Sumitomo Precision Products Co., Ltd. and Consolidated Subsidiaries

Consolidated Financial Statements for the Year Ended March 31, 2022, and Independent Auditor's Report

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Sumitomo Precision Products Co., Ltd.:

Opinion

We have audited the consolidated financial statements of Sumitomo Precision Products Co., Ltd. and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as of March 31, 2022, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside 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 provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. The matter was 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 the matter.

<table>
<tr><th colspan="2">The recoverability of deferred tax assets</th></tr>
<tr><th colspan="2">As described in Note 3. SIGNIFICANT ACCOUNTING ESTIMATES
(a) "The recoverability of deferred tax assets"</th></tr>
<tr><th>Key Audit Matter Description</th><th>How the Key Audit Matter Was Addressed in the Audit</th></tr>
<tr><td>As disclosed in the consolidated balance sheet as of March 31, 2022, Sumitomo Precision Products Co., Ltd. (the "Company") recorded deferred tax asset of 2,806 million yen.

Deferred tax assets are recognized to the extent that it is probable that the deductible temporary differences and tax loss carryforwards will reverse in the foreseeable future.

The recoverability of deferred tax assets depends on estimation, such as future taxable income, tax planning and schedules for reversal of future taxable temporary differences. Particularly, it is important to estimate future taxable income when the Company has large amounts of tax loss carryforwards.

The estimation of taxable income is based on business plans that are developed using the significant assumptions, such as forecast of sales volume, selling price and profit margin by each of the Company's business. In addition, the estimation of taxable income is adjusted to a reasonable level, if necessary, considering the market demand forecasts of the Company's each business.

Since the significant assumptions developed by management are greatly affected by the external environment, such as market demand forecasts and future economic conditions related to each of the Company's business, the estimation of the taxable income involves a high degree of uncertainty as well as the management's judgments.

Therefore, we identified the recoverability of deferred tax assets as a key audit matter as the matter was particularly important in the audit of consolidated financial statements as of March 31, 2022.</td><td>We performed the following procedures, among others, to evaluate whether the evaluation of the recoverability of deferred tax assets was reasonable.

(1) Test of internal controls

We tested the design and operating effectiveness of controls over the evaluation of the recoverability of deferred tax assets. Especially, we focused on controls over estimating future taxable income.

(2) Evaluation of reasonableness of taxable income estimates

● We assessed the reasonableness of the estimation policy and estimation of taxable income by inspecting related documents.

● We evaluated the accuracy of management's estimates by comparing the actual results with the business plan that was the basis for the estimation of taxable income in prior years and assessing the cause of the difference.

● We evaluated the appropriateness of the schedule for reversal of future deductible temporary differences and tax loss carryforwards with the assistance of our tax specialists.

● We evaluated the reasonableness of the significant assumptions in the business plans, the appropriateness of how management addressed estimation uncertainty and the estimation of the taxable income by comparing forecast of the sales volume for each of the Company's business, which is a significant assumption for business plan, with customer forecasts and other relevant data, and by analyzing forecast selling price and profit margin with the actual performance for the current year, and performing a trend analysis from past results.

In addition, we critically evaluated the forecast of the external environment set as an assumption in the business plan by comparing it with the information published by the relevant industry organization.</td></tr>
</table>

Other Information

The other information comprises the information included in the Group's disclosure documents accompanying audited consolidated financial statements, but does not include the consolidated financial statements and our auditor's report thereon.

We determined that no such information existed and therefore, we did not perform any work thereon.

Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board 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 and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over 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 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. The procedures selected depend on the auditor's judgment. In addition, we 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, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of 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 whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as 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 Audit & Supervisory Board members and the Audit & Supervisory Board 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 Audit & Supervisory Board members and the Audit & Supervisory Board 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 Audit & Supervisory Board members and the Audit & Supervisory Board, 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.

Deloitte Touche Tohmatsu LLC
July 20, 2022

Sumitomo Precision Products Co., Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheet
March 31, 2022

ASSETS	Millions of Yen 2022	Millions of Yen 2021	Thousands of U.S. Dollars (Note 1) 2022
CURRENT ASSETS:			
Cash and cash equivalents (Note 17)	¥ 10,215	¥ 12,127	$ 83,449
Notes and accounts receivable (Note 17):			
Trade	12,371	17,001	101,062
Associated companies	711	515	5,809
Allowance for doubtful accounts	(30)	(26)	(245)
Contract assets	3,694		30,177
Inventories (Notes 5 and 8)	22,691	27,548	185,369
Other current assets	1,371	1,253	11,200
Total current assets	51,023	58,418	416,821
PROPERTY, PLANT AND EQUIPMENT:			
Land (Note 6)	3,501	4,299	28,601
Buildings and structures (Note 6)	20,564	21,429	167,992
Machinery and equipment	34,039	36,680	278,074
Lease assets (Note 15)	1,147	903	9,370
Construction in progress	217	106	1,773
Total	59,468	63,417	485,810
Accumulated depreciation	(45,015)	(48,377)	(367,740)
Net property, plant and equipment	14,453	15,040	118,070
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4 and 17)	761	836	6,217
Investments in affiliated companies (Note 17)	1,839	1,723	15,023
Intangible assets:			
Goodwill	306	362	2,500
Other intangible assets	2,389	1,241	19,516
Deferred tax assets (Notes 2.u and 14)	2,806	1,946	22,923
Other assets	230	294	1,879
Retirement benefit asset (Note 7)	2,847	2,708	23,258
Allowance for doubtful accounts	(7)	(6)	(57)
Total investments and other assets	11,171	9,104	91,259
TOTAL	¥ 76,647	¥ 82,562	$ 626,150

LIABILITIES AND EQUITY	Millions of Yen 2022	Millions of Yen 2021	Thousands of U.S. Dollars (Note 1) 2022
CURRENT LIABILITIES:			
Short-term bank loans (Notes 6 and 17)	¥14,057	¥18,583	$114,835
Current portion of long-term debt (Notes 6 and 17)	2,013	3,504	16,445
Notes and accounts payable (Note 17):			
Trade notes	2,227	2,062	18,193
Trade accounts	4,347	3,903	35,512
Associated companies	15	10	123
Construction	80	119	654
Other	3,364	4,930	27,481
Contract liabilities	1,166		9,525
Income taxes payable	75	165	613
Accrued expenses	1,487	1,344	12,148
Provision for loss on construction contracts (Notes 2.l and 8)	51	155	417
Provision for environmental measures (Note 2.n)	13		106
Provision for product warranties (Note 2.m)	403	389	3,292
Provision for customer compensation expenses (Note 2.o)	1,236	1,630	10,097
Other current liabilities	950	6,081	7,760
Total current liabilities	31,484	42,875	257,201
LONG-TERM LIABILITIES:			
Long-term debt (Notes 6 and 17)	9,073	6,428	74,120
Provision for environmental measures (Note 2.n)	93		760
Provision for product warranties (Note 2.m)	744	827	6,078
Retirement benefit liabilities (Note 7)	4,953	4,756	40,462
Asset retirement obligations	637	600	5,204
Deferred tax liabilities (Notes 2.u and 14)	277	294	2,263
Other long-term liabilities	168	63	1,372
Total long-term liabilities	15,945	12,968	130,259
COMMITMENTS AND CONTINGENT LIABILITIES (Note 6)			
EQUITY (Note 9):			
Common stock, authorized, 20,000,000 shares; issued, 5,316,779 shares in 2022 and 2021	10,312	10,312	84,241
Capital surplus	11,351	11,351	92,729
Retained earnings	6,261	4,244	51,148
Treasury stock - at cost 25,461 shares in 2022 and 25,244 shares in 2021	(104)	(104)	(850)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	237	228	1,937
Foreign currency translation adjustments	(112)	(458)	(914)
Defined retirement benefit plans	629	666	5,138
Total	28,574	26,239	233,429
Noncontrolling interests	644	480	5,261
Total equity	29,218	26,719	238,690
TOTAL	¥76,647	¥82,562	$626,150

See notes to consolidated financial statements.

Sumitomo Precision Products Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Income
Year Ended March 31, 2022

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2022	2021	2022
NET SALES (Notes 2.t and 20)	¥43,802	¥41,459	$357,831
COST OF SALES (Notes 8 and 15)	32,922	33,064	268,949
Gross profit	10,880	8,395	88,882
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 10 and 15)	8,992	8,895	73,458
Operating income (loss)	1,888	(500)	15,424
OTHER INCOME (EXPENSES):			
Interest and dividend income	25	26	204
Interest expense	(233)	(211)	(1,903)
Foreign currency exchange gain (loss)	513	(2)	4,191
Equity in earnings of associated companies	176	99	1,438
Gain on sales of investment securities	343	226	2,802
Impairment losses of assets (Note 11)		(75)	
Customer compensation expenses (Note 2.o)	(1,219)	(1,487)	(9,958)
Provision for environmental measures	(106)		(866)
Gain on sales of non-current assets (Note 13)	693	118	5,661
Subsidy income (Note 12)	189		1,544
Other – net	(33)	(84)	(270)
Other income (expenses) – net	348	(1,390)	2,843
INCOME (LOSS) BEFORE INCOME TAXES	2,236	(1,890)	18,267
INCOME TAXES (Note 14):			
Current	388	501	3,170
Deferred	(647)	105	(5,286)
Total income taxes	(259)	606	(2,116)
NET INCOME (LOSS)	2,495	(2,496)	20,383
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	182	81	1,487
NET INCOME (LOSS) ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 2,313	¥ (2,577)	$ 18,896
	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2.x):			
Basic net income (loss)	¥437.02	¥(486.87)	$3,570
Cash dividends applicable to the year			

Diluted net income per share is not disclosed because there were no potentially dilutive securities outstanding. Because of the changes of accounting policy stated in Note 2.y, net income per share decreased by ¥16.71.

See notes to consolidated financial statements.

Sumitomo Precision Products Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income
Year Ended March 31, 2022

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2022	2021	2022
NET INCOME (LOSS)	¥2,495	¥(2,496)	$20,383
OTHER COMPREHENSIVE INCOME (Note 19):			
Unrealized gain on available-for-sale securities	9	79	74
Foreign currency translation adjustments	308	79	2,516
Defined retirement benefit plans	(37)	1,274	(303)
Share of other comprehensive income in associates	94	(32)	768
Total other comprehensive income	374	1,400	3,055
COMPREHENSIVE INCOME (LOSS)	¥2,869	¥(1,096)	$23,438
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:			
Owners of the parent	¥2,631	¥(1,228)	$21,494
Noncontrolling interests	238	132	1,944

See notes to consolidated financial statements.

Sumitomo Precision Products Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Changes in Equity
Year Ended March 31, 2022

Thousands of Shares/Millions of Yen

	Common Stock				Treasury Stock		Accumulated Other Comprehensive Income					
	Shares	Amount	Capital Surplus	Retained Earnings	Shares	Amount	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling Interests	Total Equity
BALANCE, APRIL 1, 2020	5,317	¥10,312	¥11,351	¥ 6,821	(25)	¥(104)	¥149	¥(454)	¥ (608)	¥27,467	¥1,168	¥28,635
Net loss attributable to owners of the parent				(2,577)						(2,577)		(2,577)
Cash dividends, ¥0 per share												
Purchase of treasury stock					(0)	(0)						
Net change in the year							79	(4)	1,274	1,349	(688)	661
BALANCE, MARCH 31, 2021	5,317	10,312	11,351	4,244	(25)	(104)	228	(458)	666	26,239	480	26,719
Cumulative effects of changes in accounting policies (Note 2.y)				(296)						(296)		(296)
BALANCE, APRIL 1, 2021	5,317	10,312	11,351	3,948	(25)	(104)	228	(458)	666	25,943	480	26,423
Net income attributable to owners of the parent				2,313						2,313		2,313
Cash dividends, ¥0 per share												
Purchase of treasury stock					(0)	(0)				(0)		(0)
Disposal of treasury stock			(0)		0	0				0		0
Transfer of loss on disposal of treasury stock			0	(0)								
Net change in the year							9	346	(37)	318	164	482
BALANCE, MARCH 31, 2022	5,317	¥10,312	¥11,351	¥ 6,261	(25)	¥(104)	¥237	¥(112)	¥ 629	¥28,574	¥ 644	¥29,218

Thousands of U.S. Dollars (Note 1)

	Common Stock			Treasury Stock	Accumulated Other Comprehensive Income					
	Amount	Capital Surplus	Retained Earnings	Amount	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling Interests	Total Equity
BALANCE, MARCH 31, 2021	$84,241	$92,729	$34,670	$(850)	$1,863	$(3,741)	$5,441	$214,353	$3,921	$218,274
Cumulative effects of changes in accounting policies (Note 2.y)			(2,418)					(2,418)		(2,418)
BALANCE, APRIL 1, 2021	84,241	92,729	32,252	(850)	1,863	(3,741)	5,441	211,935	3,921	215,856
Net income attributable to owners of the parent			18,896					18,896		18,896
Cash dividends, $0 per share										
Purchase of treasury stock				(0)				(0)		(0)
Disposal of treasury stock		(0)		0				0		0
Transfer of loss on disposal of treasury stock		0	(0)							
Net change in the year					74	2,827	(303)	2,598	1,340	3,938
BALANCE, MARCH 31, 2022	$84,241	$92,729	$51,148	$(850)	$1,937	$ (914)	$5,138	$233,429	$5,261	$238,690

See notes to consolidated financial statements.

Sumitomo Precision Products Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows
Year Ended March 31, 2022

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2022	2021	2022
OPERATING ACTIVITIES:			
Income (loss) before income taxes	¥ 2,236	¥ (1,890)	$ 18,267
Adjustments for:			
Income taxes paid	(771)	(689)	(6,299)
Income taxes refunded	521	24	4,256
Depreciation and amortization	1,972	2,073	16,110
Amortization of goodwill	94	85	768
Impairment losses of assets (Note 11)		75	
Income on foreign currency exchange	(4)	(10)	(33)
Subsidy income (Note 12)	(174)		(1,421)
Payments of customer compensation	(1,835)	(529)	(14,991)
Provision for environmental measures	106		866
Equity in earnings of associated companies	(176)	(99)	(1,438)
Gain on sales of non-current assets (Note 13)	(693)	(118)	(5,661)
Gain on sales of investment securities	(343)	(226)	(2,802)
Changes in assets and liabilities, net of effects:			
Increase (decrease) in accrued expenses	120	(60)	980
Decrease in provision for product warranties	(74)	(185)	(605)
Increase in provision for customer compensation expenses (Note 2.aa)	1,219	1,487	9,959
Increase in retirement benefit asset	(242)	(53)	(1,977)
Increase in retirement benefit liabilities	247	196	2,018
Decrease in trade notes and accounts receivable	1,124	2,339	9,182
(Decrease) increase in inventories	4,206	(982)	34,360
Increase in other current assets	(304)	(322)	(2,483)
Increase in trade notes and accounts payable	935	308	7,638
Decrease in contract liabilities	(4,768)		(38,951)
Increase in other current liabilities	323	427	2,639
Other – net	38	32	310
Total adjustments	1,521	3,773	12,425
Net cash provided by operating activities	3,757	1,883	30,692
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(2,106)	(1,273)	(17,204)
Purchase of intangible assets	(1,366)	(483)	(11,159)
Proceeds from sales of investment securities	531	304	4,338
Proceeds from sales of property, plant and equipment	1,588	1	12,972
Proceeds from sales of intangible assets	20	98	163
Payments for disposal of property, plant and equipment	(109)		(890)
Payments for asset retirement obligations		(82)	
Other – net	71	(144)	580
Net cash used in investing activities	(1,371)	(1,579)	(11,200)
FINANCING ACTIVITIES:			
(Decrease) increase in short-term bank loans – net	(4,860)	2,586	(39,703)
Proceeds from long-term debt	4,500	3,656	36,762
Repayments of long-term debt	(3,504)	(2,600)	(28,625)
Proceeds from sale and leaseback transactions	182		1,487
Dividends paid to noncontrolling interests	(821)		(6,707)
Other – net	(1)	(1)	(8)
Net cash (used in) provided by financing activities	(4,504)	3,641	(36,794)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	206	43	1,682
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,912)	3,988	(15,620)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	12,127	8,139	99,069
CASH AND CASH EQUIVALENTS, END OF YEAR	¥10,215	¥12,127	$ 83,449

See notes to consolidated financial statements.

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the Company's consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2021 consolidated financial statements to conform to the classifications used in 2022.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥122.41 to $1, the approximate rate of exchange at March 31, 2022. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation – The consolidated financial statements as of March 31, 2022, include the accounts of the Company and its 15 (17 in 2021) significant subsidiaries (together, the "Group").

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

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

b. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements – Under Accounting Standards Board of Japan ("ASBJ") Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements," the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America (Financial Accounting Standards Board Accounting Standards Codification – "FASB ASC") tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting; and (e) recording a gain or loss through profit or loss on the sale of an investment in an equity instrument for the difference between the acquisition cost and selling price, and recording impairment loss through profit or loss for other-than-temporary declines in the fair value of an investment in an equity instrument, where a foreign subsidiary elects to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument.

c. ***Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method*** – ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments," requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method, unless it is impracticable to determine such adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; and (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting.

d. ***Cash Equivalents*** – Cash equivalents are short-term investments that are readily convertible into cash and exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, which mature or become due within three months of the date of acquisition.

e. ***Inventories*** – Inventories are stated at the lower of cost, determined by the average method for finished products and work in process, by the specific identification method for certain work in process, and by the moving-average method for all raw materials and supplies, or net selling value.

f. ***Investment Securities*** – Investment securities are classified and accounted for, depending on management's intent, as follows: (1) held-to-maturity debt securities are reported at amortized cost; and (2) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. Nonmarketable available-for-sale equity securities are stated at cost determined by the moving-average method. The Group's investment securities consist of marketable and nonmarketable available-for-sale securities.

g. ***Property, Plant and Equipment*** – Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiaries is computed generally by the declining-balance method, while the straight-line method is principally applied to buildings, structures acquired on or after April 1, 2016, and lease assets of the Company and property, plant and equipment of consolidated foreign subsidiaries. The range of useful lives is principally from 3 to 50 years for buildings and structures and from 4 to 9 years for machinery and equipment. The useful lives for lease assets are the terms of the respective leases.

h. ***Other Intangible Assets*** – Intangible assets, except for goodwill, are stated at cost less accumulated amortization, which is computed by the straight-line method over the estimated useful lives of the assets. The useful life is principally 5 years for software for internal use. The excess of the cost of acquisition over the fair value of the net assets of an acquired subsidiary at the date of acquisition is recorded as goodwill and amortized primarily over a period of 10 years.

i. ***Long-Lived Assets*** – The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss is measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted future cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

j. ***Derivatives and Hedging Activities*** – The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts and interest rate swaps are utilized by the Group to reduce foreign currency exchange and interest rate risks. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments are classified and accounted for as follows: (1) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statement of income, and (2) for derivatives used for hedging purposes, if such derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

Currency swaps are utilized to hedge exchange rate risk exposures in borrowings denominated in foreign currencies. Long-term debt denominated in foreign currencies are translated at the contracted rates if the currency swaps qualify for hedge accounting.

Interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense.

k. ***Allowance for Doubtful Accounts*** – The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Group's past credit loss experience and an evaluation of potential losses in the receivables outstanding.

l. ***Provision for Loss on Construction Contracts*** – The provision for loss on construction contracts is provided for an estimated amount of probable losses to be incurred in future years in respect of construction projects in progress. When there are losses on completed-contract method applied contracts, the allowance for losses on construction contracts is offset against the costs of construction contracts in process in the balance sheet.

m. ***Provision for Product Warranties*** – The Group estimated amount for probable future expenses with respect to product warranties and recorded as provision for the expenses in the balance sheet.

n. ***Provision for Environmental Measures*** – The Group estimated amount for probable future expenses with respect to treatment of soil contamination and hazardous substances and recorded as provision for expenses in the balance sheet.

o. ***Provision for Customer Compensation Expenses*** – The Company discovered non-conformity issues in a certain manufacturing and inspection process for plate-fin type heat exchangers. The Company estimated the amount for expenses to be paid to the customers in the future in relate to this incident and recorded as provision for the expenses in the balance sheet.

p. ***Retirement Benefits*** – The Company and its consolidated domestic subsidiaries have defined benefit retirement plans covering substantially all of their employees. The Group accounts for retirement benefit liabilities based on projected benefit obligations and plan assets at the consolidated balance sheet date.

The projected benefit obligations are attributed to periods on a benefit formula basis. Actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects and are recognized in profit or loss over 10 years, no longer than the expected average remaining service period of the employees.

q. ***Research and Development Costs*** – Research and development costs are charged to income as incurred.

r. ***Asset Retirement Obligations*** – An asset retirement obligation is recorded for a legal obligation imposed either by law or contract that results from the acquisition, construction, development, and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

s. ***Leases*** – Finance lease transactions are capitalized by recognizing lease assets and lease obligations in the consolidated balance sheet. All other leases are accounted for as operating leases.

t. ***Revenue*** – Revenue is recognized when control of the promised goods or service is transferred to the customer in the amount expected to be received in exchange for those goods or services based on the following 5 steps.

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligation in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The Group's principal business is the manufacture and sale of products related to the aerospace, industrial equipment, and ICT Businesses. In most cases, revenue from the sale of these products is recognized upon delivery of the products because the customer obtains control of the products and the performance obligation is satisfied at the time the products are delivered. Transaction price is determined based on the consideration promised in the contract, net of returns, discounts, rebates, etc. Variable consideration is taken into the transaction price only if it is mostly probable that a material reversal of sales will not occur.

Product warranty obligations, such as free repair of malfunctions caused by product defects that occur within the warranty period, are included in the sales contracts for products. Such warranty obligations are recognized as a provision for product warranties because they provide assurance to the customer that the products will perform as intended in accordance with the specifications set forth in the contract with the customer.

The consideration for product sales contracts is collected within approximately one year from the time control over the product is transferred to the customer and does not include a significant financial component.

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

v. ***Foreign Currency Transactions*** – All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the consolidated balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income.

w. ***Foreign Currency Financial Statements*** – The consolidated balance sheet accounts and revenue and expense accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the consolidated balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity.

x. ***Per Share Information*** – Basic net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective fiscal years.

y. ***Changes in Accounting Policies***

Application of Accounting Standard for Revenue Recognition

The Company and its domestic consolidated subsidiaries have applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and relevant ASBJ regulations from the beginning of the current fiscal year. The Company and its domestic consolidated subsidiaries recognize revenue when control of the promised goods or service is transferred to the customer in the amount expected to be received in exchange for those goods or services.

The Company recognize revenue for performance obligation that is satisfied over a certain period of time based on estimated degree of progress for the performance (Percentage-of-completion method). The revenue for performance obligation that is not satisfied over a certain period of time is recognized when the construction is completed with satisfaction of performance obligation. The percentage-of-completion method is calculated as the ratio of the cost incurred to the estimated total cost.

The Company applies the Revenue Recognition Standard in accordance with the transitional treatment provided for in the proviso to Paragraph 84 of the Revenue Recognition Standard. The cumulative impact of retrospectively applying the new accounting policies to prior periods is adjusted to retained earnings at the beginning of the current fiscal year. However, the Company applies the method provided for in Paragraph 86 of the Revenue Recognition Standard, and does not apply the new accounting policies retrospectively to contracts for which substantially all revenue amounts had been recognized prior to the beginning of the current fiscal year.

In addition, "Notes and accounts receivable-trade" indicated in "Current assets" in the consolidated balance sheet of the previous fiscal year is included in "Notes and accounts receivable-trade" and "Contract assets" from the current fiscal year. Contract liabilities included in "Other current liabilities" in the previous fiscal year is indicated as "Contract liabilities" from the current fiscal year. However, in accordance with the transitional treatment set forth in Paragraph 89-2 of the Revenue Recognition Standard, figures for the previous fiscal year have not been reclassified based on the new presentation method.

As a result of this change, compared with the figures before the retrospective application, net sales decreased by ¥858 million ($7,009 thousand), cost of sales decreased by ¥721 million ($5,890 thousand) and operating income decreased by ¥132 million ($1,078 thousand). Furthermore, due to the cumulative effect was adjusted to retained earnings at the beginning of the current fiscal year, it decreased by ¥296 million ($2,418 thousand).

Application of Accounting Standard for Fair Value Measurement

The Company has applied the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019; hereinafter "Fair Value Measurement Standard") and relevant regulations from the beginning of the current fiscal year, and will prospectively apply the new accounting policies stipulated by the Fair Value Measurement Standard in accordance with the transitional treatment provided in Paragraph 19 of the Fair Value Measurement Standard and Paragraph 44-2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019). There is no effect on the consolidated financial statements.

z. New Accounting Pronouncement

Foreign Consolidated Subsidiaries – The Company's subsidiaries located in the United States of America expect to apply ASC 842 Leases from the beginning of the fiscal year ending March 31, 2023. Main revisions are: revision to apply a control model to the identification of leases and distinguish between leases and service contracts; and revision to eliminate lease classification and recognition of assets and liabilities for all leases by the lessee. The Company is currently evaluating the potential impacts of applying this standard to be adopted by its subsidiaries located in the United States of America in the future period.

aa. Additional Information

Provision for Customer Compensation Expenses

The Company recorded ¥1,487 million and ¥1,002 million in March 31, 2021 and 2020, respectively, as provision for customer compensation expenses in its income statement in relate to non-conformity issues found in certain manufacturing and inspection process of plate-fin type heat exchanger in December 2019. The Company recorded additional ¥1,219 million ($9,958 thousand) as customer compensation expenses in March 2022 upon progress seen at negotiation with the customers.

3. SIGNIFICANT ACCOUNTING ESTIMATES

(a) The recoverability of deferred tax assets

(1) Deferred tax assets

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Deferred tax assets	¥2,806	¥1,946	$22,923

(2) The Company recognized deferred tax assets for temporary differences and net operating loss carryforwards to the extent of amounts that are expected to be realized and collected in future.

The recoverability of deferred tax assets depends on estimation, such as future taxable income, tax planning and schedules for reversal of future taxable temporary differences. Particularly, it is important to estimate future taxable income when the Company has large amount of tax loss carryforwards.

The estimation of taxable income is based on business plans that are developed using the significant assumptions such as forecast of sales volume, selling price and profit margin by the Company's each business. In addition, the estimation of taxable income is revised at a certain level of stress on the business plan, if necessary, considering the market demand forecasts of the Company's each business.

Since the significant assumptions developed by management are greatly affected by the external environment, such as market demand forecasts and future economic conditions related to the Company's each business, the estimation of the taxable income involves a high degree of uncertainty, and it may have a significant impact on the consolidated financial statements for the following fiscal year.

(b) Assessment for impairment loss on long-lived assets

(1) Long-lived assets

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Property, plant and equipment	¥14,453	¥15,040	$118,070
Intangible assets	2,695	1,603	22,016

(2) The Company groups assets for business use based on managerial accounting and assets for not in business use. The Company tests each grouped long-lived assets for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable and impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of impairment loss is determined as the excess of the carrying value of the asset over its fair value. The total undiscounted cash flows is estimated based on the Company's business plan that is created with expected sales and cost amount, margin ratio and consideration of future market trend etc. The estimation of assessment for impairment loss on long-lived assets is significantly affected by external environment such as fluctuation of demand in each business market influenced by economic climate and trends, hence, the estimation involve a high degree of uncertainty.

(c) Assessment for valuation of inventories

(1) Inventories

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Finished products	¥ 4,104	¥ 4,939	$ 33,527
Work in process	10,727	14,490	87,632
Raw materials and supplies	7,860	8,119	64,210
Total	¥22,691	¥27,548	$185,369

(2) Inventories are stated at the lower of cost or net selling value. Long-term inventories were written down based on certain assumptions on future sales forecast. The estimation of net selling value and evaluation of long-term inventories are significantly affected by external environment, such as fluctuation of demand in each business market influenced by economic climate and trends, hence, the estimation involve a high degree of uncertainty.

(d) Accounting estimates considering the spread of COVID-19 infection

The Group assessed recoverability of deferred tax assets, impairment loss on long-lived assets and valuation of inventories based on information available at fiscal year-end.

Actual results may differ from these assumptions because of the uncertainties involved in estimating convergence of COVID-19 infection and other factors.

4. INVESTMENT SECURITIES

The cost and aggregate fair value of available-for-sale securities at March 31, 2022 and 2021, were as follows:

	Millions of Yen			
March 31, 2022	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity securities	¥271	¥273		¥544

	Millions of Yen			
March 31, 2021	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity securities	¥316	¥302		¥618

	Thousands of U.S. Dollars			
March 31, 2022	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity securities	$2,214	$2,230		$4,444

The proceeds, realized gains, and realized losses of the available-for-sale securities which were sold during the years ended March 31, 2022 and 2021, were as follows:

	Millions of Yen		
March 31, 2022	Proceeds	Realized Gains	Realized Losses
Equity securities	¥91	¥46	

	Millions of Yen		
March 31, 2021	Proceeds	Realized Gains	Realized Losses
Equity securities	¥304	¥226	

	Thousands of U.S. Dollars		
March 31, 2022	Proceeds	Realized Gains	Realized Losses
Equity securities	$743	$376	

For other-than-temporary declines in fair value by 40% or more of the cost, investment securities are reduced to net realizable value by a charge to income.

Loss on devaluation of available-for-sale securities was not recognized for the years ended March 31, 2022 and 2021, respectively.

5. INVENTORIES

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

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Finished products	¥ 4,104	¥ 4,939	$ 33,527
Work in process	10,727	14,490	87,632
Raw materials and supplies	7,860	8,119	64,210
Total	¥22,691	¥27,548	$185,369

6. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans bear interest at rates ranging from 0.29% to 4.00% at March 31, 2022, and from 0.28% to 2.55% at March 31, 2021.

Long-term debt at March 31, 2022 and 2021, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Loans from banks and insurance companies, due serially to 2028 with interest rates ranging from 0.15% to 0.90% (2022 and 2021):			
Collateralized	¥ 2,000	¥ 2,216	$ 16,339
Unsecured	8,429	7,161	68,858
Obligation under finance leases	657	555	5,368
Total	11,086	9,932	90,565
Less current portion	(2,013)	(3,504)	(16,445)
Long-term debt, less current portion	¥ 9,073	¥ 6,428	$ 74,120

Annual maturities of long-term debt, as of March 31, 2022, for the next five years and thereafter were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2023	¥ 2,013	$16,445
2024	1,964	16,045
2025	2,659	21,722
2026	1,311	10,710
2027	2,902	23,707
2028 and thereafter	237	1,936
Total	¥11,086	$90,565

The carrying amounts of assets pledged as collateral for long-term bank loans of ¥2,000 million ($16,339 thousand) at March 31, 2022, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Land	¥409	$3,341
Buildings and structures	8	66
Total	¥417	$3,407

The above assets are provided for a factory foundation mortgage.

The above collateralized long-term debt includes the current portion of long-term debt.

7. RETIREMENT BENEFITS

The Company and its domestic consolidated subsidiaries have defined benefit retirement plans for employees.

Employees terminating their employment are, under most circumstances, entitled to retirement benefits determined based on the rate of pay at the time of termination, length of service, and conditions under which the termination occurs. If the termination is involuntary, caused by retirement at the mandatory retirement age, or caused by death, the employee is entitled to greater payments than in the case of voluntary termination.

Employees of the Company who retire at the mandatory retirement age are entitled to receive approximately 50% of their benefits in the form of an annuity with the balance in a lump-sum payment upon retirement. The funds for the annuity payments are entrusted to an outside trustee.

(1) The changes in defined benefit obligation for the years ended March 31, 2022 and 2021, were as follows (excluding the benefit plans for which the simplified method was applied):

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Balance at beginning of year	¥8,042	¥8,540	$65,697
Current service cost	511	487	4,174
Interest cost	78	76	637
Actuarial differences	17	(10)	139
Prior service cost		(727)	
Benefits paid	(391)	(324)	(3,194)
Others	73		597
Balance at end of year	¥8,330	¥8,042	$68,050

(2) The changes in plan assets for the years ended March 31, 2022 and 2021, were as follows (excluding the benefit plans for which the simplified method was applied):

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Balance at beginning of year	¥6,412	¥5,185	$52,382
Expected return on plan assets	192	155	1,568
Actuarial differences	2	1,022	17
Contributions from the employer	192	185	1,568
Benefits paid	(118)	(135)	(964)
Balance at end of year	¥6,680	¥6,412	$54,571

(3) The changes in defined benefit obligation for the years ended March 31, 2022 and 2021 using the simplified method were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Balance at beginning of year	¥417	¥386	$3,406
Periodic benefit cost	53	121	433
Benefits paid	(2)	(80)	(16)
Contributions to the obligation	(13)	(14)	(106)
Others	2	4	16
Balance at end of year	¥457	¥417	$3,733

(4) A reconciliation between the liability and asset recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Funded defined benefit obligation	¥ 3,833	¥ 3,704	$ 31,313
Plan assets	(6,680)	(6,412)	(54,571)
Total	(2,847)	(2,708)	(23,258)
Unfunded defined benefit obligation	4,953	4,756	40,462
Net amount of liabilities and asset recorded in the consolidated balance sheet	¥ 2,106	¥ 2,048	$ 17,204
Retirement benefit liabilities	4,953	4,756	40,462
Retirement benefit asset	(2,847)	(2,708)	(23,258)
Net amount of liabilities and asset recorded in the consolidated balance sheet	¥ 2,106	¥ 2,048	$ 17,204

(5) The components of net periodic retirement benefit costs for the years ended March 31, 2022 and 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Service cost	¥ 511	¥ 487	$ 4,174
Interest cost	78	76	637
Expected return on plan assets	(192)	(155)	(1,568)
Recognized actuarial differences	44	169	360
Amortization of prior service cost	(83)	(91)	(678)
Periodic benefit cost calculated by the simplified method	53	121	433
Others	53	12	433
Net periodic benefit costs	¥ 464	¥ 619	$ 3,791

(6) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2022 and 2021 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Prior service cost	¥(83)	¥ 636	$(678)
Actuarial differences	29	1,200	237
Total	¥(54)	¥1,836	$(441)

(7) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2022 and 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Unrecognized prior service cost	¥604	¥687	$4,934
Unrecognized actuarial differences	303	274	2,476
Total	¥907	¥961	$7,410

(8) Plan assets

a. Components of plan assets

Plan assets as of March 31, 2022 and 2021, consisted of the following:

	2022	2021
Debt investments	36%	41%
Equity investments	33	51
Cash and cash equivalents	22	2
Others	9	6
Total	100%	100%

b. Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(9) Assumptions used for the years ended March 31, 2022 and 2021, were set forth as follows:

	2022	2021
Discount rate	0.609~1.271%	0.609~1.271%
Expected rate of return on plan assets	3.0%	3.0%
Expected rate of salary increase	0.9~3.7%	0.9~3.7%

The amounts of contribution required for the defined contribution plan paid by the Group were ¥46 million ($376 thousand) and ¥43 million for the years ended March 31, 2022 and 2021, respectively.

8. PROVISION FOR LOSS ON CONSTRUCTION CONTRACTS

(1) The provision for loss on construction contracts are offset against inventories in the balance sheet as of March 31, 2022. Amounts of provision for loss on construction contracts offset by inventories were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Work in process	¥51	¥155	$417

(2) Provision for loss on construction contracts included in "Cost of sales" for the year ended March 31, 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Cost of sales	¥104	¥313	$850

9. EQUITY

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

(a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally, for companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the Company has prescribed so in its articles of incorporation. The company meets the above criteria and, accordingly, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year.

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

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

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

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

(c) Treasury stock and treasury stock acquisition rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

10. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended March 31, 2022 and 2021, principally consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Employees' salaries and bonuses	¥3,485	¥3,636	$28,470
Net periodic retirement benefit costs	194	132	1,585
Depreciation and amortization	496	520	4,052
Research and development costs	831	647	6,789
Goodwill amortization	94	85	768

11. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of March 31, 2022 and 2021.

The Group recognized no impairment for long-lived assets for the year ended March 31, 2022.

Description is omitted due to its insignificance for the year ended March 31, 2021.

12. SUBSIDY INCOME

The Group recorded subsidy income of ¥189 million ($1,544 thousand) for the year ended March 31, 2022. This is recognized by one of its subsidiaries in the United States of America as an acceptance of Paycheck Protection Program under government remedy from COVID-19.

13. SALES OF NON-CURRENT ASSETS

The Group recorded gain on sales of non-current assets of ¥693 million ($5,661 thousand) for the year ended March 31, 2022. This is due to the sales of land and building. The Group recorded gain on sales of non-current assets of ¥118 million for the year ended March 31, 2021. This is mainly due to the sales of technology and equipment related to fuel cells.

14. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of 30.6% for the years ended March 31, 2022 and 2021.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2022 and 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Deferred tax assets:			
Reserve for accrued bonuses	¥ 420	¥ 396	$ 3,431
Retirement benefit liabilities	1,464	1,404	11,960
Loss on devaluation of inventories	439	1,125	3,586
Loss on devaluation of investment securities	12	113	98
Loss on devaluation of other assets	12	12	98
Tax loss carryforwards	2,927	1,857	23,912
Impairment losses of assets	85	355	694
Provision for customer compensation expenses	378	498	3,088
Provision for product warranties	338	364	2,761
Other	1,261	939	10,302
Total of tax loss carryforwards and temporary differences	7,336	7,063	59,930
Less valuation allowance for tax loss carryforwards	(2,172)	(1,155)	(17,743)
Less valuation allowance for temporary differences	(1,210)	(3,006)	(9,886)
Total valuation allowance	(3,382)	(4,161)	(27,629)
Deferred tax assets	¥ 3,954	¥ 2,902	$ 32,301
Deferred tax liabilities:			
Retirement benefit asset	¥ (871)	¥ (828)	$ (7,115)
Reserve for advanced depreciation of non-current assets	(116)	(112)	(948)
Net unrealized gain on available-for-sale securities	(36)	(86)	(294)
Other	(402)	(224)	(3,284)
Deferred tax liabilities	¥(1,425)	¥(1,250)	$(11,641)
Net deferred tax assets	¥ 2,529	¥ 1,652	$ 20,660

The decrease in total valuation allowance was mainly due to the deductible temporary differences which exceed the estimated taxable income.

The expiration of tax loss carryforwards, the related valuation allowances, and the resulting net deferred tax assets as of March 31, 2022 and 2021, were as follows:

	Millions of Yen						
March 31, 2022	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	Total
Deferred tax assets relating to tax loss carryforwards	¥12	¥11	¥3			¥ 2,901	¥ 2,927
Less valuation allowances for tax loss carryforwards						(2,172)	(2,172)
Net deferred tax assets relating to tax loss carryforwards	12	11	3			729	755

	Millions of Yen						
March 31, 2021	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	Total
Deferred tax assets relating to tax loss carryforwards	¥ 43	¥ 10	¥ 9	¥ 3		¥ 1,792	¥ 1,857
Less valuation allowances for tax loss carryforwards	(43)	(10)	(9)	(3)		(1,090)	(1,155)
Net deferred tax assets relating to tax loss carryforwards						702	702

	Thousands of U.S. Dollars						
March 31, 2022	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	Total
Deferred tax assets relating to tax loss carryforwards	$ 98	$ 90	$ 25			$ 23,699	$ 23,912
Less valuation allowances for tax loss carryforwards						(17,743)	(17,743)
Net deferred tax assets relating to tax loss carryforwards	98	90	25			5,956	6,169

Deferred tax assets of ¥755 million is recorded for tax loss carryforwards of ¥2,927 million (multiplied by the effective statutory tax rate). The valuation allowance is not recognized for the portion of the tax loss carryforwards that is deemed to be recoverable based on the estimation of future taxable income.

A reconciliation between the normal effective statutory tax rate and the actual effective tax rates reflected in the accompanying consolidated statement of operations for the year ended March 31, 2022 is as follows:

Normal effective statutory tax rate	30.6%
Expenses not permanently deductible for income tax purposes	0.6
Income not permanently taxable for income tax purposes	(2.3)
Per capital in local tax	0.7
Equity in earnings of associated companies	(2.4)
Change in valuation allowance	(40.9)
Other – net	2.1
Actual effective tax rate	(11.6)%

The reconciliation between the statutory effective tax rate and the actual tax rate is omitted due to the recording of a net loss for the year ended March 31, 2021.

15. LEASES

The Group leases certain machinery, computer equipment, office space and other assets.

Total rental expenses including lease payments under finance leases for the years ended March 31, 2022 and 2021, were ¥654 million ($5,343 thousand) and ¥707 million, respectively.

16. RELATED-PARTY TRANSACTIONS

Balances and transactions of the Company with Sumitomo Corporation and its subsidiaries as of and for years ended March 31, 2022 and 2021, were as follows:

Transaction between the Company and Related Parties

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Sumitomo Corporation:			
Accounts receivable-trade	¥1,054	¥1,411	$ 8,610
Sales	4,559	4,968	37,244
Sumisho Aero-Systems Corporation:			
Accounts receivable-trade	2,287	4,075	18,683
Sales	4,137	5,712	33,788
Sumitomo Shoji Machinex Co., Ltd.:			
Accounts receivable-trade	875	1,101	7,148
Sales	1,058	1,620	8,643
SCSK Corporation:			
Accounts payable	57		466
Purchase of goods and service	1,092	365	8,921

Sales prices and other conditions are determined on general terms and conditions.

17. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group Policy for Financial Instruments

The Group uses financial instruments, mainly long-term debt, including bank loans based on its capital financing plan. Cash surpluses, if any, are invested in low-risk financial assets. Short-term bank loans are used to fund the Group's ongoing operations. Derivatives are not used for speculative purposes, but to manage exposure to financial risks as described in (2) below.

(2) Nature and Extent of Risks Arising from Financial Instruments

Receivables, such as trade notes and trade accounts, are exposed to customer credit risk. Although receivables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, those risks are hedged by using forward foreign currency contracts. Investment securities are mainly equity securities and their fair market values are monitored on a quarterly basis.

Payment terms of payables, such as trade notes and trade accounts, are less than one year. Although payables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, those risks are generally hedged by using forward foreign currency contracts.

(3) Risk Management for Financial Instruments

Credit risk management

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Group manages its credit risk from receivables based on internal guidelines, which include monitoring payment terms and balances of major customers by each business administration department to identify the default risk of customers at an early stage. Because the counterparties to derivatives are limited to major international financial institutions, the Group does not anticipate any losses arising from credit risk. See Note 18 for more details regarding derivatives.

Market risk management (foreign currency exchange rate risk and interest rate risk)

Foreign currency trade receivables and payables are exposed to market risk resulting from fluctuations in foreign currency exchange rates. Such exchange rate risk is hedged principally by forward foreign currency contracts. Interest rate swaps and currency swaps are used to manage exposure to market risks from changes in the interest rates and foreign currency exchange rates of loan payables.

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

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

Liquidity risk management

Liquidity risk comprises the risk that the Group cannot meet its contractual obligations in full on their maturity dates. The Group manages its liquidity risk by holding an adequate volume of liquid assets along with adequate financial planning by the corporate treasury department.

(4) Fair Values of Financial Instruments

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, other rational valuation techniques are used instead. See Note 18 for details on the fair values of derivatives.

(a) Fair values of financial instruments

	Millions of Yen		
March 31, 2022	Carrying Amount	Fair Value	Unrealized Loss
Investment securities	¥ 544	¥ 544	___
Total	¥ 544	¥ 544	___
Long-term debt *(1)	¥(11,086)	¥(11,090)	¥(4)
Total	¥(11,086)	¥(11,090)	¥(4)

	Millions of Yen		
March 31, 2021	Carrying Amount	Fair Value	Unrealized Loss
Investment securities	¥ 619	¥ 619	___
Total	¥ 619	¥ 619	___
Long-term debt *(1)	¥(9,932)	¥(9,932)	___
Total	¥(9,932)	¥(9,932)	___

	Thousands of U.S. Dollars		
March 31, 2022	Carrying Amount	Fair Value	Unrealized Loss
Investment securities	$ 4,444	$ 4,444	___
Total	$ 4,444	$ 4,444	___
Long-term debt *(1)	$(90,565)	$(90,598)	$(33)
Total	$(90,565)	$(90,598)	$(33)

*(1) The above long-term debt includes the current portion of long-term debt.

Investment securities

The fair values are measured at the quoted market price of the stock exchange for the equity instruments. Fair value information for the investment securities by classifications is included in Note 4.

Long-term debt

The fair values of long-term debt and lease obligations are determined discounting the future cash flows related to the debt at the Group's assumed corporate borrowing rate.

The Company omitted disclosures for cash and cash equivalents, notes and accounts receivable, short-term bank loans and payables because the carrying values of these financial instruments approximate fair value due to their short maturities.

(b) Carrying amount of investments in equity instruments that do not have a quoted market price in an active market

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Unlisted equity instruments	¥ 217	¥ 218	$ 1,773
Affiliated companies	1,839	1,723	15,023
Total	¥2,056	¥1,941	$16,796

(5) Maturity Analysis for Financial Assets with Contractual Maturities

See Note 6 for annual maturities of long-term debt.

(6) Financial Instruments Categorized by Fair Value Hierarchy

The fair value of financial instruments is categorized into the following three levels, depending on the observability and significance of the inputs used in making fair value measurements:

Level 1: Fair values measured by using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair values measured by using inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly.

Level 3: Fair values measure by using unobservable inputs for the assets or liabilities.

If multiple inputs are used that have a significant impact on the measurement of fair value, fair value is categorized at the lowest level in the fair value measurement among the levels to which each of these inputs belongs.

(6-1) The financial assets measured at the fair values in the consolidated balance sheet.

	Millions of Yen			
March 31, 2022	Level 1	Level 2	Level 3	Total
Investment securities:				
Other securities:				
Stock	¥544			¥544
Total assets	¥544			¥544

	Thousands of U.S. Dollars			
March 31, 2022	Level 1	Level 2	Level 3	Total
Investment securities:				
Other securities:				
Stock	$4,444			$4,444
Total assets	$4,444			$4,444

(6-2) The financial liabilities not measured at the fair values in the consolidated balance sheet.

	Millions of Yen			
March 31, 2022	Level 1	Level 2	Level 3	Total
Long-term debt		¥11,090		¥11,090
Total liabilities		¥11,090		¥11,090

	Thousands of U.S. Dollars			
March 31, 2022	Level 1	Level 2	Level 3	Total
Long-term debt		$90,598		$90,598
Total liabilities		$90,598		$90,598

The following is a description of valuation methodologies and inputs used for measurement of the fair value of assets and liabilities:

Investment Securities

The fair values of listed investment securities are measures at the quoted market prices. Since listed investment securities are traded in active markets, the fair values of listed investment securities are categorized as Level 1.

Long-Term Debt

The fair value of long-term debt is calculated by discounting the total principal and interest at the interest rate that would be applicable to a similar new loan.

18. DERIVATIVES

The Group enters into derivative contracts to hedge market risks such as foreign exchange and interest rate fluctuations associated with certain assets and liabilities.

It is the Group's policy to use derivatives only for the purpose of reducing market risks associated with assets and liabilities. The Group does not hold or issue derivatives for speculative purposes.

Since all of the Group's derivative transactions are related to qualified hedges of underlying business exposures, market gain or loss risk on derivative instruments is generally offset by opposite movements in the value of the hedged assets or liabilities.

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

Derivative transactions to which hedge accounting is applied.

		Millions of Yen		
At March 31, 2022	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Currency swaps	Long-term debt	¥362	¥118	

At March 31, 2021	Hedged Item	Millions of Yen Contract Amount	 Contract Amount Due after One Year	 Fair Value
Interest rate swaps				
(fixed rate payment, floating rate receipt)	Long-term debt	¥340		
Currency swaps	Long-term debt	606	¥362	

At March 31, 2022	Hedged Item	Thousands of U.S. Dollars Contract Amount	 Contract Amount Due after One Year	 Fair Value
Currency swaps	Long-term debt	$2,957	$964	

The above currency swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value.

The above interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense.

In addition, the fair values of such interest rate swaps and currency swaps in Note 18 are included in that of hedged items (i.e., long-term debt).

The contractual or notional amounts of derivatives which are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

19. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2022 and 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Unrealized gain (loss) on available-for-sale securities:			
Gains arising during the year	¥ 303	¥ 338	$ 2,475
Reclassification adjustments to profit	(343)	(226)	(2,802)
Amount before income tax effect	(40)	112	(327)
Income tax effect	49	(33)	401
Total	¥ 9	¥ 79	$ 74
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ 308	¥ 79	$ 2,516
Total	¥ 308	¥ 79	$ 2,516
Defined retirement benefit plans:			
Adjustments arising during the year	¥ (15)	¥1,759	$ (122)
Reclassification adjustments to profit or loss	(39)	77	(319)
Amount before income tax effect	(54)	1,836	(441)
Income tax effect	17	(562)	138
Total	¥ (37)	¥1,274	$ (303)
Share of other comprehensive income in associates:			
Income (losses) arising during the year	¥ 94	¥ (32)	$ 768
Total	¥ 94	¥ (32)	$ 768
Total other comprehensive income	¥ 374	¥1,400	$ 3,055

20. REVENUE

(1) Breakdown of Revenue

The Group's reportable segments are Aerospace Business, Industrial Equipment Business and ICT Business, which are subject to periodic review by the Board of Directors to determine the allocation of management resources and evaluate their performance, and the revenues recorded by these businesses are presented as net sales. The following is a breakdown of the sales for Aerospace Business by major customers and the sales for Industrial Equipment Business and ICT Business by major product lines.

At March 31, 2022	Major Customer/Products	Millions of Yen	Thousands of U.S. Dollars
Aerospace Business	Defense aviation customer	¥ 9,878	$ 80,696
	Commercial aviation customer	9,671	79,005
	Subtotal	19,549	159,701
Industrial Equipment Business	Heat exchanger	5,779	47,210
	Hydraulic equipment	7,224	59,015
	Subtotal	13,003	106,225
ICT Business	Ozone generator	3,041	24,843
	MEMS/semiconductor manufacturing equipment	8,076	65,975
	MEMS devices	133	1,087
	Subtotal	11,250	91,905
	Revenue generated from contracts with customers	43,802	357,831
	Other revenue		
	Total	¥43,802	$357,831

(2) Basic Information to Understand Revenue

See Note 2.t for Basic Information to Understand Revenue.

(3) Contracts Assets and Contracts Liabilities

	Millions of Yen		Thousands of U.S. Dollars
	At March 31, 2022	At April 1, 2021	At March 31, 2022
Notes and accounts receivable from contracts with customers:			
Notes receivable	¥ 884	¥ 505	$ 7,222
Accounts receivable	10,694	9,094	87,362
Contract assets	3,694	6,575	30,177
Contract liabilities	1,166	5,912	9,525

The decrease in contract assets in the current fiscal year was mainly due to the collection of accounts receivable. The decrease in contract liabilities was mainly due to the completion of negotiations with MITSUBISHI AIRCRAFT CORPORATION for cost reimbursement related to the development of Space Jet.

(4) Transaction Price Allocated to Remaining Performance Obligations

Total transaction price allocated to the remaining performance obligation and period over which revenue to be recognized are as follows. Performance obligation that is part of a contract with an original expected duration of one year or less is not included in the table below.

	Millions of Yen	Thousands of U.S. Dollars
	2022	2022
Within one year	¥ 11,860	$ 96,887
More than one year	11,731	95,834
Total	¥ 23,591	$ 192,721

21. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures" and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

1. Description of Reportable Segments

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is performed in order to decide how resources are allocated among the Group. The Group consists of three segments: Aerospace Business, Industrial Equipment Business and ICT Business. Aerospace Business consists of manufacturing and sale of propeller systems, landing gear systems, heat management systems, space equipment and others. Industrial Equipment Business consists of manufacturing and sale of hydraulic pumps, hydraulic valves, LNG vaporizers, heat exchangers and others. ICT Business consists of manufacturing and sale of ozone generators, MEMS and semiconductor manufacturing equipment and others.

2. Methods of Measurement for the Amounts of Sales, Profit, Assets, and Other Items for Each Reportable Segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies."

3. Impact by Change of Revenue Recognition

Due to the changes in accounting policy stated in Note 2.y, each segment has the following effects compared with the previous fiscal year. Aerospace Business decreased sales by ¥344 million ($2,810 thousand) and operating income by ¥62 million ($506 thousand). Industrial Equipment Business decreased sales by ¥274 million ($2,238 thousand) and increased operating income by ¥21 million ($172 thousand). ICT Business decreased sales by ¥240 million ($1,961 thousand) and operating income by ¥91 million ($744 thousand).

4. Information about Sales, Profit, Assets, and Other Items

	Millions of Yen					
	2022					
	Reportable Segment					
	Aerospace Business	Industrial Equipment Business	ICT Business	Total	Reconciliations	Consolidated
Sales:						
Sales to external customers	¥19,549	¥13,003	¥11,250	¥43,802		¥43,802
Intersegment sales or transfers						
Total	¥19,549	¥13,003	¥11,250	¥43,802		¥43,802
Segment operating income (loss)	¥ (36)	¥ 643	¥ 1,281	¥ 1,888		¥ 1,888
Segment assets	35,790	15,458	15,952	67,200	¥9,447	76,647
Other:						
Depreciation	874	666	432	1,972		1,972
Amortization of goodwill	3		91	94		94
Increase in property, plant and equipment and intangible assets	1,540	1,005	685	3,230		3,230
Investment in associated companies accounted for by the equity method			1,839	1,839		1,839

	Millions of Yen					
	2021					
	Reportable Segment					
	Aerospace Business	Industrial Equipment Business	ICT Business	Total	Reconciliations	Consolidated
Sales:						
Sales to external customers	¥20,116	¥11,131	¥10,212	¥41,459		¥41,459
Intersegment sales or transfers						
Total	¥20,116	¥11,131	¥10,212	¥41,459		¥41,459
Segment operating income (loss)	¥ (1,228)	¥ (8)	¥ 736	¥ (500)		¥ (500)
Segment assets	43,092	14,347	13,618	71,057	¥11,505	82,562
Other:						
Depreciation	1,044	618	411	2,073		2,073
Amortization of goodwill	3		82	85		85
Increase in property, plant and equipment and intangible assets	1,112	727	442	2,281		2,281
Investment in associated companies accounted for by the equity method			1,568	1,568		1,568

	Thousands of U.S. Dollars					
	2022					
	Reportable Segment					
	Aerospace Business	Industrial Equipment Business	ICT Business	Total	Reconciliations	Consolidated
Sales:						
Sales to external customers	$ 159,701	$ 106,225	$ 91,905	$ 357,831		$ 357,831
Intersegment sales or transfers						
Total	$ 159,701	$ 106,225	$ 91,905	$ 357,831		$ 357,831
Segment operating income (loss)	$ (294)	$ 5,253	$ 10,465	$ 15,424		$ 15,424
Segment assets	292,378	126,281	130,316	548,975	$ 77,175	626,150
Other:						
Depreciation	7,140	5,441	3,529	16,110		16,110
Amortization of goodwill	25		743	768		768
Increase in property, plant and equipment and intangible assets	12,581	8,210	5,596	26,387		26,387
Investment in associated companies accounted for by the equity method			15,023	15,023		15,023

5. Information about Geographical Areas

(1) Sales

Millions of Yen							
2022							
Japan	The United States of America	Canada	Europe	China	Other Asia	Other	Total
¥24,040	¥3,036	¥3,286	¥4,517	¥6,768	¥2,117	¥38	¥43,802

Millions of Yen							
2021							
Japan	The United States of America	Canada	Europe	China	Other Asia	Other	Total
¥27,301	¥2,570	¥2,824	¥2,709	¥4,579	¥1,424	¥52	¥41,459

Thousands of U.S. Dollars							
2022							
Japan	The United States of America	Canada	Europe	China	Other Asia	Other	Total
$196,389	$24,802	$26,844	$36,901	$55,290	$17,294	$311	$357,831

Note: Sales are classified by country or region based on the location of customers.

(2) Property, plant and equipment

Information about property, plant and equipment by geographical area is not disclosed because Japanese GAAP does not require such disclosure if total assets in Japan represent more than 90% of the consolidated amounts.

6. Information about Major Customers

Information about major customers is not disclosed for the year ended March 31, 2022 because there is no customer that represents more than 10% of net sales in the consolidated statement of income. Information about major customers for the year ended March 31, 2021 was as follows:

	Millions of Yen	
	2021	
	Sales	Segment
Kawasaki Heavy Industries, Ltd.	¥4,410	Aerospace Business
Ministry of Defense	4,189	Aerospace Business

7. Information about Amortization of Goodwill

	Millions of Yen				
	2022				
	Aerospace Business	Industrial Equipment Business	ICT Business	Elimination/ Corporate	Total
Amortization of goodwill	¥ 3		¥ 91		¥ 94
Goodwill at March 31, 2022	10		296		306

	Millions of Yen				
	2021				
	Aerospace Business	Industrial Equipment Business	ICT Business	Elimination/ Corporate	Total
Amortization of goodwill	¥ 3		¥ 82		¥ 85
Goodwill at March 31, 2021	12		350		362

	Thousands of U.S. Dollars				
	2022				
	Aerospace Business	Industrial Equipment Business	ICT Business	Elimination/ Corporate	Total
Amortization of goodwill	$ 25		$ 743		$ 768
Goodwill at March 31, 2022	82		2,418		2,500

* * * * * *