash as consideration and made it a wholly owned subsidiary.

2. Acquisition cost and components by type of consideration of the acquired company

		Millions of yen	Thousands of U.S. dollars
Consideration for acquisition:	Cash	¥ 2,600	\$ 23,423
Acquisition cost		¥ 2,600	\$ 23,423

3. Details and amount of major acquisition related cost

Approximation of advisory fees: ¥37 million (\$333 thousand)

4. Amount, source, amortization method and amortization period of goodwill derived

Unable to confirm at present.

5. Major assets and liabilities of the acquired entity as of the date of business combination

Unable to confirm at present.



Independent Auditor's Report

To the Board of Directors of FUJI CORPORATION:

Opinion

We have audited the accompanying consolidated financial statements of FUJI CORPORATION (“the Company”) and its consolidated subsidiaries (collectively referred to as “the Group”) , which comprise the consolidated balance sheets as at March 31, 2021 and 2020, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

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

Key Audit Matters

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

Impairment of fixed assets used in the Machine Tools business of FUJI CORPORATION	
The key audit matter	How the matter was addressed in our audit
<p>In the consolidated statement of income for the current fiscal year and as described in Note 15, “Impairment Loss on Fixed Assets” to the consolidated financial statements, FUJI CORPORATION recognized an impairment loss of ¥828 million on fixed assets used in the Machine Tools business, the carrying amount of which before impairment was ¥828 million. The Machine Tools business is mainly engaged in the manufacturing and selling of machine tools.</p> <p>While these fixed assets are depreciated/amortized in a systematic manner, they need to be tested for impairment whenever there is an impairment indicator. The impairment test is performed by comparing the undiscounted future cash flows that are expected to be generated from the related asset groups with their carrying amounts. If the</p>	<p>The primary procedures we performed to assess whether the Company’s estimate of undiscounted future cash flows arising from fixed assets used in the Machine Tools business of FUJI CORPORATION was reasonable included the following:</p> <p>(1) Internal control testing</p> <p>We tested the design and operating effectiveness of certain of the Company’s internal controls relevant to the impairment of fixed assets, including the estimate of undiscounted future cash flows.</p> <p>(2) Substantive procedures for the estimated undiscounted future cash flows</p> <p>In order to evaluate the reasonableness of the estimated undiscounted future cash flows, we performed the procedures set forth below among others, regarding the mid-term management plan</p>

<p>recognition of an impairment loss is deemed necessary, the carrying amount is reduced to the recoverable amount, and the resulting decrease in the carrying amount is recognized as an impairment loss.</p> <p>As the Machine Tools business of FUJI CORPORATION has recognized recurring operating losses for some consecutive years, indicating impairment during the current fiscal year, the Company performed an impairment test.</p> <p>In the impairment testing, the undiscounted future cash flows were estimated based on the mid-term management plan prepared by management. While estimated future sales (in particular, sales for the second and each subsequent year in the mid-term management plan) were adjusted to a certain extent in consideration of not only future measures but also uncertainty about the effects from the economic environment and status of competitors, they still involved a large degree of management's subjective judgment.</p> <p>We, therefore, determined that our assessment of the reasonableness of the estimated undiscounted future cash flows arising from fixed assets used in the Machine Tools business of FUJI CORPORATION was of most significance in our audit of the consolidated financial statements for this fiscal year, and accordingly, a key audit matter.</p>	<p>which was used as the basis for the estimate.</p> <ul style="list-style-type: none"> • We inquired of management about the process of preparing the mid-term management plan and various future measures, and inspected relevant documents. • We compared sales for the following year with the recent orders received, which formed the basis for estimating the sales, and assessed future prospects of the domestic machine tools industry by comparing them with available external data. We also analyzed future sales for the second and each subsequent year in the mid-term management plan by comparing the past actual results with the estimates made at the time when preparing the previous mid-term management plan, and evaluated whether the result was appropriately reflected in estimating the undiscounted future cash flows. • We performed a comparative analysis of the marginal profit ratio and the budgeted amount of fixed costs, with their past actual results, and inspected relevant documents.
--	--

Responsibilities of Management and Corporate Auditors and the Board of Corporate Auditors for the Consolidated Financial Statements

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

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

Corporate auditors and the board of corporate auditors are responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of the Group's financial reporting process.

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

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

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

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

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

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

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

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2021 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 of the Notes to the consolidated financial statements.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

/S/ Noriko Shinke
Designated Engagement Partner
Certified Public Accountant

/S/Masahide Kinbara
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Nagoya Office, Japan
August 5, 2021

Notes to the Reader of Independent Auditor's Report:

This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.