

Shibaura Machine

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Audited Annual Financial Report
2021

FINANCIAL HIGHLIGHTS (consolidated)

	2021	2020	2019	2018	2017
Net sales	¥92,635 \$836,738	¥116,761	¥117,405	¥116,862	¥111,327
Cost of sales	¥67,730 \$611,784	¥83,301	¥84,493	¥83,712	¥79,350
Selling, general and administrative expenses	¥24,522 \$221,505	¥29,930	¥29,078	¥28,509	¥27,503
Operating income	¥381 \$3,449	¥3,529	¥3,834	¥4,640	¥4,473
Net income before income taxes	¥267 \$2,420	¥12,648	¥5,742	¥6,860	¥3,523
Income taxes	¥3,165 \$28,597	¥5,309	¥1,662	¥1,844	¥1,747
Net income (loss)	¥(2,898) \$(26,178)	¥7,338	¥4,079	¥5,016	¥1,776
Comprehensive income	¥43 \$391	¥5,784	¥3,475	¥5,789	¥2,268
Per common share:					
Net income (loss)	¥(120.05) \$(1.08)	¥304.06	¥169.03	¥207.83	¥59.37
Cash dividends	¥199.30 \$1.80	¥85.00	¥45.00	¥14.00	¥12.00
Total assets	¥134,296 \$1,213,048	¥154,283	¥150,724	¥148,763	¥138,373
Net assets	¥82,152 \$742,052	¥87,018	¥83,197	¥81,334	¥77,120
Capital expenditures (property, plant and equipment)	¥1,799 \$16,251	¥1,741	¥1,195	¥4,687	¥1,335
Depreciation	¥1,755 \$15,857	¥1,781	¥1,868	¥2,049	¥1,730
R & D costs	¥2,218 \$20,037	¥2,378	¥1,835	¥1,899	¥1,648
Number of employees	3,081	3,360	3,346	3,273	3,236

Note 1: In millions of yen (thousands of U.S. dollars), except for per-share data and number of employees.

Note 2: Yen amounts have been translated into U.S. dollars, for convenience only, at the exchange rate of ¥110.71=U.S.\$1. See Note 3 of the Notes to the Consolidated Financial Statements.

Note 3: SHIBAURA MACHINE CO., LTD. executed the consolidation of shares at the ratio of 5 shares into 1 share effective from October 1, 2018. Net income per share is recalculated on the assumption that the consolidation of shares was executed at the beginning of the year ended March 31, 2017. In addition, the cash dividend per share at the end of March 31, 2019 is the sum of the interim dividend ¥7.50 and the year-end dividend ¥37.50. Since the interim dividend amount is ¥37.50 when converted based on the consolidation of shares, the annual dividend amount including the ¥37.50 year-end dividend amount is ¥75.00 per share.

Note 4: Cash dividends per shares includes a commemorative dividend ¥10.00 at the end of March 31, 2020.

Note 5: Cash dividends per shares includes a special dividend ¥124.30 at the end of March 31, 2021.

Note 6: The Companies have adopted the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No.28, February 16, 2018). This accounting standard has been retrospectively applied to figures for the beginning of the year ended March 31, 2017.

CONSOLIDATED BALANCE SHEET

SHIABURA MACHINE CO., LTD. AND CONSOLIDATED SUBSIDIARIES

March 31, 2021

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 3)
	2021	2020	2021
Current assets:			
Cash and deposits (Notes 18 and 20)	¥42,417	¥47,907	\$383,144
Marketable securities (Notes 18, 20 and 21)	—	104	—
Notes and accounts receivable, trade (Note 20)	27,682	36,064	250,045
Allowance for doubtful receivables	(37)	(49)	(341)
Net receivables	27,644	36,015	249,703
Inventories:			
Finished products	6,736	9,052	60,850
Work in process	22,327	26,877	201,680
Raw materials and supplies	64	67	583
Total inventories	29,129	35,997	263,113
Other current assets (Notes 20 and 22)	3,560	2,340	32,164
Total current assets	102,752	122,364	928,124
Property, plant and equipment, net (Note 7)	20,758	20,541	187,507
Intangible assets (Note 8)	571	561	5,161
Investments and other assets:			
Investments in:			
Unconsolidated subsidiaries and affiliates (Note 20)	744	780	6,725
Other securities (Notes 20 and 21)	7,597	5,779	68,624
Long-term loans	6	13	60
Deferred tax assets (Note 4 and 24)	409	3,142	3,699
Other investments	1,455	1,100	13,149
Total investments and other assets	10,213	10,816	92,256
Total assets	¥134,296	¥154,283	\$1,213,048

See accompanying notes to financial statements.

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 3)
	2021	2020	2021
Current liabilities:			
Short-term bank loans (Notes 20 and 31)	¥10,090	¥10,090	\$91,139
Current portion of long-term debt (Notes 20 and 31)	500	—	4,516
Notes and accounts payable, trade (Note 20)	17,613	21,279	159,093
Income taxes payable (Note 24)	74	7,218	675
Accrued expenses	2,341	5,351	21,153
Provision for bonuses	1,096	—	9,906
Warranty reserve	591	720	5,344
Advances received	5,345	6,403	48,282
Other current liabilities (Notes 20, 22 and 31)	1,316	1,941	11,891
Total current liabilities	38,969	53,006	351,998
Long-term liabilities:			
Long-term debt (Notes 20 and 31)	3,800	4,300	34,324
Long-term accounts payable, other	5	5	52
Accrued directors' retirement benefits	58	41	526
Net retirement benefit liability (Note 23)	8,518	9,770	76,944
Asset retirement obligations	105	52	952
Deferred tax liabilities (Note 24)	570	2	5,152
Other long-term liabilities (Note 31)	115	85	1,047
Total long-term liabilities	13,174	14,258	118,998
Total liabilities	52,144	67,264	470,996
Contingent liabilities (Note 9)			
Net assets:			
Shareholders' equity: (Note 16)			
Common stock			
Authorized - 72,000,000 shares			
Issued - 29,977,106 shares	12,484	12,484	112,770
Additional paid-in capital	11,538	11,538	104,220
Retained earnings	69,522	77,359	627,968
Treasury stock, at cost (5,831,373 shares in 2021, 5,841,960 shares in 2020)	(16,346)	(16,376)	(147,652)
Total shareholders' equity	77,198	85,006	697,307
Accumulated other comprehensive income			
Unrealized holding gain on securities, net of tax (Note 21)	3,749	2,334	33,868
Deferred gains or losses on hedges (Note 22)	—	0	—
Foreign currency translation adjustments	1,737	843	15,692
Remeasurements of defined benefit plans (Note 23)	(533)	(1,165)	(4,815)
Total accumulated other comprehensive income	4,953	2,012	44,745
Total net assets (Note 30)	82,152	87,018	742,052
Total liabilities and net assets	¥134,296	¥154,283	\$1,213,048

See accompanying notes to financial statements.

CONSOLIDATED STATEMENT OF INCOME

SHIABURA MACHINE CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Year ended March 31, 2021

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2021	2020	2021
Net sales	¥92,635	¥116,761	\$836,738
Cost of sales (Note 12)	67,730	83,301	611,784
Gross profit	24,904	33,459	224,954
Selling, general and administrative expenses (Notes 11 and 12)	24,522	29,930	221,505
Operating income	381	3,529	3,449
Other income:			
Interest and dividend income	271	556	2,453
Rent income	45	50	410
Foreign exchange income	348	76	3,152
Equity in earnings of affiliates	—	728	—
Subsidies for employment adjustment	677	—	6,120
Subsidy income	220	—	1,995
Gain on sales of property, plant and equipment	13	6	125
Gain on sales of shares of subsidiaries and affiliates (Notes 13 and 21)	—	10,135	—
Gain on sales of investment securities (Note 21)	132	26	1,193
Others	282	271	2,556
	1,993	11,851	18,004
Other expenses and losses:			
Interest expense	84	81	764
Brand fee expense	0	124	1
Outsourcing expenses	655	862	5,923
Loss on disposal of property, plant and equipment and intangible assets	78	103	711
Loss on valuation of shares of subsidiaries and affiliates (Note 21)	35	—	322
Loss on valuation of investment securities (Note 21)	—	311	—
Loss on impairment of fixed assets (Note 14)	371	19	3,355
Extra retirement payments (Note 15)	264	911	2,394
Others	615	318	5,562
	2,107	2,732	19,033
Net income before income taxes	267	12,648	2,420
Income taxes (Note 24)			
Current	403	7,621	3,645
Deferred	2,762	(2,312)	24,952
	3,165	5,309	28,597
Net income (loss)	(2,898)	7,338	(26,178)
Net income (loss) attributable to owners of parent	¥(2,898)	¥7,338	\$(26,178)

See accompanying notes to financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

SHIABURA MACHINE CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Year ended March 31, 2021

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2021	2020	2021
Net income (loss)	¥(2,898)	¥7,338	\$(26,178)
Other comprehensive income (loss): (Note 17)			
Unrealized holding gain (loss) on securities, net of tax	1,415	(536)	12,785
Deferred gains or losses on hedges	(0)	0	(3)
Foreign currency translation adjustments	893	(867)	8,071
Remeasurements of defined benefit plans	632	(228)	(5,715)
Share of other comprehensive income of affiliates accounted for using equity method	—	77	—
Total other comprehensive income (loss)	2,941	(1,554)	26,569
Comprehensive income	¥43	¥5,784	\$391
Comprehensive income attributable to:			
Owners of parent	43	5,784	391
Non-controlling interests	—	—	—

See accompanying notes to financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

SHIABURA MACHINE CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Year ended March 31, 2021

	Number of Shares	Millions of yen								
		Common stock	Additional paid in capital	Retained earnings	Treasury stock	Unrealized gain on securities, net of tax	Deferred gains or losses on hedges	Translation adjustments	Remeasurements of defined benefit plans	Total net assets
Balance at April 1, 2019	29,907,106	¥12,484	¥11,538	¥71,983	¥(16,375)	¥2,844	¥0	¥1,711	¥(988)	¥83,197
Net income attributable to owners of parent				7,338						7,338
Purchases of treasury stock					(1)					(1)
Cash dividends				(1,930)						(1,930)
Decrease by merger				(31)						(31)
Net changes in items other than shareholders' equity						(510)	0	(867)	(176)	(1,554)
Balance at March 31, 2020	29,907,106	12,484	11,538	77,359	(16,376)	2,344	0	843	(1,165)	87,018
Net loss attributable to owners of parent				(2,898)						(2,898)
Purchases of treasury stock					(0)					(0)
Cash dividends				(4,931)						(4,931)
Restricted stock compensation				(7)	30					22
Net changes in items other than shareholders' equity						1,415	(0)	893	632	2,941
Balance at March 31, 2021	29,977,106	¥12,484	¥11,538	¥69,522	¥(16,346)	¥3,749	¥-	¥1,737	¥(533)	¥82,152

	Thousands of U.S. dollars (Note 3)									
	Common stock	Additional paid in capital	Retained earnings	Treasury stock	Unrealized gain on securities, net of tax	Deferred gains or losses on hedges	Translation adjustments	Remeasurements of defined benefit plans	Total net assets	
Balance at March 31, 2020	\$112,770	\$104,220	\$698,759	\$(147,921)	\$21,083	\$3	\$7,621	\$(10,530)	\$786,004	
Net loss attributable to owners of parent			(26,178)						(26,178)	
Purchases of treasury stock				(6)					(6)	
Cash dividends			(44,542)						(44,542)	
Restricted stock compensation			(72)	275					203	
Net changes in items other than shareholders' equity					12,785	(3)	8,071	5,715	26,569	
Balance at March 31, 2021	\$112,770	\$104,220	\$627,968	\$(147,652)	\$33,868	\$-	\$15,692	\$(4,815)	\$742,052	

See accompanying notes to financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

SHIABURA MACHINE CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Year ended March 31, 2021

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2021	2020	2021
Operating activities:			
Net income before income taxes	¥267	¥12,648	\$2,420
Adjustments to reconcile net income before income taxes to net cash provided by operating activities:			
Depreciation	¥1,755	¥1,781	15,857
Loss on impairment of fixed assets	371	19	3,355
Extra retirement payments	264	911	2,394
Allowance for doubtful receivables	249	662	2,257
Provision for bonuses	1,096	—	9,906
Warranty reserve	(128)	115	(1,163)
Directors' retirement benefit	16	8	151
Net defined benefit liability	(618)	66	(5,591)
Interest and dividend income	(271)	(556)	(2,453)
Interest expense	81	81	737
Gain on sales of investment securities	(132)	(26)	(1,193)
Gain on sales of shares of subsidiaries and affiliates	—	(10,135)	—
Loss on valuation of investment securities	—	311	—
Loss on valuation of shares of subsidiaries and affiliates	35	—	322
Gain or loss on sales and disposal of property, plant and equipment and intangible assets	64	96	586
Equity in earnings of affiliates	—	(728)	—
Changes in operating assets and liabilities:			
Notes and accounts receivable, trade	8,382	1,341	75,715
Inventories	6,868	6,023	62,038
Notes and accounts payable, trade	(3,616)	(6,973)	(32,668)
Advances received	(1,058)	(1,438)	(9,560)
Accrued expenses	(3,003)	495	(27,127)
Others	(1,587)	997	(14,336)
Sub total	9,039	5,702	81,648
Interest and dividend income received	271	827	2,454
Interest paid	(88)	(80)	(798)
Income taxes paid	(7,857)	(1,137)	(70,975)
Extra retirement payments	(1,172)	—	(10,589)
Net cash provided by (used in) operating activities	192	5,312	1,739

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2021	2020	2021
Investing activities:			
Purchases of property, plant and equipment	(1,545)	(1,424)	(13,956)
Proceeds from sales of property, plant and equipment	16	13	149
Purchases of intangible assets	(219)	(92)	(1,980)
Proceeds from sales of investment securities	320	208	2,892
Purchase of shares of subsidiaries and affiliates	—	(98)	—
Proceeds from sales of shares of subsidiaries and affiliates	—	21,525	—
Payments for investments in capital of subsidiaries and affiliates	—	(379)	—
(Increase) decrease in short-term loans receivable	(16)	(3)	(151)
Collection of long-term loans receivable	6	3	59
Others	(99)	20	(900)
Net cash provided by (used in) investing activities	(1,537)	19,772	(13,888)
Financing activities:			
Purchases of treasury stock	(0)	(1)	(6)
Cash dividends paid	(4,931)	(1,930)	(44,542)
Others	(24)	(33)	(225)
Net cash used in financing activities	(4,956)	(1,964)	(44,772)
Effect of exchange rate changes on cash and cash equivalents	708	(701)	6,396
Net increase (decrease) in cash and cash equivalents	(5,593)	22,419	(50,524)
Cash and cash equivalents at beginning of year	48,011	25,592	433,668
Cash and cash equivalents at end of year (Note 18)	¥42,417	¥48,011	\$383,144

See accompanying notes to financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SHIBAURA MACHINE CO., LTD. AND CONSOLIDATED SUBSIDIARIES

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of SHIBAURA MACHINE CO., LTD. (the "Company") and its consolidated subsidiaries (collectively, the "Companies") are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan. The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the fiscal year end and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Certain reclassifications and rearrangements 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 of Japan. In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

2. Summary of Significant Accounting Policies

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

The consolidated financial statements include the accounts of the Companies.

All significant intercompany transactions and accounts and unrealized intercompany profits among consolidated entities are eliminated in consolidation.

Unconsolidated subsidiaries and affiliates not accounted for by the equity method are stated at cost.

(b) Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rate prevailing at the balance sheet date, except for those perfectly hedged by forward contracts, which are translated using the contracted rate.

The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by foreign exchange derivatives.

All assets and liabilities of foreign consolidated subsidiaries are translated at the current rates at the respective balance sheet dates, except for components of shareholders' equity which are translated at their historical rates. The revenue and expense accounts of foreign consolidated subsidiaries are translated at the current rates at the respective balance sheet dates. Differences arising from translation are recognized directly in foreign currency translation adjustments in net assets.

(c) Securities

Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of income taxes, directly included in net assets.

Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

(d) Inventories

Finished products and work in process are stated at the lower of cost, determined by the individual identification method, or their net realizable value. Raw materials and supplies are stated at the lower of cost, determined by the moving average method, or their net realizable value.

(e) Allowance for doubtful receivables

The allowance for doubtful receivables is stated at the amount determined based on the default ratio sustained over a specific period in the past and the estimated uncollectible amount determined based on the analysis of certain individual accounts, including probable bad debt and claims in bankruptcy.

(f) Warranty reserve

Warranty reserve is provided for warranty costs to be incurred during the warranty period based on historical experience.

(g) Employee bonuses

The bonuses paid to the employees are accrued based on the estimated amounts incurred and to be paid in the subsequent period.

(h) Depreciation of property, plant and equipment (excluding leased assets)

Depreciation of buildings is principally computed by the straight-line method, facilities attached to buildings and other non-building structures acquired on or after April 1, 2016 is computed by the straight-line method and depreciation of other property, plant and equipment is computed by the declining balance method over the estimated useful lives of respective assets, principally ranging from 3 to 60 years for buildings and structures, and from 3 to 22 years for machinery, equipment and vehicles.

(i) Amortization of intangible assets

Computer software held for internal use is amortized by the straight-line method over the corresponding economic useful life (5 years). Other intangible assets, including patent rights, are amortized by the straight-line method over the estimated useful lives of respective assets.

(j) Leased assets

Leased assets under finance lease transactions that do not transfer ownership to the lessee are depreciated by the straight-line method over the lease term with no residual value.

(k) Derivative financial instruments

All derivatives are stated at fair value. Gains or losses arising from changes in fair value are charged or credited to income for the period in which they arise, except for derivatives that are designated as hedging instruments. Gains or losses arising from changes in fair value of the derivatives designated as cash flow hedging instruments, net of the applicable income taxes, are reported as a component of net assets.

(l) Income taxes

The Companies accrue current income taxes based on taxable income.

The Companies recognize a number of temporary differences for financial reporting purposes, which, in the case of expenses, are not currently deductible and in the case of income, are not currently taxable. Income tax effects on such temporary differences between tax and financial reporting purposes are reflected as deferred income taxes in the consolidated financial statements using the asset and liability method.

(m) Employees' retirement benefits

Accrued employees' retirement benefits are provided based on the projected retirement benefit obligation and the fair value of plan assets at fiscal year-end.

The retirement benefit obligation for employees is attributed to each period by the benefit formula method.

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

(n) Directors' retirement benefits

Domestic consolidated subsidiaries accrue an estimated amount calculated in accordance with internal rules for retirement benefits for directors and corporate auditors.

(o) Amounts per share of common stock

Net income per share is computed based on the weighted-average number of shares of common stock outstanding during a year.

Diluted net income per share is not presented since the Company has never issued any securities with dilutive effect, such as bonds with warrants and convertible bonds. Cash dividends per share represent the actual amount declared as applicable to the respective years.

(p) Cash equivalents

In preparing the consolidated statement of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with maturities of not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

(q) Application of tax effect accounting for transition from consolidated taxation system to group tax sharing system

The Company and its domestic consolidated subsidiaries have calculated the amounts of deferred tax assets and deferred tax liabilities according to the tax acts before amended, for items for which the non-consolidated taxation system has been reviewed in line with the transition to the group tax sharing system, based on the treatment of Paragraph 3 of "Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (ASBJ Practical Issues Task Force No.39, March 31, 2020) instead of applying the provision on Paragraph 44 of "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No.28, February 16, 2018), regarding the transition to group tax sharing system established in "Act for Partial Amendment of the Income Tax Act, etc." (Act No.8 of 2020).

3. U.S. Dollar Amounts

U.S. dollar amounts are included solely for the convenience of the readers and have been translated at the rate of ¥110.71=U.S.\$1, the approximate exchange rate prevailing in the Japanese foreign exchange market on March 31, 2021. This translation should not be construed as a representation that the yen amounts actually represent, have been, or could be converted into U.S. dollars.

4. Accounting Estimates

Recoverability of deferred tax assets

(a) Amount recorded in the consolidated financial statements for the fiscal year

	Millions of yen	Thousands of U.S. dollars
	2021	2021
Deferred tax assets (Balance Sheet amount)	¥409	\$3,694
Deferred tax assets (Before offsetting)	2,408	21,751
Deferred tax liabilities (Balance Sheet amount)	570	5,194
Deferred tax liabilities (Before offsetting)	2,569	23,205

(b) Information about the contents of accounting estimates related to the identified items

① Method of calculation

Determination of recoverability of deferred tax assets is made for the deductible temporary differences and the unused portion of tax loss carry forwards using taxable income based on future profitability. For the estimate of taxable income, the timing and amount of future taxable income is reasonably estimated and calculated based on the next fiscal year's business plan.

② Key assumptions

When determining the appropriateness of taxable income before temporary differences based on future profitability, an estimate is made of the taxable income for the fiscal year in which the reversal of temporary differences, etc. is expected. Taxable income is based on the business plans of the next fiscal year for each of the Group's companies, and such business plans are prepared by forecasting the timing of realization of backlog of orders for each product and the status of orders received for the next fiscal year. Moreover, it is assumed that March 31, 2021 was the time of peak impact from COVID-19 and demand will follow a trend of gradual recovery.

③ Impact on the consolidated financial statements for the following fiscal year

In the forecast of the timing of realization of order backlog and the status of orders received for the next fiscal year, which constitutes a major assumption, there is a risk of a material impact on the determination of the recoverability of deferred tax assets resulting from changes in the estimate for taxable income due to uncertainties regarding the estimates due to the impact of future uncertain economic conditions in such events as declines in sales volumes and falls in unit prices of certain

products that exceed beyond expectations owing to manifestation of geopolitical risks, or a re-expansion of the impact of COVID-19.

5. Accounting Standards Issued but Not yet Effective

Accounting Standard for Revenue Recognition

(ASBJ Statement No.29 on March 31, 2020)

Implementation Guidance on Accounting Standard for Revenue Recognition

(ASBJ Guidance No.30 on March 26, 2021)

Implementation Guidance on Disclosures about Fair Value of Financial Instruments

(ASBJ Guidance No.19 on March 31, 2020)

(a) Outline

This is a comprehensive accounting standard for revenue recognition. Specifically, the accounting standard establishes the following five-step model that will apply to revenue from contracts with customers:

- ① : Identify the contract(s) with a customer
- ② : Identify the performance obligations in the contract
- ③ : Determine the transaction price
- ④ : Allocate the transaction price to the performance obligations in the contract
- ⑤ : Recognize revenue when (or as) the entity satisfies a performance obligation

(b) Scheduled date of adoption

The Company expects to adopt the accounting standards and related implementation guidance from the beginning of the fiscal year ending March 31, 2022.

(c) Impacts of the adoption of accounting standard and implementation guidance

The impacts on the Company's consolidated financial statements from the adoption of this accounting standard and implementation guidance are being evaluated at the time of the preparation of consolidated financial statements.

Accounting Standard for Fair Value Measurement

(ASBJ Statement No.30 on July 4, 2019)

Accounting Standard for Measurement of Inventories

(ASBJ Statement No.9 on July 4, 2019)

Accounting Standard for Financial Instruments

(ASBJ Statement No.10 on July 4, 2019)

Implementation Guidance on Accounting Standard for Fair Value Measurement

(ASBJ Guidance No.31 on July 4, 2019)

Implementation Guidance on Disclosures about Fair Value of Financial Instruments

(ASBJ Guidance No.19 on March 31, 2020)

(a) Outline

The ASBJ has developed an "Accounting Standard for Fair Value Measurement" and "Implementation Guidance on Accounting Standard for Fair Value Measurement" (hereinafter collectively, the "Fair Value Measurement Standard"), which provide guidance for fair value measurement in order to improve comparability with internationally recognized accounting standards. The Fair Value Measurement Standard is applied with respect to the fair value of the following items;

- Financial instruments defined in "Accounting Standard for Financial Instruments"
- Inventories held for trading purposes defined in "Accounting Standard for Measurement of Inventories"

(b) Scheduled date of adoption

The Company expects to adopt the accounting standards and related implementation guidance from the beginning of the fiscal year ending March 31, 2022.

(c) Impacts of the adoption of accounting standard and implementation guidance

The impacts on the Company's consolidated financial statements from the adoption of this accounting standard and implementation guidance are being evaluated at the time of the preparation of consolidated financial statements.

6. Changes in Presentation

Adoption of Accounting Standard for Disclosure of Accounting Estimates

The Companies have adopted the "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No.31, March 31, 2020). Therefore, the Companies noted accounting estimates in the consolidated financial statements. However, the details related to the fiscal year ending March 31, 2020 are not included in the notes, in accordance with the transitional treatment prescribed in the proviso of paragraph 11 of the accounting standard.

7. Property, Plant and Equipment

Property, plant and equipment at March 31, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Land	¥7,098	¥7,049	\$64,116
Buildings and structures	39,252	39,014	354,549
Machinery and equipment	24,134	23,938	217,995
Vehicles	287	286	2,595
Tools, furniture and fixtures	7,238	7,327	65,386
Lease assets	264	240	2,392
Construction in progress	474	135	4,289
Sub total	78,750	77,991	711,322
Less accumulated depreciation	(57,991)	(57,450)	(523,815)
Property, plant and equipment, net	¥20,758	¥20,541	\$187,507

Depreciation expenses for the years ended March 31, 2021 and 2020 were ¥1,755 million (\$15,857 thousand) and ¥1,781 million, respectively.

8. Intangible Assets

Intangible assets at March 31, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Others	¥571	¥561	\$5,161
Total	¥571	¥561	\$5,161

9. Contingent Liabilities

As of March 31, 2021, contingent liabilities for loans guaranteed by the Company, principally on behalf of non-consolidated subsidiaries and affiliated companies, amounted to ¥777 million (\$7,026 thousand).

10. Commitment Line

The Company has concluded commitment line contracts with three financial institutions in order to ensure that it can safely and flexibly meet any demand for funds. The balance of unused committed lines under these contracts at the end of the fiscal year was as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Total amount of commitment line	¥20,000	¥10,000	\$180,652
Funds borrowed	—	—	—
Unused amount	¥20,000	¥10,000	\$180,652

11. Selling, General and Administrative Expenses

Major components of selling, general and administrative expenses for the years ended March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Sales commission	¥1,223	¥1,486	\$11,049
Shipping expenses	2,842	3,595	25,675
Provision for warranty reserve	491	625	4,435
Personnel-expenses	11,195	11,914	101,129
Retirement benefit expenses	684	652	6,180
Depreciation	738	746	6,672
Rent expenses	911	804	8,237
Travel expenses	561	1,238	5,074
Research and development expenses	1,404	1,682	12,687
Subcontract expenses	468	588	4,235
Others	4,000	6,596	36,130
Total	¥24,522	¥29,930	\$221,505

12. Research and Development Costs

Research and development costs charged to income were ¥2,218 million (\$20,037 thousand) and ¥2,378 million for the years ended March 31, 2021 and 2020, respectively.

13. Gain or loss on sales of shares of subsidiaries and affiliates

For the year ended March 31, 2020, the Company sold all of its shares in NuFlare Technology, Inc., which was accounted for under the equity method.

14. Loss on Impairment of Fixed Assets

The Companies accounted for impairment losses for the year ended March, 31 2020 as follows:

	Millions of yen
	2020
Zama, Kanagawa, Japan:	
Idle property (company housing)	
Buildings and structures	¥19
Total	¥19

Grouping of assets is based on the business units, except for idle assets, which are grouped individually.

The Company wrote down the carrying amount of idle assets to the recoverable amount and recognized loss on impairment of fixed assets ¥19 million in the consolidated statement of income for the year ended March 31, 2020.

The recoverable amount of the assets is measured at the net selling value, which is calculated based on the memorandum value.

The Companies accounted for impairment losses for the year ended March, 31 2021 as follows:

	Millions of yen	Thousands of U.S. dollars
	2021	2021
Rayong, Thailand:		
Business assets		
Buildings and structures	¥346	\$3,128
Machinery, equipment and vehicles	7	68
Other property, plant and equipment	16	153
Other intangible assets	0	7
Total	¥371	\$3,355

(a) Back ground to the recognition of impairment loss

The carrying amount of the asset group of SHIBAURA MACHINE MANUFACTURING (THAILAND) CO., LTD. (Located in Rayong, Thailand) was reduced to the recoverable amount because the estimated future cash flow obtainable from that asset group fell below the carrying amount, and the amount of reduction was recorded as impairment loss under other expenses and losses.

(b) Asset grouping method

The Company, in principle, classifies groups of business assets using a company as the basis unit, and the business assets of each of its consolidated subsidiaries are treated as one asset group.

For its idle assets, the Company groups each asset individually.

Up until present, the Company had grouped its business assets using a business division as the basis unit. However, since carrying out organizational restructuring following the adoption of the in-house company system, the Company has changed to group its business assets in line with the in-house company system as the basis unit from the fiscal year.

(c) Method of computing the recoverable amount

The net selling value is the recoverable amount used in measurement of impairment loss. The net selling value is calculated based on the real estate appraisal value.

15. Extra retirement payments

Extra retirement payments for the year ended March 31, 2021 and 2020 include special additional retirement bonuses and other expenses with the implementation of the voluntary retirement measures.

16. Shareholders' Equity

The Corporation Law of Japan (the "Law"), which went into effect on May 1, 2006, provides that an amount equal to 10% of the amount to be distributed as distribution of additional paid in capital (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and legal reserve, respectively, until the sum of the capital reserve and legal reserve equals 25% of the common stock account. Such distributions can be made at any time by resolution of the shareholders or by the Board of Directors if certain conditions are met, but neither the capital reserve nor the legal reserve is available for distributions.

17. Other Comprehensive Income

The components of other comprehensive income (loss) for the years ended March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of
	2021	2020	U.S. dollars
Unrealized holding gain (loss) on securities:			2021
Current period changes in unrealized gain (loss)	¥2,137	¥(906)	\$19,308
Reclassification adjustment	(132)	176	(1,193)
Total unrealized holding gain (loss) on securities before tax effects	2,005	(730)	18,115
Tax effects	(590)	193	(5,330)
Unrealized holding gain (loss) on securities, net of tax effects	1,415	(536)	12,785
Deferred gains or losses on hedges			
Current period changes	(0)	0	(4)
Total deferred gains or losses on hedges before tax effects	(0)	0	(4)
Tax effects	0	(0)	1
Deferred gains or losses on hedges, net of tax effects	(0)	0	(3)
Foreign currency translation adjustments:			
Current period changes	914	(867)	8,264
Reclassification adjustment	(21)	—	(192)
Total Foreign currency translation adjustments	893	(867)	8,071
Remeasurements of defined benefit plans			
Current period changes in remeasurements of defined benefit plans	432	(355)	3,905
Reclassification adjustment	200	127	1,810
Total remeasurements of defined benefit plans before tax effect	632	(228)	5,715
Tax effects	—	—	—
Remeasurements of defined benefit plans, net of tax effects	632	(228)	5,715
Share of other comprehensive income of affiliates accounted for using equity method			
Current period changes	—	15	—
Reclassification adjustment	—	61	—
Share of other comprehensive income of affiliates accounted for using equity method	—	77	—
Total other comprehensive income (loss)	¥2,941	¥(1,554)	\$26,569

18. Cash Flow Information

Cash and Cash Equivalents

The reconciliation between cash and deposits in the accompanying consolidated balance sheet and cash and cash equivalents in the accompanying consolidated statement of cash flows at March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Cash and deposits	¥42,417	¥47,907	\$383,144
Marketable securities	—	104	—
Cash and cash equivalents	¥42,417	¥48,011	\$383,144

19. Leases

This disclosure has been omitted for the year ended March 31, 2021 based on immateriality.

20. Financial Instruments

Overview

(a) Policy for financial instruments

The Companies invest in short-term deposits for fund management, where temporary cash surplus is invested in low-risk financial instruments. The Companies raise funds through bank borrowings. The Companies use derivatives only to reduce risk, and do not enter into derivative transactions for speculative trading purposes.

(b) Financial instruments, related risk and risk management system

Operating receivables, such as notes and accounts receivable, trade are exposed to customer credit risk. The Companies try to reduce this risk by adhering to their sales management rules. Investments, consisting of marketable securities of corporations, are exposed to stock price fluctuation risk in the market. To address this risk, the Companies review stock prices in every quarter. Operating payables, such as notes and accounts payable, trade are mainly due within six months. Borrowings are mainly used in for normal operations and capital investments. The maturity of borrowings is up to three years from the balance sheet date at the maximum.

Derivative transactions consist of foreign exchange forward contracts, etc. used for the purpose of hedging foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. These derivative transactions are managed under the internal management policies, to the extent deemed necessary. Note 22, "Derivative Financial Instruments," provides more information on hedge accounting, hedging instruments and methods, hedging policy, hedged items and assessments of hedge effectiveness.

The Finance Department of the Companies prepares and updates its cash flow plan to manage liquidity risk. A part of bank borrowings are subject to terms of financial covenants. If the Companies violate the terms of the financial covenants, the terms of the borrowings may be possibly revised.

The terms of the financial covenants related to a syndicated loan contract (¥4,000 million (\$36,130 thousand) at March 31, 2021) are as follows:

- ① At March 31 and September 30 every year, the Company must maintain net assets in the consolidated balance sheet over ¥57,840 million (\$522,446 thousand).
- ② In the consolidated statement of income for the fiscal year ending March 31, the Company must not record operating loss for two consecutive years.

(c) Supplemental information on the fair value of financial instruments

Fair value of financial instruments is calculated based on market prices, or by using reasonable estimates when market prices are not available. These estimates include variable factors, and are subject to fluctuation due to a change in underlying assumptions. The contract amounts of derivatives presented in Note 22, "Derivative Financial Instruments," below do not represent the actual market risk associated with derivative transactions.

Fair value of financial instruments

Carrying value of financial instruments as of March 31, 2021 and 2020, and their fair value were as follows:

(Financial instruments whose fair value was extremely difficult to determine were not included.)

Year ended March 31, 2021	Millions of yen		
	Carrying value	Fair value	Difference
Cash and deposits	¥42,417	¥42,417	¥-
Notes and accounts receivable, trade	27,682	27,682	0
Marketable securities and investment securities	7,513	7,513	-
Total assets	¥77,613	¥77,613	¥0
Short-term bank loans	¥10,090	¥10,090	¥-
Notes and accounts payable, trade	17,613	17,613	-
Long-term debt including current portion	4,300	4,309	9
Total liabilities	¥32,003	¥32,012	¥9
Derivatives	¥(4)	¥(4)	¥-

Year ended March 31, 2020	Millions of yen		
	Carrying value	Fair value	Difference
Cash and deposits	¥47,907	¥47,907	¥-
Notes and accounts receivable, trade	36,064	36,064	(0)
Marketable securities and investment securities	5,799	5,799	-
Total assets	¥89,771	¥89,771	¥(0)
Short-term bank loans	¥10,090	¥10,090	¥-
Notes and accounts payable, trade	21,279	21,279	-
Long-term debt including current portion	4,300	4,309	9
Total liabilities	¥35,669	¥35,678	¥9
Derivatives	¥0	¥0	¥-

Year ended March 31, 2021	Thousands of U.S. dollars		
	Carrying value	Fair value	Difference
Cash and deposits	\$383,144	\$383,144	\$-
Notes and accounts receivable, trade	250,045	250,049	4
Marketable securities and investment securities	67,863	67,863	-
Total assets	\$701,051	\$701,055	\$4
Short-term bank loans	\$91,139	\$91,139	\$-
Notes and accounts payable, trade	159,093	159,093	-
Long-term debt including current portion	38,840	38,924	84
Total liabilities	\$289,072	\$289,156	\$84
Derivatives	\$(45)	\$(45)	\$-

Note: Derivatives are presented as net amounts receivable or payable with net amounts payable in parentheses.

(a) Method for calculating fair value of financial instruments, short-term investments and derivative transactions

①Cash and deposits

The carrying value approximates fair value because these are due within the short-term.

②Notes and accounts receivable, trade

The fair value of notes and accounts receivable, trade is determined by discounting classified based on certain terms and estimated amount to be received which reflects credit risk, using highly secure interest rates for the remaining period except for those are settled in the short terms.

③Marketable securities and investment securities

Investment securities are listed shares, and based on quoted market prices. Marketable securities are mutual fund, and based on quoted financial institutions.

④Short-term bank loans; ⑤Notes and accounts payable, trade

The carrying value approximates fair value because these are due within the short-term.

⑥Long-term debt including current portion

The fair value of long-term debt is determined based on the present value of the principal and interest, discounted by the interest rate that would be applied if similar new borrowings were entered into.

⑦Derivatives

Please refer to Note 22, "Derivative Financial Instruments"

(b) Financial instruments whose fair value was extremely difficult to determine at March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Investment securities for which the market prices are not available	¥828	¥864	\$7,486

Market prices are not available for these items, or the cost of estimating future cash flow is considered prohibitive. As a result, these items are not included in ③Marketable securities and investment securities in the above table, because their fair value is not readily determinable.

(c) The aggregate annual maturities of financial assets at March 31, 2021 and 2020 were as follows:

Year ended March 31, 2021	Millions of yen			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	¥42,413	¥-	¥-	¥-
Notes and accounts receivable, trade	27,647	35	-	-
Marketable securities and investment securities:				
Mutual Fund	-	-	-	-
Total	¥70,060	¥35	¥-	¥-

Year ended March 31, 2020	Millions of yen			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	¥47,902	¥-	¥-	¥-
Notes and accounts receivable, trade	35,733	330	-	-
Marketable securities and investment securities:				
Mutual Fund	104	-	-	-
Total	¥83,740	¥330	¥-	¥-

Year ended March 31, 2021	Thousands of U.S. dollars			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	\$383,105	\$-	\$-	\$-
Notes and accounts receivable, trade	249,727	318	-	-
Marketable securities and investment securities:				
Mutual Fund	-	-	-	-
Total	\$632,832	\$318	\$-	\$-

(d) Annual maturities of short-term bank loans and long-term debt

Year ended March 31, 2021	Millions of yen					
	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term bank loans	¥10,090	¥—	¥—	¥—	¥—	¥—
Long-term debt	500	500	3,300	—	—	—
Total	¥10,590	¥500	¥3,300	¥—	¥—	¥—

Year ended March 31, 2020	Millions of yen					
	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term bank loans	¥10,090	¥—	¥—	¥—	¥—	¥—
Long-term debt	—	500	3,300	3,300	—	—
Total	¥10,090	¥500	¥500	¥3,300	¥—	¥—

Year ended March 31, 2021	Thousands of U.S. dollars					
	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term bank loans	\$91,139	\$—	\$—	\$—	\$—	\$—
Long-term debt	4,516	4,516	29,808	—	—	—
Total	\$95,655	\$4,516	\$29,808	\$—	\$—	\$—

21. Securities

Information regarding marketable securities classified as other securities included in investment securities were as follows:

Year ended March 31, 2021	Millions of yen		
	Acquisition cost	Carrying value	Unrealized gains
Equity securities	¥2,196	¥7,513	¥5,316
	¥2,196	¥7,513	¥5,316

Year ended March 31, 2020	Millions of yen		
	Acquisition cost	Carrying value	Unrealized gains
Equity securities	¥2,384	¥5,695	¥3,311
	¥2,384	¥5,695	¥3,311

Year ended March 31, 2021	Thousands of U.S. dollars		
	Acquisition cost	Carrying value	Unrealized gains
Equity securities	\$19,839	\$67,863	\$48,024
	\$19,839	\$67,863	\$48,024

Proceeds from sales and gain on sales of investment securities classified as other securities were ¥320 million (\$2,892 thousand) and ¥132 million (\$1,193 thousand) for the year ended March 31, 2021, and ¥21,570 million and ¥10,162 million for the year ended March 31, 2020, respectively.

Loss on valuation of shares of subsidiaries and affiliates classified as other securities was ¥35 million (\$322 thousand) for the year ended March 31, 2021. In the recognition of loss on valuation, writing down the carrying value to fair value when the decline in fair value is deemed to be unrecoverable considering the financial position of the issuers of the securities.

Loss on valuation of investment securities classified as other securities was ¥311 million for the year ended March 31, 2020. In the recognition of loss on valuation, total impairment is recognized when the fair value at the end of the fiscal year has fallen below 50% of the acquisition cost. When the fair value has fallen between 30% and 50%, an impairment of the amount deemed by taking into account recoverability etc. is recognized.

Mutual fund classified as marketable securities totaled ¥104 million as of March 31, 2020. Non-marketable equity securities classified as other securities primarily consist of ¥84 million (\$761 thousand) and ¥84 million as of March 31, 2021 and 2020, respectively.

22. Derivative Financial Instruments

The Companies have entered into derivative transactions (foreign exchange contracts) in order to manage certain risks arising from adverse fluctuations in foreign currency exchange rates. The Company does not hold or issue derivative financial instruments for the purpose of speculative trading. Derivative transactions are entered into by the Finance Department under the rules approved by the Board of Directors. Derivative transactions are evaluated by the Corporate Auditing Office.

Derivatives for which hedge accounting is not adopted at March 31, 2021 and 2020 were as follows:

Year ended March 31, 2021		Millions of yen			
Hedged item	Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)	
Forward foreign currency exchange contracts:					
Foreign exchange contracts:					
Sell: U.S. dollars	Accounts receivable	¥—	¥—	¥—	
Buy: Japanese yen	Accounts payable	181	—	(4)	
Total		¥181	¥—	¥(4)	

Year ended March 31, 2020		Millions of yen			
Hedged item	Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)	
Forward foreign currency exchange contracts:					
Foreign exchange contracts:					
Sell: U.S. dollars	Accounts receivable	¥39	¥—	¥(2)	
Buy: Japanese yen	Accounts payable	158	—	2	
Total		¥198	¥—	¥0	

Year ended March 31, 2021		Thousands of U.S. dollars			
Hedged item	Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)	
Forward foreign currency exchange contracts:					
Foreign exchange contracts:					
Sell: U.S. dollars	Accounts receivable	\$—	\$—	\$—	
Buy: Japanese yen	Accounts payable	1,641	—	(45)	
Total		\$1,641	\$—	\$(45)	

Derivatives for which hedge accounting is adopted at March 31, 2021 and 2020 were as follows:

Year ended March 31, 2021		Millions of yen		
	Hedged item	Contract amount	Contract amount due after one year	Fair value
Accounted for by the deferred hedge method:				
Foreign exchange contracts:				
Sell: U.S. dollars	Accounts receivable	¥—	¥—	¥—
Buy: U.S. dollars	Accounts payable	—	—	—
Accounted for by the allocation method:				
Foreign exchange contracts:				
Sell: U.S. dollars	Accounts receivable	1,525	—	*
Buy: U.S. dollars	Accounts payable	—	—	—
Total		¥1,525	¥—	¥—

Year ended March 31, 2020		Millions of yen		
	Hedged item	Contract amount	Contract amount due after one year	Fair value
Accounted for by the deferred hedge method:				
Foreign exchange contracts:				
Sell: U.S. dollars	Accounts receivable	¥93	¥—	¥0
Buy: U.S. dollars	Accounts payable	—	—	—
Accounted for by the allocation method:				
Foreign exchange contracts:				
Sell: U.S. dollars	Accounts receivable	2,267	—	*
Buy: U.S. dollars	Accounts payable	85	—	*
Total		¥2,447	¥—	¥0

Year ended March 31, 2021		Thousands of U.S. dollars		
	Hedged item	Contract amount	Contract amount due after one year	Fair value
Accounted for by the deferred hedge method:				
Foreign exchange contracts:				
Sell: U.S. dollars	Accounts receivable	\$—	\$—	\$—
Buy: U.S. dollars	Accounts payable	—	—	—
Accounted for by the allocation method:				
Foreign exchange contracts:				
Sell: U.S. dollars	Accounts receivable	\$13,779	—	*
Buy: U.S. dollars	Accounts payable	—	—	—
Total		\$13,779	\$—	\$—

Note: Foreign exchange contracts are accounted for using the allocation method, which is accepted under JGAAP as a short cut method for foreign currency translation, as part of the accounts receivable and accounts payable. Therefore, the fair value of foreign exchange contracts is included in the fair value of the underlying accounts receivable.

23. Employees' Retirement Benefits

(a) Overview

The Company and certain subsidiaries have funded defined benefit plans, i.e., lump-sum payment plans and defined benefit pension plans, and defined contribution plans for employees. Certain overseas subsidiaries have unfunded defined benefit plans for benefit payments to their employees.

Certain domestic subsidiaries participate in multiemployer pension plans. Multiemployer pension plans, in which pension assets belonging to the Companies are not reasonably determinable, are accounted for as if those are defined contribution plans.

Certain domestic consolidated subsidiaries have adopted the simplified method in calculating their projected benefit obligation.

(b) Defined benefit plans

① The changes in the retirement benefit obligation during the years ended March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Retirement benefit obligation at beginning of year	¥14,457	¥14,360	\$130,592
Service cost	898	918	8,116
Interest cost	0	0	7
Actuarial gain or loss	(46)	139	(416)
Retirement benefit paid	(1,949)	(961)	(17,605)
Retirement benefit obligation at end of year	¥13,362	¥14,457	\$120,695

② The changes in pension plan assets during the year ended March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Pension plan assets at beginning of year	¥4,687	¥4,885	\$42,341
Expected return on pension plan assets	58	71	532
Actuarial gain or loss	386	(216)	3,489
Contribution by the Companies	185	202	1,680
Retirement benefit paid	(475)	(254)	(4,291)
Pension plan assets at end of year	¥4,843	¥4,687	\$43,750

③ The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2021 and 2020 for the defined benefit plans

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Funded retirement benefit obligation	¥4,575	¥4,886	\$41,329
Pension plan assets at fair value	(4,843)	(4,687)	(43,750)
	(268)	199	(2,422)
Unfunded retirement benefit obligation	8,786	9,571	79,366
Net retirement benefit liability recognized in the consolidated balance sheet	8,518	9,770	76,944
Retirement benefit liability	8,518	9,770	76,944
Net retirement benefit liability recognized in the consolidated balance sheet	¥8,518	¥9,770	\$76,944

④The components of retirement benefit expense for the years ended March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Service cost	¥898	¥918	\$8,116
Interest assets	0	0	7
Expected return on pension assets	(58)	(71)	(532)
Actuarial gain or loss	200	127	1,810
Retirement benefit expense	¥1,040	¥975	\$9,402

Note: Other than the retirement benefit expense above, ¥264 million (\$2,394 thousand) and ¥911 million are posted in extra retirement payments under other expenses and losses for the years ended March 31, 2021 and 2020, respectively.

⑤Remeasurements of defined benefit plans included in other comprehensive income (before tax effect) for the years ended March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Actuarial gain or loss	¥632	¥(228)	\$5,715
Total	¥632	¥(228)	\$5,715

⑥Remeasurements of defined benefit plans included in accumulated other comprehensive income (before tax effect) as of March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Unrecognized actuarial loss	¥533	¥1,165	\$4,815
Total	¥533	¥1,165	\$4,815

⑦The fair value of pension plan assets, by major category, as a percentage of total plan assets as of March 31, 2021 and 2020 were as follows:

	2021	2020
Domestic bonds	52%	53%
Domestic equity securities	12	11
Foreign bonds	14	15
Foreign equity securities	13	11
Insurance assets (General accounts)	7	8
Other	2	2
Total	100%	100%

The expected return on pension plan assets has been estimated based on the anticipated allocation to each asset class and the expected long-term returns on assets held in each category.

⑧The assumptions used in accounting for the above plans were as follows:

	2021	2020
Discount rate	0.0%	0.0%
Expected rate of return on pension plan assets	1.2	1.5
Expected rate of salary increase	9.4	9.4

The expected rate of salary increase was the rate of increase points calculated using the age specific index of the expected rate of salary increase under the retirement benefits point system.

(c) Defined contribution plans

The required contributions to defined contribution plans of the Company and certain domestic consolidated subsidiaries for the years ended March 31, 2021 and 2020 were ¥159 million (\$1,444 thousand) and ¥169 million, respectively.

(d) Multiemployer pension plans

The required contributions to the multiemployer pension plans for the years ended March 31, 2021 and 2020 were ¥30 million (\$279 thousand) and ¥30 million, respectively.

①Funded status of the multiemployer pension plans as of the most recent calculation dates

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Amount of pension assets	¥119,769	¥127,216	\$1,081,833
Total amount of actuarial obligations and minimum reserve in the pension financial calculation (Note)	136,406	141,568	1,232,109
Difference	¥(16,637)	¥(14,351)	\$(150,277)

Note: This item was presented as "Amount of obligations" in the previous fiscal year.

②The Companies' portion of contributions in multiemployer pension plans

	2021	2020
The Companies' portion in the total contributions of the multiemployer plans	0.630%	0.612%

The difference above was principally attributable to the differences in retained earnings of ¥(4,405) million (\$39,796 thousand) and ¥(828) million in the pension financial calculation, at March 31, 2021 and 2020, respectively special reserve of ¥2,524 million (\$22,806 thousand) and ¥3,363 million at March 31, 2021 and 2020 and unrecognized prior service cost of ¥14,756 million (\$133,287 thousand) and ¥16,886 million at March 31, 2021 and 2020, respectively.

Prior service cost of the plans is amortized by the straight-line method over 20 years. The Companies paid and recognized premium contributions of ¥27 million (\$249 thousand) and ¥31 million for amortization of prior service cost in the consolidated financial statements for the years ended March 31, 2021 and 2020, respectively.

The Companies' portion of contributions described above was not equal to the actual share to be allocated to the Companies.

24. Income Taxes

Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries generally comprise corporation, enterprise and prefectural and municipal inhabitants taxes. The statutory tax rates for both years ended March 31, 2021 and 2020 were approximately 29.9%, respectively.

The reconciliation between the statutory tax rate and effective tax rate for the years ended March 31, 2021 and 2020 were as follows:

	2021	2020
Statutory tax rate	29.9%	29.9%
Per-capita portion of inhabitant tax	13.1	0.3
Permanently non-deductible expenses	2.3	0.3
Permanently non-taxable revenue such as dividends income	(29.0)	(0.8)
Change in valuation allowance	1,087.5	(0.2)
Effects of elimination in consolidation	2.4	25.6
Difference in statutory tax rates for foreign subsidiaries	5.0	0.1
Expiration of loss carryforward	41.1	0.9
Tax on pensions	18.4	(12.1)
Others	11.2	(2.0)
Effective tax rate	1,181.9%	42.0%

The significant components 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:			
Tax loss carry forwards (Note)	¥1,932	¥256	\$17,459
Allowance for doubtful receivables	402	322	3,632
Net defined benefit liability	2,347	2,589	21,200
Devaluation of inventories	906	709	8,185
Unrealized intercompany profit on inventories	341	500	3,087
Provision for bonuses	375	—	3,391
Accrued employee's bonuses	—	633	—
Devaluation of securities	175	257	1,583
Enterprise taxes payable	24	390	224
Other	1,715	2,145	15,493
Total deferred tax assets	¥8,220	¥7,805	\$74,254
Valuation allowance of tax loss carry forwards (Note)	(1,904)	(256)	(17,205)
Valuation allowance of deductible temporary difference	(3,907)	(2,642)	(35,296)
Subtotal Valuation allowance	(5,812)	(2,899)	(52,501)
Net deferred tax assets	¥2,408	¥4,905	\$21,753
Deferred tax liabilities:			
Deferral of gain on sale of fixed assets	(84)	(87)	(761)
Unrealized holding gain on securities	(1,567)	(978)	(14,156)
Asset retirement obligations	(24)	(5)	(223)
Foreign consolidated subsidiaries' retained earnings	(728)	(678)	(6,576)
Enterprise taxes receivable	(126)	(0)	(1,138)
Others	(38)	(15)	(352)
Total deferred tax liabilities	¥(2,569)	¥(1,765)	\$(23,206)
Net deferred tax assets	¥(160)	¥3,139	\$(1,453)

Note 1: The amount of valuation allowance increased by ¥2,913 million (\$26,313 thousand) for the year ended March 31, 2021. This increase was mainly due to an increase of ¥1,629 million (\$14,723 thousand) in valuation allowance for tax loss carryforwards at the Company.

Note 2: A breakdown of tax loss carryforwards and valuation allowance by expiry date as of March 31, 2021 and 2020 were as follows:

	Millions of yen						Total
	2021						
	Due in one years or less	Due after one year through two years	Due after two year through three years	Due after three year through four years	Due after four year through five years	After five years	
Tax loss carryforwards	¥65	¥17	¥19	¥51	¥45	¥1,733	¥1,932
Valuation allowance	(65)	(17)	(19)	(51)	(45)	(1,705)	(1,904)
Deferred tax assets	¥—	¥—	¥—	¥—	¥—	¥28	¥28

	Millions of yen						Total
	2020						
	Due in one years or less	Due after one year through two years	Due after two year through three years	Due after three year through four years	Due after four year through five years	After five years	
Tax loss carryforwards	¥110	¥61	¥16	¥18	¥50	¥—	¥256
Valuation allowance	(110)	(61)	(16)	(18)	(50)	—	(256)
Deferred tax assets	¥—	¥—	¥—	¥—	¥—	¥—	¥—

Thousands of U.S. dollars

	2021						Total
	Due in one year or less	Due after one year through two years	Due after two year through three years	Due after three year through four years	Due after four year through five years	After five years	
Tax loss carryforwards	\$588	\$161	\$173	\$464	\$412	\$15,660	\$17,459
Valuation allowance	(588)	(161)	(173)	(464)	(412)	(15,406)	(17,205)
Deferred tax assets	\$-	\$-	\$-	\$-	\$-	\$254	\$254

25. Business Combinations

There was no applicable matter for the years ended March 31, 2021.

26. Asset Retirement Obligations

This disclosure has been omitted for the year ended March 31, 2021 based on immateriality.

27. Rental Property

This disclosure has been omitted for the year ended March 31, 2021 based on immateriality.

28. Segment Information

(a) General information about reportable segments

The reportable segments of the Companies are the business units for which the Company is able to obtain respective financial information separately in order for Board of Directors to conduct periodic assessments to determine distribution of management resources and evaluate their business results.

The Companies' business is classified into certain segments based on the types of products and services. The Companies' segments are categorized into the following three reportable segments: "Molding Machinery", "Machine Tools" and "Control Systems" based on the similarities of the economic nature, type of business and manufacturing method:

Molding Machinery: Injection molding machines, Die casting machines, Plastic extrusion

Machine Tools: Large size machine tools, Portal type machine tools, Machining centers, Horizontal boring machines, High-precision machines

Control Systems: Controller, Industrial robot, Servo motor, Servo amplifier

(b) Basis of measurement for reportable segment profit or loss, segment assets and other material items

The accounting treatment for the reportable business segments is generally the same as described in Note 2, "Summary of Significant Accounting Policies." Reportable segment income is calculated on the basis of operating income. The prices of intersegment transactions and transfers are calculated based on the market prices.

(c) Changes in reportable segments

At the beginning of the fiscal year ended March 31, 2021, the Company conducted organizational restructuring following the adoption of the in-house company system to enhance the management efficiency and profitability of the Company. As a result of this organizational restructuring, the industrial robots business and the electronic control devices business were transferred from the "Other Products" segment to the "Control Systems" segment.

Note that the segment information presented for the fiscal year ended March 31, 2020 has been restated to reflect the new segment classification.

(d) Reportable segment information

Reportable segment information of the Companies for the years ended March 31, 2021 and 2020 were as follows:

Year ended March 31, 2021	Millions of yen								
	Reportable segments				Sub total	Other Products	Total	Adjustments	Consolidated
	Molding Machinery	Machine Tools	Control Systems						
Net sales:									
External customers	¥64,308	¥20,866	¥5,838	¥91,014	¥1,620	¥92,635	¥—	¥92,635	
Inter-segment	—	19	1,555	1,575	405	1,980	(1,980)	—	
Total	64,308	20,886	7,394	92,589	2,026	94,615	(1,980)	92,635	
Segment income	¥1,157	¥(828)	¥(39)	¥289	¥35	¥325	¥56	¥381	
Segment assets	¥67,308	¥29,191	¥9,254	¥105,754	¥4,762	¥110,516	¥23,779	¥134,296	
Others									
Depreciation Capital expenditures	¥1,045 510	¥479 181	¥186 242	¥1,711 935	¥44 863	¥1,755 1,799	¥— —	¥1,755 1,799	

Year ended March 31, 2020	Millions of yen								
	Reportable segments				Sub total	Other Products	Total	Adjustments	Consolidated
	Molding Machinery	Machine Tools	Control Systems						
Net sales:									
External customers	¥77,206	¥29,684	¥6,930	¥113,821	¥2,939	¥116,761	¥—	¥116,761	
Inter-segment	—	13	2,237	2,250	678	2,928	(2,928)	—	
Total	77,206	29,697	9,168	116,072	3,617	119,689	(2,928)	116,761	
Segment income	¥3,747	¥300	¥(39)	¥4,007	¥(528)	¥3,478	¥50	¥3,529	
Segment assets	¥71,929	¥34,787	10,678	¥117,395	¥5,882	¥123,277	¥31,005	¥154,283	
Others									
Depreciation Capital expenditures	¥1,021 1,111	¥560 194	¥144 100	¥1,726 1,405	¥54 335	¥1,781 1,741	¥— —	¥1,781 1,741	

Year ended March 31, 2021	Thousands of U.S. dollars								
	Reportable segments				Sub total	Other Products	Total	Adjustments	Consolidated
	Molding Machinery	Machine Tools	Control Systems						
Net sales:									
External customers	\$580,875	\$188,483	\$52,739	\$822,097	\$14,641	\$836,738	\$—	\$836,738	
Inter-segment	—	177	14,051	14,227	3,663	17,890	(17,890)	—	
Total	580,875	188,660	66,790	836,325	18,304	854,629	(17,890)	836,738	
Segment income	\$10,457	\$(7,487)	\$(354)	\$2,616	\$321	\$2,937	\$512	\$3,449	
Segment assets	\$607,970	\$263,679	\$83,590	\$955,239	\$43,017	\$998,255	\$214,793	\$1,213,048	
Others									
Depreciation Capital expenditures	\$9,444 4,615	\$4,327 1,641	\$1,687 2,193	\$15,457 8,449	\$400 7,802	\$15,857 16,251	\$— —	\$15,857 16,251	

Note: "Other products" is a business segment that is not included in the reportable segments. It included business activities related to casting, machining and environmental measurements, etc.

(e) Difference between total reportable segments and consolidated financial statements

The main differences between total reportable segments and consolidated financial statements for the years ended March 31, 2021 and 2020 were as follows:

Sales	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Total reportable segments	¥92,589	¥116,072	\$836,325
Other products	2,026	3,617	18,304
Eliminations	(1,980)	(2,928)	(17,890)
Net sales in the consolidated financial statements	¥92,635	¥116,761	\$836,738

Income	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Total reportable segments	¥289	¥4,007	\$2,616
Other products	35	(528)	321
Eliminations	56	50	512
Operating income in the consolidated financial statements	¥381	¥3,529	\$3,449

Assets	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Total reportable segments	¥105,754	¥117,395	\$955,239
Other products	4,762	5,882	43,017
Company-wide assets	24,126	31,488	217,927
Eliminations	(4,347)	(482)	(3,135)
Net assets in the consolidated financial statements	¥134,296	¥154,283	\$1,213,048

Note: Company-wide assets are mainly cash and cash equivalents, securities and investment securities that are not allocated to the reportable segments.

(f) Other information**① Information about products and services**

Information about products and services is not disclosed because reportable segment information is based on products and services.

② Information about geographical areas

Sales information by country or geographical areas for the years ended March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Japan	¥40,850	¥55,393	\$368,987
United States	12,042	11,216	108,774
China	21,976	22,603	198,509
Other Asia	14,093	22,439	127,305
Other	3,671	5,107	33,164
Total	¥92,635	¥116,761	\$836,738

Note: Sales figures are classified based on customer locations.

Property, plant and equipment information by country or geographical areas as of March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Japan	¥18,214	¥17,627	\$164,525
North America	175	198	1,582
Asia	2,369	2,715	21,400
Total	¥20,758	¥20,541	\$187,507

③ Information about major customers

Information about major customers is not disclosed, because net sales to any customer did not exceed 10% of the consolidated net sales for the years ended March 31, 2021 and 2020.

(g) Information about impairment loss on fixed assets for each reportable segment

Information about impairment loss on long-lived assets for the years ended March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Molding Machinery	¥371	¥—	\$3,355
Machine Tools	—	—	—
Control Systems	—	—	—
Other products	—	—	—
Adjustments	—	19	—
Total	¥371	¥19	\$3,355

(h) Information about amortization of goodwill and unamortized balance for each reportable segment

There was no amortization of goodwill for the year ended March 31, 2021 and 2020.

(i) Information about gain on negative goodwill for each reportable segment

There was no applicable matter for the years ended March 31, 2021 and 2020.

29. Related Party Transactions

(a) Transactions with related parties

This disclosure has been omitted for the year ended March 31, 2021 and 2020 based on immateriality.

(b) Summary of financial information for significant affiliate company

There was no applicable matter for the years ended March 31, 2021 and 2020.

30. Net Income and Net Assets per Share

Net income and net assets per share as of and for the years ended March 31, 2021 and 2020 were as follows:

	Yen		U.S. dollars
	2021	2020	2021
Net income (loss) per share	¥(120.05)	¥304.06	\$(1.08)
Net assets per share	3,402.36	3,605.47	30.73

Basic information for the calculation of net income per share was as follows:

	Thousands of shares		
	2021	2020	
Weighted-average number of shares of common stock	24,141	24,135	

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Net income (loss)	¥(2,898)	¥7,338	\$(26,178)
Net income not applicable to shareholders of common stock	—	—	—
Net income (loss) applicable to shareholders of common stock	¥(2,898)	¥7,338	\$(26,178)

Basic information for the calculation of net income per share was as follows:

	Thousands of shares		
	2021	2020	
Number of shares at year-end	24,145	24,135	

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Net assets	¥82,152	¥87,018	\$742,052
Non-controlling interests in consolidated subsidiaries	—	—	—
Net assets applicable to shareholders of common stock	¥82,152	¥87,018	\$742,052

31. Short-term Bank Loans and Long-term Debt

The annual interest rates applicable to the short-term bank loans outstanding as of March 31, 2021 and 2020 ranged principally from 0.50% to 0.58% and 0.51% to 0.58%, respectively. Long-term debt as of March 31, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Loans, principally from Japanese banks and insurance companies:			
maturing 2023, interest 0.54% - 0.85%	¥4,300	¥4,300	\$38,840
	4,300	4,300	38,840
Less current portion	500	—	4,516
	¥3,800	¥4,300	\$34,324

The aggregate annual maturities of long-term debt at March 31, 2021 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2022	¥500	\$4,516
2023	500	4,516
2024	3,300	29,808
2025	—	—
2026 and later	—	—
Total	¥4,300	\$38,840

The aggregate annual maturities of finance lease obligations at March 31, 2021 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2022	¥40	\$366
2023	35	318
2024	20	187
2025	13	118
2026 and later	10	92
Total	¥119	\$1,081

32. Subsequent Event

Cash dividends

The following appropriation of retained earnings, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2021, was approved at the meeting of the Board of Directors held on May 12, 2021.

	Type of shares	Cash dividends	Cash dividends per share	Record date	Effective date
Meeting of the Board of Directors held on May 12, 2021	Common stock	¥905 (\$8,179)	¥37.50 (\$0.34)	March 31, 2021	May 31, 2021

Independent Auditor's Report

The Board of Directors
Shibaura Machine Co., Ltd.

Opinion

We have audited the accompanying consolidated financial statements of Shibaura Machine Co., Ltd. and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2021, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

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

Basis for Opinion

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

Key Audit Matters

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

Consideration on recoverability of deferred tax assets	
Description of Key Audit Matter	Auditor's Response
As described in "Accounting Estimates" in the Notes to Consolidated Financial Statements, the Group recorded deferred tax assets of 2,408 million yen, as of March 31, 2021 of which 1,667 million yen was recorded by Shibaura Machine Co., Ltd. (the Company). The Company determines the recoverability of deferred tax assets for future	The audit procedures we performed to assess the recoverability of deferred tax assets mainly included the following, among others: Considerations related to balances and scheduling of reversals of deductible temporary differences and tax loss carryforwards were assessed.

<p>deductible temporary differences and unused tax loss carryforwards by estimating taxable income based on expected future profitability.</p> <p>Estimated taxable income based on expected future profitability is calculated using the business plan for the following period, and the key assumptions included in the business plan are forecasts regarding the anticipated timing for clearing order backlogs on certain products and orders received for the following period. The Company discloses these key assumptions as well as the impact of COVID-19 in “Accounting Estimates.”</p> <p>Given that the key assumptions applied in the future business plan involve uncertainties and require management judgement in assessing the recoverability of deferred tax assets, we determined that it was of most significance and therefore a key audit matter.</p>	<ul style="list-style-type: none"> • We considered the balances of deductible temporary differences and tax loss carryforwards by involving our tax professionals. We also considered the schedule of when they were expected to be reversed. <p>Consideration related to estimates of taxable income</p> <ul style="list-style-type: none"> • We assessed the underlying business plan for the following period to evaluate estimates of future taxable income. We assessed the business plan for the following period by evaluating the consistency with the most recent budget approved by the Board of Directors. • In order to evaluate the effectiveness of management’s estimation process in business planning, we compared business plans in previous years to actual results. • In order to evaluate the forecasts regarding the anticipated timing for clearing order backlogs on certain products and orders received for the following period, which are key assumptions underlying the business plan for the following period, we considered the consistency of the key assumptions with actual data on orders received and trends in past orders received as well as with trends in external economic indicators. • We agreed the data on orders received with purchase orders to test the accuracy of the data. • We discussed the impact of COVID-19 with management and evaluated the assumptions on the duration of the economic fallout and the market demands thereafter.
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Responsibilities of Management, the Audit and Supervisory Committee for the Consolidated Financial Statements

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

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

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

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

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

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

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

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

We also provide the Audit and Supervisory Committee with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards. From the matters communicated with the Audit and Supervisory Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

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

Convenience Translation


The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2021 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

Ernst & Young ShinNihon LLC
Tokyo, Japan

June 21, 2021

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Designated Engagement Partner
Certified Public Accountant

近藤 正 智 

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