
TEIKOKU ELECTRIC MFG. CO., LTD.

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of TEIKOKU ELECTRIC MFG. CO., LTD.:

Opinion

We have audited the consolidated financial statements of TEIKOKU ELECTRIC MFG. 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.

The reasonableness of the pump business sales of the products	
Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
<p>As described in Note 16. "SEGMENT INFORMATION" to the consolidated financial statements, sales from the pump business amount to ¥20,365,794 thousand (\$166,374 thousand), which is the main business of the Group accounting for 91.5% of the total sales for the year ended March 31, 2022, and the majority of this was generated from the sales of the products.</p> <p>As described in Note 2. "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, m. Revenue Recognition" to the consolidated financial statements, the Group recognizes sales at the time the products are shipped, inspected, or based on incoterms. More specifically, domestic sales are principally recognized at shipping point or inspection point, and overseas sales are principally recognized at shipping point when control transfers from the Group to customers.</p> <p>The Group manufactures pumps for various uses and in various sizes and models as well as designs and operates controls for receiving orders, manufacturing products, shipping, recognizing sales, and collecting payment in order to appropriately handle and recognize a large number of sales transactions.</p> <p>As the Group handles sales transactions by IT systems and recognizes sales based on the sales data generated from IT systems as a result of orders reception, manufacturing, and shipments, the reliability of internal controls and IT systems is crucial.</p> <p>We identified the reasonableness of the sales of the products from the pump business as a key audit matter because sales amount is an important element to achieve the Group's business plan, which is announced externally, and is considered to be the most important performance indicator for the users of financial statements, and the majority of sales consists of the sales of the products from the pump business, which is the main business of the Group.</p>	<p>We performed the following audit procedures to assess the sales of the products from the pump business, among others:</p> <p>(1) Evaluation of internal controls</p> <p>Based on our understanding of the revenue recognition processes related to the sales of the products from the pump business, we tested the design and operating effectiveness of controls over the sequence of controls from receiving orders to collecting payments from sales.</p> <p>Additionally, with the assistance of our IT specialists, we tested the design and operating effectiveness of following IT controls.</p> <ul style="list-style-type: none"> • IT application controls over the sales data generating process and data transfer to accounting system • General IT controls which ensure the reliability of the above IT application controls <p>(2) Examination of sales transactions</p> <ul style="list-style-type: none"> • We inquired of the sales department general manager and relevant sales division manager on sales and order position in order to obtain a comprehensive understanding of the business. • We analyzed sales by customers and regions as risk assessment procedures. • We analyzed the trends in daily sales as well as daily sales adjustments close to and subsequent to year-end. • For the selected sales transactions based on statistical methods, we tested the occurrence of the sales transactions by matching them with sales contracts as well as shipping documents from shipping companies for domestic sales transactions and bills of landing for overseas sales transactions. <p>Furthermore, we instructed the auditors of TEIKOKU USA INC. and Dalian Teikoku Canned Motor Pump Co., Ltd. which are significant consolidated subsidiaries that conduct pump business, to perform audit procedures that included evaluating the design and operating effectiveness of controls over revenue recognition processes related to the sales of the products from the pump business, and testing for the selected sales transactions. Furthermore, we obtained reports on the results of the audit procedures performed by the auditors of consolidated subsidiaries and evaluated whether sufficient and appropriate audit evidence was obtained. These examinations included communications with the auditors of consolidated subsidiaries as well as inspections of the audit documentations prepared by the auditors of consolidated subsidiaries.</p>

Other Information

Other information comprises the information included in the Group's disclosure documents accompanying the 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 the Audit and Supervisory Committee 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.

The Audit and Supervisory Committee is 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 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 relevant ethical requirements regarding independence, and communicate with it 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.

Deloitte Touche Tohmatsu LLC

July 29, 2022

TEIKOKU ELECTRIC MFG. CO., LTD.

Consolidated Balance Sheet March 31, 2022

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	2022	2021	2022
CURRENT ASSETS:			
Cash and cash equivalents (Note 12)	¥ 13,036,366	¥ 11,810,351	\$ 106,498
Short-term investments (Notes 4 and 12)	1,405,445	765,724	11,481
Receivables (Notes 10 and 12):			
Trade notes	1,494,371	1,181,683	12,208
Trade accounts	6,266,920	6,205,013	51,196
Other	378,478	108,903	3,092
Allowance for doubtful accounts	(613,723)	(459,877)	(5,014)
Inventories (Note 5)	5,210,823	4,306,926	42,569
Prepaid expenses and other current assets	920,980	966,270	7,524
Total current assets	28,099,660	24,884,993	229,554
PROPERTY, PLANT AND EQUIPMENT:			
Land	1,837,243	1,845,056	15,009
Buildings and structures	8,599,440	8,091,695	70,251
Machinery and equipment	6,496,634	6,082,830	53,073
Lease assets	1,635,113	1,468,561	13,358
Construction in progress	52,310	56,876	427
Other	1,655,399	1,544,281	13,523
Total	20,276,139	19,089,299	165,641
Accumulated depreciation	(11,586,259)	(10,721,452)	(94,651)
Net property, plant and equipment	8,689,880	8,367,847	70,990
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4 and 12)	1,062,831	1,154,052	8,683
Software	176,728	213,895	1,444
Software in progress		650	
Goodwill		160,129	
Asset for retirement benefits (Note 7)	170,010	137,462	1,389
Deferred tax assets (Note 9)	348,605	311,017	2,848
Other assets	481,610	455,006	3,933
Allowance for doubtful accounts	(28,200)	(53,194)	(230)
Total investments and other assets	2,211,584	2,379,017	18,067
TOTAL	¥ 39,001,124	¥ 35,631,857	\$ 318,611

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
LIABILITIES AND EQUITY	2022	2021	2022
CURRENT LIABILITIES:			
Short-term bank loans (Notes 6 and 12)	¥ 340,000	¥ 320,000	\$ 2,778
Current portion of long-term lease obligations	97,070	102,111	793
Payables (Notes 10 and 12):			
Trade notes	732,307	529,664	5,983
Trade accounts	2,014,255	1,339,567	16,455
Notes and accounts payable	646,365	518,096	5,280
Income taxes payable (Note 12)	497,494	298,244	4,064
Accrued expenses	1,250,086	916,922	10,212
Advances received		1,353,700	
Other current liabilities	1,790,581	338,467	14,628
Total current liabilities	7,368,158	5,716,771	60,193
LONG-TERM LIABILITIES:			
Long-term debt (Note 6)	294,731	180,843	2,408
Liability for retirement benefits (Note 7)	533,545	499,064	4,359
Deferred tax liabilities (Note 9)	204,111	153,929	1,667
Other long-term liabilities	309,512	246,332	2,528
Total long-term liabilities	1,341,899	1,080,168	10,962
CONTINGENT LIABILITIES (Note 13)			
EQUITY (Notes 8 and 15):			
Common stock – authorized, 69,200,000 shares; issued, 20,440,038 shares in 2022 and 20,423,438 shares in 2021	3,143,676	3,132,977	25,681
Capital surplus	3,331,905	3,321,206	27,219
Retained earnings	23,882,434	22,555,471	195,102
Treasury stock – at cost, 1,435,876 shares in 2022 and 784,654 shares in 2021	(1,864,954)	(1,000,920)	(15,235)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	419,568	481,827	3,428
Foreign currency translation adjustments	1,110,077	194,284	9,069
Defined retirement benefit plans	(3,692)	(16,289)	(30)
Total	30,019,014	28,668,556	245,234
Noncontrolling interests	272,053	166,362	2,222
Total equity	30,291,067	28,834,918	247,456
TOTAL	¥ 39,001,124	¥ 35,631,857	\$ 318,611

See notes to consolidated financial statements.

TEIKOKU ELECTRIC MFG. CO., LTD.

Consolidated Statement of Income Year Ended March 31, 2022

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2022</u>	<u>2021</u>	<u>2022</u>
NET SALES (Notes 2.m and 3)	¥ 22,244,497	¥ 19,910,021	\$ 181,721
COST OF SALES	<u>13,192,206</u>	<u>12,422,114</u>	<u>107,770</u>
Gross profit	9,052,291	7,487,907	73,951
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 12)	<u>6,557,595</u>	<u>5,224,993</u>	<u>53,571</u>
Operating income	<u>2,494,696</u>	<u>2,262,914</u>	<u>20,380</u>
OTHER INCOME (EXPENSES):			
Interest and dividend income	95,176	58,810	778
Interest expense	(17,394)	(19,018)	(142)
Foreign exchange gain (loss) – net	154,650	26,282	1,263
Employment adjustment subsidy	52,725	73,768	431
Other – net	<u>153,051</u>	<u>91,121</u>	<u>1,250</u>
Other income (expenses) – net	<u>438,208</u>	<u>230,963</u>	<u>3,580</u>
INCOME BEFORE INCOME TAXES	<u>2,932,904</u>	<u>2,493,877</u>	<u>23,960</u>
INCOME TAXES (Note 9):			
Current	818,411	(17,186)	6,686
Deferred	<u>39,575</u>	<u>163,983</u>	<u>323</u>
Total income taxes	<u>857,986</u>	<u>146,797</u>	<u>7,009</u>
NET INCOME	<u>2,074,918</u>	<u>2,347,080</u>	<u>16,951</u>
NET INCOME ATTRIBUTE TO NONCONTROLLING INTERESTS	<u>87,218</u>	<u>22,451</u>	<u>713</u>
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	<u>¥ 1,987,700</u>	<u>¥ 2,324,629</u>	<u>\$ 16,238</u>
	<u>Yen</u>		<u>U.S. Dollars</u>
PER SHARE OF COMMON STOCK (Note 2.q):			
Basic net income	¥103.29	¥118.08	\$0.84
Cash dividends applicable to the year	50.00	36.00	0.41

See notes to consolidated financial statements.

TEIKOKU ELECTRIC MFG. CO., LTD.

Consolidated Statement of Comprehensive Income Year Ended March 31, 2022

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2022</u>	<u>2021</u>	<u>2022</u>
NET INCOME	<u>¥ 2,074,918</u>	<u>¥ 2,347,080</u>	<u>\$ 16,951</u>
OTHER COMPREHENSIVE INCOME (LOSS) (Note 14):			
Unrealized (loss) gain on available-for-sale securities	(62,259)	227,276	(509)
Foreign currency translation adjustments	934,266	(21,576)	7,632
Defined retirement benefit plans	<u>12,597</u>	<u>52,983</u>	<u>103</u>
Total other comprehensive income (loss)	<u>884,604</u>	<u>258,683</u>	<u>7,226</u>
COMPREHENSIVE INCOME	<u>¥ 2,959,522</u>	<u>¥ 2,605,763</u>	<u>\$ 24,177</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥2,853,831	¥2,575,443	\$23,314
Noncontrolling interests	105,691	30,320	863

See notes to consolidated financial statements.

TEIKOKU ELECTRIC MFG. CO., LTD.
**Consolidated Statement of Changes in Equity
Year Ended March 31, 2022**

	Number of Shares of Common Stock Outstanding	Thousands of Yen								
		Accumulated Other Comprehensive Income								
		Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for- Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Noncontrolling Interests	Total Equity
BALANCE, APRIL 1, 2020	19,677,524	¥ 3,123,491	¥ 3,311,720	¥ 20,998,541	¥ (927,793)	¥ 254,551	¥ 223,729	¥ (69,272)	¥ 136,042	¥ 27,051,009
Net income attributable to owners of the parent				2,324,629						2,324,629
Cash dividends, ¥39.00 per share				(767,699)						(767,699)
Purchase of treasury stock (Note 8)	(38,740)				(73,127)					(73,127)
Issuance of new shares		9,486	9,486							18,972
Net change in the year						227,276	(29,445)	52,983	30,320	281,134
BALANCE, MARCH 31, 2021	19,638,784	3,132,977	3,321,206	22,555,471	(1,000,920)	481,827	194,284	(16,289)	166,362	28,834,918
Cumulative effect of accounting change (Note 3)				37,663						37,663
BALANCE, APRIL 1, 2021	19,638,784	3,132,977	3,321,206	22,593,134	(1,000,920)	481,827	194,284	(16,289)	166,362	28,872,581
Net income attributable to owners of the parent				1,987,700						1,987,700
Cash dividends, ¥36.00 per share				(698,400)						(698,400)
Purchase of treasury stock (Note 8)	(651,222)				(864,034)					(864,034)
Issuance of new shares	16,600	10,699	10,699							21,398
Net change in the year						(62,259)	915,793	12,597	105,691	971,822
BALANCE, MARCH 31, 2022	<u>19,004,162</u>	<u>¥ 3,143,676</u>	<u>¥ 3,331,905</u>	<u>¥ 23,882,434</u>	<u>¥ (1,864,954)</u>	<u>¥ 419,568</u>	<u>¥ 1,110,077</u>	<u>¥ (3,692)</u>	<u>¥ 272,053</u>	<u>¥ 30,291,067</u>
		Thousands of U.S. Dollars (Note 1)								
		Accumulated Other Comprehensive Income								
		Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for- Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Noncontrolling Interests	Total Equity
BALANCE, MARCH 31, 2021		\$ 25,594	\$ 27,132	\$ 184,262	\$ (8,177)	\$ 3,936	\$ 1,587	\$ (133)	\$ 1,359	\$ 235,560
Cumulative effect of accounting change (Note 3)				308						308
BALANCE, APRIL 1, 2021		25,594	27,132	184,570	(8,177)	3,936	1,587	(133)	1,359	235,868
Net income attributable to owners of the parent				16,238						16,238
Cash dividends, \$0.29 per share				(5,706)						(5,706)
Purchase of treasury stock (Note 8)					(7,058)					(7,058)
Issuance of new shares		87	87							174
Net change in the year						(508)	7,482	103	863	7,940
BALANCE, MARCH 31, 2022		<u>\$ 25,681</u>	<u>\$ 27,219</u>	<u>\$ 195,102</u>	<u>\$ (15,235)</u>	<u>\$ 3,428</u>	<u>\$ 9,069</u>	<u>\$ (30)</u>	<u>\$ 2,222</u>	<u>\$ 247,456</u>

See notes to consolidated financial statements.

TEIKOKU ELECTRIC MFG. CO., LTD.

Consolidated Statement of Cash Flows Year Ended March 31, 2022

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2022	2021	2022
OPERATING ACTIVITIES:			
Income before income taxes	¥ 2,932,904	¥ 2,493,877	\$ 23,960
Adjustments for:			
Income taxes – paid	(632,681)	(661,602)	(5,168)
Depreciation and amortization	922,175	978,232	7,534
Amortization of goodwill	160,129	151,646	1,308
Foreign exchange (loss) gain – net	(66,535)	(12,731)	(544)
Loss on disposal of property, plant and equipment	22,206		181
(Gain) loss on sales of investment securities	(1,360)	19,551	(11)
Changes in assets and liabilities:			
(Increase) decrease in notes and accounts receivable	(12,245)	961,868	(100)
(Increase) decrease in inventories	(632,942)	543,429	(5,171)
Increase (decrease) in notes and accounts payable	737,615	(271,348)	6,026
Changes in asset or liability for retirement benefits	18,994	25,568	155
Other – net	318,364	(638,907)	2,601
Net cash provided by operating activities	<u>3,766,624</u>	<u>3,589,583</u>	<u>30,771</u>
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(898,886)	(492,556)	(7,343)
Proceeds from sales of investment securities	5,109	79,817	41
Purchases of intangible assets	(38,863)	(62,002)	(317)
Purchases of investment securities	(2,783)	(3,716)	(23)
Payment into time deposits	(573,632)	(733,527)	(4,686)
Proceeds from withdrawal of time deposits	3,398	924,986	28
Other – net	30,732	11,590	251
Net cash used in investing activities	<u>(1,474,925)</u>	<u>(275,408)</u>	<u>(12,049)</u>
FINANCING ACTIVITIES:			
Increase (decrease) in short-term bank loans – net	20,000	(130,238)	163
Payments of lease obligations	(109,446)	(135,213)	(894)
Repurchases of treasury stock	(864,034)	(73,127)	(7,059)
Dividends paid	(698,399)	(767,699)	(5,705)
Net cash used in financing activities	<u>(1,651,879)</u>	<u>(1,106,277)</u>	<u>(13,495)</u>
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	586,195	32,690	4,789
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,226,015	2,240,588	10,016
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>11,810,351</u>	<u>9,569,763</u>	<u>96,482</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>¥ 13,036,366</u>	<u>¥ 11,810,351</u>	<u>\$ 106,498</u>

See notes to consolidated financial statements.

TEIKOKU ELECTRIC MFG. CO., LTD.

Notes to Consolidated Financial Statements Year Ended March 31, 2022

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain 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 TEIKOKU ELECTRIC MFG. CO., LTD. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥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 all of its 12 (12 in 2021) subsidiaries (together, the "Group").

Foreign subsidiaries (except for HYDRODYNE TEIKOKU (INDIA) PVT. LTD.) are consolidated using the financial statements as of December 31 because the difference between the closing date of the subsidiaries and that of the Company did not exceed three months. Significant transactions have been adjusted in consolidation.

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.

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 amortized on a straight-line basis over a period of five years.

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

Cash equivalents include time deposits, certificates of deposit, commercial paper and bond funds, all of which mature or become due within three months of the date of acquisition.

d. Marketable and Investment Securities – Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: (1) held-to-maturity debt securities, for which there is a positive intent and ability to hold to maturity, are reported at amortized cost; and (2) available-for-sale securities, which are not classified as held-to-maturity debt 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. For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

Effective April 1, 2021, the Company applied ASBJ Statement No. 30, "Accounting Standard for Fair Value Measurement" and ASBJ Guidance No. 31, "Implementation Guidance on Accounting Standard for Fair Value Measurement," and revised related ASBJ Statements and ASBJ Guidance (the "New Accounting Standards"). Under the New Accounting Standards, nonmarketable available-for-sale equity securities are stated at cost, while under the previous accounting standards, nonmarketable available-for-sale securities are stated at cost. The Company applied the New Accounting Standards prospectively. However, there is no impact on the consolidated financial statements for the year ended March 31, 2022.

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

f. Inventories – Inventories are stated at the lower of cost, determined by the average cost method, or net selling value for the Company and its domestic subsidiaries and at the lower of cost, determined by the first-in, first-out method, or net selling value for foreign subsidiaries.

- 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 other than buildings acquired on or after April 1, 1998, is computed using the declining-balance method, while depreciation of property, plant and equipment of its consolidated foreign subsidiaries is mainly computed using the straight-line method at rates based on estimated useful lives of the assets. Buildings of the Company and its consolidated domestic subsidiaries acquired on or after April 1, 1998, and building improvements and structures of the Company and its consolidated domestic subsidiaries acquired on or after April 1, 2016, are depreciated using the straight-line method. The range of useful lives is principally from 15 to 50 years for buildings and structures, and from 7 to 12 years for machinery and equipment. The useful lives for lease assets are the terms of the respective leases.
- h. Long-Lived Assets** – The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss 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 would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.
- i. Software** – Software for internal use is amortized using the straight-line method over the estimated usable life. The estimated usable life is 5 years.
- j. Retirement and Pension Plans** – The liabilities (assets) for retirement benefits of employees are accounted for based on projected benefit obligations and plan assets at the consolidated balance sheet date. The actuarial differences are mainly amortized from the next year using the declining-balance method over 10 years, which is within the average remaining service period. The prior service costs are mainly amortized using the declining-balance method over 10 years, which is within the average remaining service period.
- 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 any resulting deficit or surplus is recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).
- k. Research and Development Costs** – Research and development costs are charged to income as incurred.
- l. Leases** – Finance lease transactions are capitalized by recognizing lease assets and lease obligations in the balance sheet.
- m. Revenue Recognition** – The Group recognizes revenue in an amount that reflects the consideration to which it expects to be entitled in exchange for satisfying performance obligations to transfer the goods or services promised in contracts with customers. The nature of performance obligations for each of the Group's major industry and when such obligations are satisfied are as follows:

In the pump business, the Group mainly manufactures and sells canned motor pump, and its performance obligation is primarily to deliver a finished product to the customer in accordance with the sales contract. In principle, it is deemed that control of the product is transferred to the customer and the performance obligation is satisfied at the time of delivery of the finished product to the customer; therefore, the Group recognizes sales at the time the products are shipped, inspected, or based on incoterms. In addition, since some products are manufactured based on special specifications specified by customers, the Group determines that its performance obligations in such contracts are satisfied over time, and estimate the progress in satisfying the performance obligations and recognizes revenue based on the progress in satisfying the performance obligations.

In the electronic components business, the Group mainly manufactures and sells automotive electronic components, and its performance obligation is primarily to deliver a finished product to the customer in accordance with the sales contract. In principle, it is deemed that control of the product is transferred to the customer and the performance obligation is satisfied at the time of delivery of the finished product to the customer; therefore, the Group recognizes sales at the time the products are shipped.

Consideration for these performance obligations is generally received within one year after the performance obligation is satisfied, according to separately determined payment conditions, and does not include any significant financing components.

- n. 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 bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.
- o. Foreign Currency Transactions** – All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. 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 forward exchange contracts.
- p. Foreign Currency Financial Statements** – The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.
- q. 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.

The weighted-average number of common shares outstanding used in the computation were 19,244,014 and 19,686,204 for the fiscal years ended March 31, 2022 and 2021, respectively.

Diluted net income per share is not presented because there are no potentially dilutive securities outstanding.

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

- r. Accounting Changes and Error Corrections** – Under ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections," and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections," accounting treatments are required as follows: (1) Changes in Accounting Policies—When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions. (2) Changes in Presentation—When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation. (3) Changes in Accounting Estimates—A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods. (4) Corrections of Prior-Period Errors—When an error in prior-period financial statements is discovered, those statements are restated.

3. ACCOUNTING CHANGE

Effective April 1, 2021, the Group adopted ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition," and ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition," issued on March 31, 2020 ("ASBJ Statement No. 29") and recognizes revenue at the amount expected to be received in exchange for promised goods or services when control of the goods or services is transferred to customers.

The Group mainly recognized sales in the pump business at the time the products are shipped or inspected, but effective April 1, 2021, in case that the performance obligations are satisfied over time, the Group changed to estimate the progress in satisfying the performance obligations and recognize revenue based on the progress.

In addition, the Group changed to deduct a part of costs included cost of sales in the electronic components business from net sales as consideration payable to a customer.

The Group retrospectively applied ASBJ Statement No. 29 and the cumulative effect of retroactively applying the new accounting standard was added to retained earnings at April 1, 2021.

As a result, for the year ended March 31, 2022, "net sales" decreased by ¥192,323 thousand, "cost of sales" decreased by ¥189,544 thousand, and "operating income" and "income before income taxes" decreased by ¥2,779 thousand.

Further, consolidated statement of changes in equity "retained earnings" as of April 1, 2021, increased by ¥37,663 thousand.

4. SHORT-TERM INVESTMENTS AND INVESTMENT SECURITIES

Short-term investments and investment securities as of March 31, 2022 and 2021, consisted of the following:

	Thousands of Yen		Thousands of U.S. Dollars
	<u>2022</u>	<u>2021</u>	<u>2022</u>
Current:			
Time deposits other than cash equivalents	<u>¥ 1,405,445</u>	<u>¥ 765,724</u>	<u>\$ 11,481</u>
Total	<u>¥ 1,405,445</u>	<u>¥ 765,724</u>	<u>\$ 11,481</u>
Non-current:			
Marketable equity securities	<u>¥ 1,059,104</u>	<u>¥ 1,150,325</u>	<u>\$ 8,653</u>
Unquoted equity securities	<u>3,727</u>	<u>3,727</u>	<u>30</u>
Total	<u>¥ 1,062,831</u>	<u>¥ 1,154,052</u>	<u>\$ 8,683</u>

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

	Thousands of Yen			
<u>March 31, 2022</u>	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Securities classified as:				
Available-for-sale:				
Equity securities	¥453,259	¥617,553	¥(11,708)	¥1,059,104

<u>March 31, 2021</u>	Thousands of Yen			<u>Fair Value</u>
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	
Securities classified as:				
Available-for-sale:				
Equity securities	¥454,225	¥702,261	¥(6,161)	¥1,150,325
<u>March 31, 2022</u>	Thousands of U.S. Dollars			<u>Fair Value</u>
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	
Securities classified as:				
Available-for-sale:				
Equity securities	\$3,704	\$5,045	\$(96)	\$8,653

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

	Thousands of Yen		Thousands of U.S. Dollars
	<u>2022</u>	<u>2021</u>	<u>2022</u>
Proceeds from sales	¥5,109	¥ 79,817	\$41
Gain (loss) on sales	1,360	(19,551)	11

5. INVENTORIES

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

	Thousands of Yen		Thousands of U.S. Dollars
	<u>2022</u>	<u>2021</u>	<u>2022</u>
Finished products	¥ 1,805,281	¥ 1,382,087	\$ 14,748
Work in process	1,846,682	1,377,567	15,086
Raw materials and supplies	<u>1,558,860</u>	<u>1,547,272</u>	<u>12,735</u>
Total	<u>¥ 5,210,823</u>	<u>¥ 4,306,926</u>	<u>\$ 42,569</u>

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

Short-term bank loans at March 31, 2022 and 2021, consisted of notes to banks and bank overdrafts. The annual interest rates applicable to the short-term bank loans ranged from 0.34% to 0.59% and 0.33% to 0.58% at March 31, 2022 and 2021, respectively.

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

	Thousands of Yen		Thousands of U.S. Dollars
	<u>2022</u>	<u>2021</u>	<u>2022</u>
Long-term loans	¥ 79,380	¥ 73,990	\$ 649
Obligations under finance leases	<u>312,421</u>	<u>208,964</u>	<u>2,552</u>
Total	391,801	282,954	3,201
Less current portion	<u>(97,070)</u>	<u>(102,111)</u>	<u>(793)</u>
Long-term debt, less current portion	<u>¥ 294,731</u>	<u>¥ 180,843</u>	<u>\$ 2,408</u>

The annual average interest rate applicable to long-term loan was 8.92% at March 31, 2022 and 2021.

Annual maturities of long-term loan and lease obligations as of March 31, 2022, for the next five years and thereafter was as follows:

<u>Year Ending March 31</u>	<u>Thousands of Yen</u>	<u>Thousands of U.S. Dollars</u>
2023	¥ 97,070	\$ 793
2024	64,108	524
2025	118,360	967
2026	39,265	321
2027	39,405	322
2028 and thereafter	<u>33,593</u>	<u>274</u>
Total	<u>¥ 391,801</u>	<u>\$ 3,201</u>

7. RETIREMENT AND PENSION PLANS

The Company and certain consolidated subsidiaries have severance payment plans for employees. Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from certain consolidated subsidiaries and annuity payments from a trustee.

In addition, the Company have set an employee's retirement benefit trust to a lump-sum severance payment.

The Company has contributory funded defined benefit pension plans and unfunded retirement benefit plans for employees. Other consolidated subsidiaries have unfunded retirement benefit plans.

- (1) The changes in defined benefit obligation for the years ended March 31, 2022 and 2021, were as follows:

	<u>Thousands of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2022</u>	<u>2021</u>	<u>2022</u>
Balance at beginning of year	¥ 1,691,148	¥ 1,639,486	\$ 13,815
Current service cost	128,104	132,292	1,047
Interest cost	11,425	10,314	93
Actuarial gains	(38,098)	(1,975)	(311)
Benefits paid	(76,961)	(89,772)	(629)
Others	<u>1,091</u>	<u>803</u>	<u>9</u>
Balance at end of year	<u>¥ 1,716,709</u>	<u>¥ 1,691,148</u>	<u>\$ 14,024</u>

- (2) The changes in plan assets for the years ended March 31, 2022 and 2021, were as follows:

	<u>Thousands of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2022</u>	<u>2021</u>	<u>2022</u>
Balance at beginning of year	¥ 1,329,546	¥ 1,227,106	\$ 10,861
Expected return on plan assets	26,591	24,542	217
Actuarial (gains) losses	(32,335)	53,876	(264)
Contributions from the employer	47,517	47,886	388
Benefits paid	<u>(18,145)</u>	<u>(23,864)</u>	<u>(148)</u>
Balance at end of year	<u>¥ 1,353,174</u>	<u>¥ 1,329,546</u>	<u>\$ 11,054</u>

- (3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets was as follows:

	Thousands of Yen		Thousands of U.S. Dollars
	<u>2022</u>	<u>2021</u>	<u>2022</u>
Funded defined benefit obligation	¥ 1,413,385	¥ 1,396,304	\$ 11,546
Plan assets	<u>(1,353,174)</u>	<u>(1,329,546)</u>	<u>(11,054)</u>
Total	60,211	66,758	492
Unfunded defined benefit obligation	<u>303,324</u>	<u>294,844</u>	<u>2,478</u>
Net liability arising from defined benefit obligation	<u>¥ 363,535</u>	<u>¥ 361,602</u>	<u>\$ 2,970</u>

	Thousands of Yen		Thousands of U.S. Dollars
	<u>2022</u>	<u>2021</u>	<u>2022</u>
Liability for retirement benefits	¥ 533,545	¥ 499,064	\$ 4,359
Asset for retirement benefits	<u>(170,010)</u>	<u>(137,462)</u>	<u>(1,389)</u>
Net liability arising from defined benefit obligation	<u>¥ 363,535</u>	<u>¥ 361,602</u>	<u>\$ 2,970</u>

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

	Thousands of Yen		Thousands of U.S. Dollars
	<u>2022</u>	<u>2021</u>	<u>2022</u>
Service cost	¥ 128,104	¥ 132,292	\$ 1,047
Interest cost	11,426	10,314	93
Expected return on plan assets	(26,591)	(24,542)	(217)
Recognized actuarial losses	<u>12,388</u>	<u>20,494</u>	<u>101</u>
Net periodic benefit costs	<u>¥ 125,327</u>	<u>¥ 138,558</u>	<u>\$ 1,024</u>

- (5) 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:

	Thousands of Yen		Thousands of U.S. Dollars
	<u>2022</u>	<u>2021</u>	<u>2022</u>
Actuarial losses (gains)	<u>¥ 18,152</u>	<u>¥ 76,345</u>	<u>\$ 148</u>
Total	<u>¥ 18,152</u>	<u>¥ 76,345</u>	<u>\$ 148</u>

- (6) 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:

	Thousands of Yen		Thousands of U.S. Dollars
	<u>2022</u>	<u>2021</u>	<u>2022</u>
Unrecognized actuarial gains	<u>¥ (5,319)</u>	<u>¥ (23,471)</u>	<u>\$ (43)</u>
Total	<u>¥ (5,319)</u>	<u>¥ (23,471)</u>	<u>\$ (43)</u>

(7) Plan assets

a. Components of plan assets

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

	<u>2022</u>	<u>2021</u>
Domestic debt investments	41 %	42 %
Domestic equity investments	10	15
Foreign debt investments	18	19
Foreign equity investments	14	16
General account assets of life insurance	7	6
Cash and cash equivalents	<u>10</u>	<u>2</u>
Total	<u>100 %</u>	<u>100 %</u>

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.

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

	<u>2022</u>	<u>2021</u>
Discount rate	0.86~1.01 %	0.72~0.77 %
Expected rate of return on plan assets	2.00 %	2.00 %

(9) Defined contribution plans

The amount of required contribution to the defined contribution plans of the Company were ¥20,733 thousand (\$169 thousand) and ¥20,718 thousand for the years ended March 31, 2022 and 2021, respectively.

8. 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. However, the Company does not meet all the above criteria.

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 within 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.

9. INCOME TAXES

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

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

	Thousands of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Deferred tax assets:			
Accrued bonuses	¥ 157,031	¥ 153,564	\$ 1,283
Inventories	95,006	93,760	776
Accrued enterprise tax	25,511	13,375	208
Unrealized intercompany profits	112,366	61,272	918
Liability for retirement benefits	382,602	372,713	3,126
Loss on valuation of golf club membership	5,542	5,542	45
Impairment loss	39,998	39,997	327
Other	270,752	203,350	2,212
Less valuation allowance	(60,708)	(60,707)	(496)
Total	1,028,100	882,866	8,399
Deferred tax liabilities:			
Undistributed earnings of foreign subsidiaries	537,985	389,701	4,395
Reserve for advanced depreciation of non-current assets	68,865	71,427	563
Net unrealized gain on available-for-sale securities	186,277	214,273	1,522
Other	90,479	50,377	739
Total	883,606	725,778	7,219
Net deferred tax assets	¥ 144,494	¥ 157,088	\$ 1,180

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the year ended March 31, 2021, is as follows:

	<u>2021</u>
Normal effective statutory tax rate	30.6%
Expenses not deductible for income tax purposes	0.4
Income not taxable for income tax purposes	(0.1)
Lower income tax rates applicable to income in certain foreign countries	(4.8)
Amortization of goodwill	1.9
Effect of liquidation of subsidiaries	(22.8)
Other – net	<u>0.7</u>
Actual effective tax rate	<u>5.9%</u>

Since the actual effective tax rate at for the year ended March 31, 2022, differed from the normal effective statutory tax rate by less than 5.0%, disclosure of details is omitted.

10. REVENUE

(1) *Disaggregation of Revenue*

Revenues from contracts with customers on a disaggregated basis are disclosed in Note 16, "SEGMENT INFORMATION."

(2) *Basic Information to Understand Revenues from Contracts with Customers*

The information is disclosed in Note 2, "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES."

(3) *Contract Balances*

Receivables from contract with customers, contract assets and contract liabilities at the end of the year are as follows:

	<u>Thousands of Yen</u> <u>2022</u>	<u>Thousands of U.S. Dollars</u> <u>2022</u>
Receivables from contracts with customers:		
Balance at end of year	¥ 7,883,415	\$ 64,402
Contract assets:		
Balance at end of year	122,124	998
Contract liabilities:		
Balance at end of year	1,487,325	12,150

(4) *Transaction Prices Allocated to Remaining Performance Obligations*

As the Group does not have significant contracts with an expected term in excess of one year, the Group has applied the practical expedient and omitted the information on remaining performance obligations.

11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥642,301 thousand (\$5,247 thousand) and ¥403,438 thousand for the years ended March 31, 2022 and 2021, respectively.

12. 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.

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

Receivables, such as trade notes and trade accounts, are exposed to customer credit risk. The Group manages its credit risk from receivables on the basis of internal guidelines. Although receivables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, those risks are controlled by netting against the balance of payables in the same foreign currency and exchanging into yen timely monitoring market trends so as not to increase assets in foreign currencies excessively. Investment securities, mainly equity instruments of customers and suppliers of the Group, are exposed to the risk of market price fluctuations. Such investments are managed by monitoring market values and the financial position of issuers on a regular 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 netted against the balance of receivables denominated in the same foreign currency as noted above.

(3) Fair Values of Financial Instruments

(a) Fair value of financial instruments

Fair values of financial instruments are as follows: Investments in equity instruments that do not have a quoted market price in an active market are not included in the following table. The fair values of "cash and cash equivalents," "receivables," "payables," "short-term bank loans," and "income taxes payable" are not disclosed because their maturities are short and the carrying amounts approximate fair value.

Thousands of Yen			
	Carrying Amount	Fair Value	Unrealized Gain (Loss)
<u>March 31, 2022</u>			
Investment securities	¥ 1,059,104	¥ 1,059,104	_____
Total	<u>¥ 1,059,104</u>	<u>¥ 1,059,104</u>	<u>_____</u>
Thousands of Yen			
	Carrying Amount	Fair Value	Unrealized Gain (Loss)
<u>March 31, 2021</u>			
Investment securities	¥ 1,150,325	¥ 1,150,325	_____
Total	<u>¥ 1,150,325</u>	<u>¥ 1,150,325</u>	<u>_____</u>
Thousands of U.S. Dollars			
	Carrying Amount	Fair Value	Unrealized Gain (Loss)
<u>March 31, 2022</u>			
Investment securities	\$8,653	\$8,653	_____
Total	<u>\$8,653</u>	<u>\$8,653</u>	<u>_____</u>

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

	Thousands of Yen		Thousands of U.S. Dollars
	<u>2022</u>	<u>2021</u>	<u>2022</u>
Unlisted equity instruments	¥3,727	¥3,727	\$30

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

	Thousands of Yen			
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
<u>March 31, 2022</u>				
Cash and cash equivalents	¥ 13,036,366			
Receivables:				
Trade notes	1,494,371			
Trade accounts	6,266,920			
Short-term investments and investment securities:				
Time deposits other than cash equivalents	1,405,445			
Total	<u>¥ 22,203,102</u>			

	Thousands of Yen			
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
<u>March 31, 2021</u>				
Cash and cash equivalents	¥ 11,810,351			
Receivables:				
Trade notes	1,181,683			
Trade accounts	6,205,013			
Short-term investments and investment securities:				
Time deposits other than cash equivalents	765,724			
Total	<u>¥ 19,962,771</u>			

	Thousands of U.S. Dollars			
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
<u>March 31, 2022</u>				
Cash and cash equivalents	\$ 106,498			
Receivables:				
Trade notes	12,208			
Trade accounts	51,196			
Short-term investments and investment securities:				
Time deposits other than cash equivalents	11,481			
Total	<u>\$ 181,383</u>			

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 measured 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.

(1) *The financial assets and liabilities measured at the fair values in the consolidated balance sheet*

<u>March 31, 2022</u>	Thousands of Yen			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment securities:				
Available-for-sale securities:				
Equity securities	<u>¥ 1,059,104</u>	<u> </u>	<u> </u>	<u>¥ 1,059,104</u>
Total assets	<u>¥ 1,059,104</u>	<u> </u>	<u> </u>	<u>¥ 1,059,104</u>

<u>March 31, 2022</u>	Thousands of U.S. Dollars			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment securities:				
Available-for-sale securities:				
Equity securities	<u>\$8,653</u>	<u> </u>	<u> </u>	<u>\$8,653</u>
Total assets	<u>\$8,653</u>	<u> </u>	<u> </u>	<u>\$8,653</u>

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 equity securities are measured at the quoted market price. Since listed equity securities are traded in active markets, the fair values are categorized as Level 1.

13. CONTINGENT LIABILITIES

(1) Trade Notes Endorsed

At March 31, 2022, contingent liabilities for notes endorsed with recourse totaled ¥1,279,311 thousand (\$10,451 thousand).

14. OTHER COMPREHENSIVE INCOME (LOSS)

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

	Thousands of Yen		Thousands of U.S. Dollars
	<u>2022</u>	<u>2021</u>	<u>2022</u>
Unrealized gain (loss) on available-for-sale securities:			
Gains (losses) arising during the year	¥ (88,895)	¥ 308,618	\$ (726)
Reclassification adjustments to profit or loss	<u>(1,360)</u>	<u>19,550</u>	<u>(11)</u>
Amount before income tax effect	(90,255)	328,168	(737)
Income tax effect	<u>27,996</u>	<u>(100,892)</u>	<u>228</u>
Total	<u>¥ (62,259)</u>	<u>¥ 227,276</u>	<u>\$ (509)</u>
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ 934,266	¥ (21,576)	\$ 7,632
Amount before income tax effect	<u>934,266</u>	<u>(21,576)</u>	<u>7,632</u>
Total	<u>¥ 934,266</u>	<u>¥ (21,576)</u>	<u>\$ 7,632</u>
Defined retirement benefit plans:			
Adjustments arising during the year	¥ 5,764	¥ 55,851	\$ 47
Reclassification adjustments to profit or loss	<u>12,388</u>	<u>20,494</u>	<u>101</u>
Amount before income tax effect	18,152	76,345	148
Income tax effect	<u>(5,555)</u>	<u>(23,362)</u>	<u>(45)</u>
Total	<u>¥ 12,597</u>	<u>¥ 52,983</u>	<u>\$ 103</u>
Total other comprehensive income (loss)	<u>¥ 884,604</u>	<u>¥ 258,683</u>	<u>\$ 7,226</u>

15. SUBSEQUENT EVENT

Appropriation of Retained Earnings

The following appropriation of retained earnings at March 31, 2022, was approved at the Company's shareholders' meeting held on June 29, 2022:

	Thousands of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥32 (\$0.26) per share	¥608,133	\$4,968

16. 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 being performed in order to decide how resources are allocated among the Group. The Group mainly produces and sells pumps. Production headquarters and manufacturing subsidiaries are responsible for manufacturing and purchasing. The sales headquarter and sales subsidiaries are responsible for sales. In addition, a specific subsidiary produces and sells electronic components.

Therefore, the Group's reportable segments consist of "Pumps" and "Electronic components." "Pumps" consists of the manufacture and sale of motor pumps for chemical and other. "Electronic components" consists of the manufacture and sale of automotive electrical components and industrial equipment substrates.

(2) *Methods of Measurement for the Amounts of Sales, Profit (Loss), Assets, Liabilities 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." Income by reportable segment is operating income.

(3) Information about Sales, Profit (Loss), Assets, Liabilities and Other Items

Thousands of Yen					
2022					
Reportable Segment					
	Pumps	Electronic Components	Total	Other	Consolidated
Sales:					
Japan	¥ 6,679,173	¥ 1,528,317	¥ 8,207,490	¥ 350,386	¥ 8,557,876
Europe and America	4,901,355		4,901,355		4,901,355
Asia	8,785,266		8,785,266		8,785,266
Revenue from contracts with customers	20,365,794	1,528,317	21,894,111	350,386	22,244,497
Sales to external customers	20,365,794	1,528,317	21,894,111	350,386	22,244,497
Total	¥ 20,365,794	¥ 1,528,317	¥ 21,894,111	¥ 350,386	¥ 22,244,497
Segment profit	¥ 2,443,332	¥ 19,296	¥ 2,462,628	¥ 32,068	¥ 2,494,696
Segment assets	36,430,086	2,171,054	38,601,140	399,984	39,001,124
Other:					
Depreciation	827,771	87,600	915,371	6,804	922,175
Amortization of goodwill	160,129		160,129		160,129
Increase in property, plant and equipment and intangible assets	929,820	197,340	1,127,160	4,862	1,132,022
Thousands of Yen					
2021					
Reportable Segment					
	Pumps	Electronic Components	Total	Other	Consolidated
Sales:					
Sales to external customers	¥ 17,895,057	¥ 1,584,426	¥ 19,479,483	¥ 430,538	¥ 19,910,021
Total	¥ 17,895,057	¥ 1,584,426	¥ 19,479,483	¥ 430,538	¥ 19,910,021
Segment profit (loss)	¥ 2,237,246	¥ (41,353)	¥ 2,195,893	¥ 67,021	¥ 2,262,914
Segment assets	33,076,982	1,986,442	35,063,424	568,433	35,631,857
Other:					
Depreciation	849,325	119,662	968,987	9,245	978,232
Amortization of goodwill	151,646		151,646		151,646
Increase in property, plant and equipment and intangible assets	607,287	782	608,069	4,037	612,106
Thousands of U.S. Dollars					
2022					
Reportable Segment					
	Pumps	Electronic Components	Total	Other	Consolidated
Sales:					
Japan	\$ 54,565	\$ 12,485	\$ 67,050	\$ 2,862	\$ 69,912
Europe and Americas	40,040		40,040		40,040
Asia	71,769		71,769		71,769
Revenue from contracts with customers	166,374	12,485	178,859	2,862	181,721
Sales to external customers	166,374	12,485	178,859	2,862	181,721
Total	\$ 166,374	\$ 12,485	\$ 178,859	\$ 2,862	\$ 181,721
Segment profit	\$ 19,960	\$ 158	\$ 20,118	\$ 262	\$ 20,380
Segment assets	297,607	17,736	315,343	3,268	318,611
Other:					
Depreciation	6,762	716	7,478	56	7,534
Amortization of goodwill	1,308		1,308		1,308
Increase in property, plant and equipment and intangible assets	7,596	1,612	9,208	40	9,248

Note: "Other" consists of operating segments that are not included in the reportable segments, such as special equipment.

Sales are classified by country or region based on the location of the Group.

As indicated in Note 3, "ACCOUNTING CHANGE," effective April 1, 2021, the Group adopted the "Accounting Standard for Revenue Recognition" and other accounting changes. As a result, for the year ended March 31, 2022, "sales" in the Pumps segment decreased by ¥42,029 thousand and "segment profit" decreased by ¥2,779 thousand, compared to using the previous accounting method. Further, "sales" in the Electronic Components segment decreased by ¥150,294 thousand but there is no impact on "segment profit."

(4) Information about Products and Services

Thousands of Yen				
2022				
	Pumps	Electronic Components	Other	Total
Sales to external customers	¥20,365,794	¥1,528,317	¥350,386	¥22,244,497

Thousands of Yen				
2021				
	Pumps	Electronic Components	Other	Total
Sales to external customers	¥17,895,057	¥1,584,426	¥430,538	¥19,910,021

Thousands of U.S. Dollars				
2022				
	Pumps	Electronic Components	Other	Total
Sales to external customers	\$166,374	\$12,485	\$2,862	\$181,721

(5) Information about Geographical Areas

a. Sales

Thousands of Yen						
2022						
Japan	Asia and Oceania		Americas		Other	Total
	China	Other	United States	Other		
¥7,477,482	¥7,435,996	¥2,555,063	¥3,947,953	¥248,309	¥579,694	¥22,244,497

Thousands of Yen						
2021						
Japan	Asia and Oceania		Americas		Other	Total
	China	Other	United States	Other		
¥7,734,312	¥5,150,725	¥2,878,020	¥3,335,020	¥423,713	¥388,231	¥19,910,021

Thousands of U.S. Dollars						
2022						
Asia and Oceania			Americas			
Japan	China	Other	United States	Other	Other	Total
\$61,085	\$60,747	\$20,873	\$32,252	\$2,028	\$4,736	\$181,721

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

b. Property, plant and equipment

Thousands of Yen				
2022				
Japan	Asia and Oceania	Americas	Other	Total
¥7,428,139	¥943,009	¥287,058	¥31,674	¥8,689,880

Thousands of Yen				
2021				
Japan	Asia and Oceania	Americas	Other	Total
¥7,153,219	¥901,865	¥278,705	¥34,058	¥8,367,847

Thousands of U.S. Dollars				
2022				
Japan	Asia and Oceania	Americas	Other	Total
\$60,682	\$7,704	\$2,345	\$259	\$70,990

(6) Information about Major Customers

2022		
Name of Customers	Thousands of Yen Sales	Related Segment Name
Mitsubishi Electric Corporation	¥1,659,250	Pumps, Electronic components
2021		
Name of Customers	Thousands of Yen Sales	Related Segment Name
Mitsubishi Electric Corporation	¥1,747,470	Pumps, Electronic components
2022		
Name of Customers	Thousands of U.S. Dollars Sales	Related Segment Name
Mitsubishi Electric Corporation	\$13,555	Pumps, Electronic components

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