Consolidated Financial Statements

for the Year Ended March 31, 2021 and Independent Auditor's Report

EIZO Corporation and Subsidiaries

EIZO Corporation

Deloitte.

Deloitte Touche Tohmatsu LLC
Marunouchi Nijubashi Building
3-2-3 Marunouchi
Chiyoda-ku, Tokyo 100-8360
Japan

Tel: +81 (3) 6213 1000
Fax: +81 (3) 6213 1005
www2.deloitte.com/jp/en

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of EIZO Corporation:

Opinion

We have audited the consolidated financial statements of EIZO Corporation and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as of March 31, 2021, 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, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

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.

Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
Valuation of goodwill of Carina Systems Corporation As stated in the consolidated balance sheet, the Group recorded goodwill of ¥1,514 million as of March 31, 2021, which was all related to Carina System Corporation. The Group acquired shares of Carina System Corporation in March 2018 to expand into the healthcare market as part of its business domain expansion. Goodwill generated at the time of the acquisition is calculated based on future sales forecasts and business plans that have been prepared based on an estimate of synergy effects such as the Group's development, production and sales using customer network. This goodwill is amortized on a regular basis. However, if it is recognized that there is an indication of impairment, it is determined whether an impairment loss is required to be recognized and, if necessary, such impairment loss is recognized. In assessing whether there is any indication that the goodwill may be impaired, the Group determines whether there is a continuing operating deficit, compares past business plans with actual results, analyzes the causes of the differences between the past business plans and the actual results, and considers future business plans. Determining whether there is an indication of impairment of goodwill and estimating the future business plan on which it is based involve, by their nature, the subjective judgments and uncertainties of management. Therefore, as it is complex and requires professional judgment, we identified it as a key audit matter.	We performed the following audit procedures, among others, to assess whether there is any indication that the goodwill may be impaired: • We evaluated the design and operating effectiveness of internal controls over review and approval in determining whether there was any indication of impairment of goodwill. • We evaluated management's ability to accurately forecast future revenues and operating margins by comparing actual results with management's historical forecasts. • In order to determine whether there was a continuing operating deficit and whether or not the business environment has significantly deteriorated or is likely to deteriorate, we compared the past business plans with the actual results, analyzed the causes of the differences, inquired of management, read the minutes of the board of directors' meetings, approval documents, and related materials. • We discussed with managements regarding sales forecasts and synergies in areas such as development, sales and production, which were important assumptions in business plans. We also determined whether the sales forecasts were consistent with the latest orders and sales activities, compared them with available external market reports, and analyzed trends with past results. Regarding synergies, we evaluated the consistency between forecasts and the status of product development, production, the latest orders received and sales activities in the Group, and analyzed trends with past results. • We inquired of the management in order to examine the impact of the stagnation of economic activity due to the spread of COVID-19 on future business plans.

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

June 24, 2021

EIZO Corporation and Subsidiaries

Consolidated Balance Sheet
March 31, 2021

ASSETS	Millions of Yen 2021	Millions of Yen 2020	Thousands of U.S. Dollars (Note 1) 2021
CURRENT ASSETS:			
Cash and cash equivalents (Note 13)	¥ 18,883	¥ 17,942	$ 171,664
Short-term investments (Notes 4 and 13)	1,000	700	9,091
Notes and accounts receivable (Note 13):			
Trade notes	42	104	382
Trade accounts	19,370	18,376	176,091
Other	256	543	2,327
Allowance for doubtful receivables	(72)	(83)	(655)
Inventories (Note 5)	31,247	29,150	284,064
Prepaid expenses and other current assets	781	691	7,100
Total current assets	71,507	67,423	650,064
PROPERTY, PLANT, AND EQUIPMENT:			
Land	3,837	3,736	34,882
Buildings and structures	20,947	18,278	190,427
Machinery and equipment	6,381	6,049	58,009
Furniture and fixtures	8,421	8,040	76,555
Right-of-use assets	1,601	496	14,555
Construction in progress	85	432	772
Total	41,272	37,031	375,200
Accumulated depreciation	(22,414)	(20,688)	(203,764)
Net property, plant, and equipment	18,858	16,343	171,436
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4 and 13)	56,149	37,580	510,445
Goodwill	1,515	1,894	13,773
Deferred tax assets (Note 9)	588	572	5,345
Other assets	1,445	1,473	13,137
Total investments and other assets	59,697	41,519	542,700
TOTAL	¥150,062	¥125,285	$1,364,200

LIABILITIES AND EQUITY	Millions of Yen 2021	Millions of Yen 2020	Thousands of U.S. Dollars (Note 1) 2021
CURRENT LIABILITIES:			
Short-term bank loans (Notes 6 and 13)	¥ 1,947	¥ 1,793	$ 17,700
Current portion of long-term debt (Notes 6 and 13)	326	228	2,964
Accounts payable (Note 13):			
Trade accounts	6,283	8,185	57,118
Other	1,876	1,820	17,055
Income taxes payable	1,818	924	16,527
Accrued expenses	4,485	4,087	40,773
Other current liabilities	1,194	1,212	10,854
Total current liabilities	17,929	18,249	162,991
LONG-TERM LIABILITIES:			
Long-term debt (Notes 6 and 13)	2,212	1,282	20,109
Liability for retirement benefits (Note 7)	3,272	3,128	29,745
Deferred tax liabilities (Note 9)	11,084	5,519	100,764
Other long-term liabilities	1,112	1,127	10,109
Total long-term liabilities	17,680	11,056	160,727
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 12 and 14)			
EQUITY (Notes 8 and 16):			
Common stock—authorized, 65,000,000 shares; issued, 22,731,160 shares in 2021 and 2020	4,426	4,426	40,236
Capital surplus	4,314	4,314	39,218
Retained earnings	76,803	72,992	698,209
Treasury stock—at cost, 1,410,935 shares in 2021 and 1,410,769 shares in 2020	(2,664)	(2,663)	(24,218)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	31,409	17,886	285,536
Foreign currency translation adjustments	43	(1,068)	392
Defined retirement benefit plans	122	93	1,109
Total equity	114,453	95,980	1,040,482
TOTAL	¥150,062	¥125,285	$1,364,200

See notes to consolidated financial statements.

EIZO Corporation and Subsidiaries

Consolidated Statement of Income
Year Ended March 31, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
NET SALES	¥76,566	¥76,481	$696,055
COST OF SALES	50,015	50,966	454,682
Gross profit	26,551	25,515	241,373
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 10 and 11)	18,616	19,074	169,237
Operating income	7,935	6,441	72,136
OTHER INCOME (EXPENSES):			
Interest and dividend income	780	712	7,091
Interest expense	(17)	(13)	(155)
Foreign exchange gain (loss)—net	89	(613)	809
Loss on valuation of investment securities (Note 4)	(273)	(155)	(2,482)
Gain on sale of investment securities (Note 4)	29		264
Other—net	28	71	255
Other income—net	636	2	5,782
INCOME BEFORE INCOME TAXES	8,571	6,443	77,918
INCOME TAXES (Note 9):			
Current	2,552	1,629	23,200
Deferred	(136)	142	(1,237)
Total income taxes	2,416	1,771	21,963
NET INCOME	6,155	4,672	55,955
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 6,155	¥ 4,672	$ 55,955
	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2.q):			
Basic net income	¥288.71	¥219.13	$2.62
Cash dividends applicable to the year	110.00	105.00	1.00

See notes to consolidated financial statements.

EIZO Corporation and Subsidiaries

Consolidated Statement of Comprehensive Income
Year Ended March 31, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
NET INCOME	¥ 6,155	¥4,672	$ 55,955
OTHER COMPREHENSIVE INCOME (LOSS) (Note 15):			
Unrealized gain (loss) on available-for-sale securities	13,523	(585)	122,936
Foreign currency translation adjustments	1,111	(558)	10,101
Defined retirement benefit plans	29	(230)	264
Total other comprehensive income (loss)	14,663	(1,373)	133,301
COMPREHENSIVE INCOME	¥20,818	¥3,299	$189,256
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO—			
Owners of the parent	¥20,818	¥3,299	$189,256

See notes to consolidated financial statements.

EIZO Corporation and Subsidiaries

Consolidated Statement of Changes in Equity
Year Ended March 31, 2021

	Thousands	Millions of Yen							
						Accumulated Other Comprehensive Income			
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total Equity
BALANCE, APRIL 1, 2019 (APRIL 1, 2019, as previously reported)	21,320	¥4,426	¥4,314	¥70,563	¥(2,663)	¥18,471	¥ (510)	¥323	¥ 94,924
Cumulative effect of accounting change				(4)					(4)
BALANCE, APRIL 1, 2019 (as restated)	21,320	4,426	4,314	70,559	(2,663)	18,471	(510)	323	94,920
Net income				4,672					4,672
Cash dividends, ¥105 per share				(2,239)					(2,239)
Purchase of treasury stock									
Net decrease in unrealized loss on available-for-sale securities						(585)			(585)
Net change in foreign currency translation adjustments							(558)		(558)
Net change in defined retirement benefit plans								(230)	(230)
BALANCE, APRIL 1, 2020	21,320	4,426	4,314	72,992	(2,663)	17,886	(1,068)	93	95,980
Net income				6,155					6,155
Cash dividends, ¥110 per share				(2,344)					(2,344)
Purchase of treasury stock					(1)				(1)
Net increase in unrealized gain on available-for-sale securities						13,523			13,523
Net change in foreign currency translation adjustments							1,111		1,111
Net change in defined retirement benefit plans								29	29
BALANCE, MARCH 31, 2021	21,320	¥4,426	¥4,314	¥76,803	¥(2,664)	¥31,409	¥ 43	¥122	¥114,453

	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	Total Equity
BALANCE, APRIL 1, 2020	$40,236	$39,218	$663,564	$(24,209)	$162,600	$ (9,709)	$ 845	$ 872,545
Net income			55,955					55,955
Cash dividends, $1.00 per share			(21,310)					(21,310)
Purchase of treasury stock				(9)				(9)
Net increase in unrealized gain on available-for-sale securities					122,936			122,936
Net change in foreign currency translation adjustments						10,101		10,101
Net change in defined retirement benefit plans							264	264
BALANCE, MARCH 31, 2021	$40,236	$39,218	$698,209	$(24,218)	$285,536	$ 392	$1,109	$1,040,482

See notes to consolidated financial statements.

EIZO Corporation and Subsidiaries

Consolidated Statement of Cash Flows
Year Ended March 31, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
OPERATING ACTIVITIES:			
Income before income taxes	¥8,571	¥6,443	$77,918
Adjustments for:			
Income taxes—paid	(1,792)	(1,256)	(16,291)
Depreciation and amortization	2,655	2,563	24,136
Amortization of goodwill	379	424	3,445
Provision of allowance for doubtful receivables	(14)	8	(127)
Foreign exchange (gain) loss—net	(234)	92	(2,127)
Loss on valuation of investment securities	273	155	2,482
Gain on investment securities sold	(29)		(264)
Changes in assets and liabilities:			
Increase in notes and accounts receivable	(401)	(1,652)	(3,645)
Increase in inventories	(1,158)	(1,311)	(10,527)
(Decrease) increase in accounts payable	(2,071)	2,545	(18,827)
Increase in accrued expenses	332	94	3,018
Increase in liability for retirement benefits	126	43	1,145
Other—net	(36)	10	(327)
Total adjustments	(1,970)	1,715	(17,909)
Net cash provided by operating activities	6,601	8,158	60,009
INVESTING ACTIVITIES:			
Purchases of property, plant, and equipment	(3,103)	(4,041)	(28,209)
Purchases of software and other long-lived assets	(414)	(246)	(3,764)
Proceeds from sales of short-term investments and investment securities	882	780	8,018
Purchases of short-term investments and investment securities	(781)	(522)	(7,100)
Decrease in other assets	83	312	755
Net cash used in investing activities	(3,333)	(3,717)	(30,300)
FINANCING ACTIVITIES:			
Repayments of long-term debt	(62)		(564)
Dividends paid	(2,346)	(2,239)	(21,327)
Repayments of lease obligations	(240)	(194)	(2,182)
Repurchases of treasury stock	(1)		(9)
Net cash used in financing activities	(2,649)	(2,433)	(24,082)
FOREIGN CURRENCY TRANSLATION ADJUSTMENT ON CASH AND CASH EQUIVALENTS	322	(165)	2,928
NET INCREASE IN CASH AND CASH EQUIVALENTS—(Forward)	¥ 941	¥1,843	$ 8,555

(Continued)

EIZO Corporation and Subsidiaries

Consolidated Statement of Cash Flows
Year Ended March 31, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
NET INCREASE IN CASH AND CASH EQUIVALENTS—(Forward)	¥ 941	¥ 1,843	$ 8,555
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	17,942	16,099	163,109
CASH AND CASH EQUIVALENTS, END OF YEAR	¥18,883	¥17,942	$171,664

See notes to consolidated financial statements.

(Concluded)

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 that is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2020 consolidated financial statements to conform to the classifications used in 2021.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which EIZO Corporation (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 ¥110 to $1, the approximate rate of exchange at March 31, 2021. 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, 2021, include the accounts of the Company and its 16 (16 in 2020) subsidiaries (together, the "Group") listed below.

Consolidated Subsidiaries	Location	Equity Ownership Percentage (%)*1
EIZO MS Corporation	Ishikawa, Japan	100
Irem Software Engineering Inc.	Tokyo, Japan	100
EIZO Support Network Corporation	Ishikawa, Japan	100
Carina System Co., Ltd.	Hyogo, Japan	100
EIZO Agency Corporation	Ishikawa, Japan	100
EIZO Engineering Corporation	Ishikawa, Japan	100
EIZO GmbH	Rülzheim, Germany	100
EIZO Technologies GmbH	Geretsried, Germany	100 (100)*2
EIZO Rugged Solutions Inc.	Altamonte Springs, FL, U.S.A.	100 (100)*2
EIZO Display Technologies (Suzhou) Co., Ltd.	Suzhou, China	100
EIZO Inc.	Cypress, CA, U.S.A.	100
EIZO Nordic AB	Väsby, Sweden	100
EIZO AG	Wädenswil, Switzerland	100
EIZO Limited	Ascot, U.K.	100
EIZO Europe GmbH	Mönchengladbach, Germany	100
EIZO Austria GmbH	Vienna, Austria	100 (100)*2

*1 As of March 31, 2021

*2 The percentages in "Equity Ownership Percentage" indicate indirect ownership ratio included in the total.

Under the control concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated.

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 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 IFRS 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 research and development ("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. ***Business Combinations***—Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the periods in which the costs are incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date. The acquirer recognizes any bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation. A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as capital surplus as long as the parent retains control over its subsidiary.

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, certificates of deposit, and commercial paper, all of 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 and by the moving-average method for raw materials, or net selling value.

f. ***Short-Term Investments and Investment Securities***—Short-term investments and investment securities are classified and accounted for, depending on management's intent, as follows: (1) trading securities, which are held for the purpose of earning capital gains in the near term, are reported at fair value, and the related unrealized gains and losses are included in earnings; and (2) available-for-sale securities, which are not classified as either trading securities or 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 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.

g. ***Property, Plant, and Equipment***—Property, plant, and equipment are stated at cost. Depreciation of property, plant, and equipment of the Company and its domestic subsidiaries is computed substantially by the declining balance method at rates based on the estimated useful lives of the assets, while the straight-line method is applied to buildings of the Company and its domestic subsidiaries acquired after April 1, 1998, buildings improvements and structures acquired on or after April 1, 2016, and all property, plant, and equipment of foreign subsidiaries. The range of useful lives is principally from 15 to 50 years for buildings and structures, from 7 to 10 years for machinery and equipment, and from 2 to 6 years for furniture and fixtures.

h. ***Goodwill***—Goodwill is amortized over 10 years or less by the straight-line method. Immaterial goodwill may be charged entirely to income at acquisition. Amortization of goodwill is ¥379 million ($3,445 thousand) and ¥424 million for the years ended March 31, 2021 and 2020, respectively.

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 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.

j. ***Retirement and Pension Plans***—The Company and certain of its domestic subsidiaries have a defined contribution pension plan and unfunded retirement benefit plans. Other domestic subsidiaries have a defined benefit pension plan and unfunded retirement benefit plans. Certain foreign subsidiaries have either a defined contribution plan or defined benefit plan. Additionally, the Company or its subsidiaries may add premium severance pay.

The Company accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a straight-line basis. Actuarial gains and losses and prior 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 five years, no longer than the expected average remaining service period of the employees. The discount rate is determined using a single weighted-average discount rate reflecting the estimated timing and amount of benefit payment.

Retirement benefits to directors and the Audit and Supervisory Committee members are recorded at the amount that would be required if the directors and the Audit and Supervisory Committee members retired at the consolidated balance sheet date. In June 2004, the retirement benefit system was abolished and the amount required to be paid at the time of the abolishment will be paid to directors and the Audit and Supervisory Committee members upon their retirement.

k. ***R&D Costs***—R&D costs are charged to income as incurred.

l. ***Software Development Contracts***—Revenue from sales of customized software and costs of development of the customized software should be recognized by the percentage-of-completion method if the outcome of a development contract can be estimated reliably. When total revenue, total costs, and the stage of completion of the contract at the consolidated balance sheet date can be reliably measured, the outcome of a development contract can be estimated reliably. If the outcome of a development contract cannot be reliably estimated, the completed contract method should be applied. When it is probable that the total costs will exceed total revenue, an estimated loss on the contract should be immediately recognized by providing for a loss on development contracts.

m. ***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 tax laws to the temporary differences.

The Group files a tax return under the consolidated corporate tax system in Japan, which allows companies to base tax payments on the combined profits or losses of the parent company and its wholly owned domestic subsidiaries.

With regard to the transition to the Group Tax Sharing System established based on "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 8, 2020) and to the items reconsidered on the Non-consolidated Tax Return Filing System in accordance with this transition to the Group Tax Sharing System, the Company and certain subsidiaries calculate the amounts of deferred tax assets and deferred tax liabilities based on the provisions of the Income Tax Act before the amendment, without applying the provisions of Paragraph 44 of the "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28, February 16, 2018) pursuant to Paragraph 3 of the "Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Tax Return Filing System to the Group Tax Sharing System" (Practical Issues Task Force No. 39, March 31, 2020).

n. ***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 to the extent that they are not hedged by forward exchange contracts.

o. ***Foreign Currency Financial Statements***—The balance sheet accounts of the 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 were shown as "Foreign currency translation adjustments" under accumulated other comprehensive income as a separate component of equity.

Revenue and expense accounts of foreign subsidiaries are translated into Japanese yen at the average exchange rate.

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

Derivative financial instruments are classified and accounted for as follows: all derivatives are recognized as either assets or liabilities and measured at fair value with gains or losses on derivative transactions recognized in the consolidated statement of income.

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.

Cash dividends per share shown in the consolidated statement of income are presented on an accrual basis, and include interim dividends paid and year-end dividends to be approved after the consolidated balance sheet date.

Diluted net income per share of common stock is not disclosed herein because the Company has not issued any securities that are potentially dilutive for the years ended March 31, 2021 and 2020.

r. ***New Accounting Pronouncements***

"Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020)

"Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 26, 2021)

"Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, March 31, 2020)

(1) *Overview*

The International Accounting Standards Board ("IASB") and the Financial Accounting Standards Board ("FASB") in the United States of America jointly developed comprehensive accounting standards for revenue recognition, and in May 2014 published "Revenue from Contracts with Customers" (IFRS 15 under IASB and Topic 606 under FASB). In light of the situation where IFRS 15 will be applied to fiscal years beginning January 1, 2018 or later, and Topic 606 will be applied to fiscal years beginning after December 15, 2017, the ASBJ has developed comprehensive accounting standards for revenue recognition and published them along with the implementation guidance.

The basic policy of the ASBJ in developing accounting standards for revenue recognition is to set accounting standards, with the incorporation of the basic principles of IFRS 15 as a starting point, from a standpoint of comparability between financial statements, which is one of the benefits of ensuring consistency with IFRS 15, and to add alternative accounting treatments without losing comparability if there is an item that should be taken into account in practices that have been conducted in Japan.

(2) *Effective date*

Effective from the beginning of the year ending March 31, 2022

(3) *Effects of the application of the standards*

The effects of these new standards on the consolidated financial statements are not significant.

"Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019)

"Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, July 4, 2019)

"Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, July 4, 2019)

"Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019)

"Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, March 31, 2020)

(1) *Overview*

Given the circumstances where the IASB and FASB have issued essentially the same detailed guidance regarding fair value measurement (IFRS 13 "Fair Value Measurement" under IASB and Topic 820 "Fair Value Measurement" of the Accounting Standards Codification under FASB), the ASBJ, working to ensure the Japanese standards would be consistent with international standards with regard in particular to the guidance and disclosure requirements of fair value of financial instruments, announced the "Accounting Standard for Fair Value Measurement" and other accounting standards.

The basic policy of the ASBJ in developing accounting standards for fair value measurement is to basically incorporate all core principles of IFRS 13, from a standpoint of improving the comparability between financial statements for domestic and international companies by using a unified calculation method, and to set individual accounting treatments without losing comparability if there is an item that should be taken into account in practices that have been conducted in Japan.

(2) *Effective date*

Effective from the beginning of the year ending March 31, 2022

(3) *Effects of the application of the standards*

The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

s. Changes in Method of Presentation

Significant accounting estimates are presented in the notes to consolidated financial statements based on the application of "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31, March 31, 2020) for the consolidated financial statements as of March 31, 2021.

However, the notes do not include comparative information of the previous consolidated fiscal year in accordance with the transitional treatment set forth in the accounting standard.

3. SIGNIFICANT ACCOUNTING ESTIMATE

Valuation of Inventories

(1) Amounts recognized in the consolidated financial statements for the year ended March 31, 2021, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Finished products	¥11,323	$102,937
Work in process	5,259	47,809
Raw materials and supplies	14,665	133,318

(2) Information on the significant accounting estimate

The necessary write-downs are recorded by estimating future cash flows that inventories will generate from estimated future sales based on market demand and net sales value. If actual market demand or net selling prices fall beyond our estimates, additional write-downs may be required.

It is difficult to objectively predict the impact of inventory valuation on the consolidated financial statements for the following fiscal year at this time. According to the past results, we estimate the maximum increase or decrease will be about 3% of total inventories. Estimates are based on information available at the end of the current fiscal year. We have made an accounting estimate that the impact of COVID-19 will take a certain period of time in the fiscal year ending March 31, 2022. However, if future sales are expected to be lower than initially estimated, the book value of the subject inventory assets may be devalued.

4. SHORT-TERM INVESTMENTS AND INVESTMENT SECURITIES

Short-term investments and investment securities as of March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Short-term investments:			
Debt securities	¥ 1,000	¥ 200	$ 9,091
Others		500	
Total	¥ 1,000	¥ 700	$ 9,091
Investment securities:			
Marketable equity securities	¥55,805	¥36,134	$507,318
Nonmarketable equity securities	44	150	400
Debt securities	300	1,296	2,727
Total	¥56,149	¥37,580	$510,445

The cost and aggregate fair value of short-term investments and investment securities at March 31, 2021 and 2020, were as follows:

	Millions of Yen			
March 31, 2021	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available for sale:				
Equity securities	¥10,850	¥45,546	¥ 591	¥55,805
Debt securities	1,300		1	1,299
Others				
Total	¥12,150	¥45,546	¥ 592	¥57,104
March 31, 2020				
Securities classified as:				
Available for sale:				
Equity securities	¥10,389	¥27,245	¥1,500	¥36,134
Debt securities	1,500		4	1,496
Others	500			500
Total	¥12,389	¥27,245	¥1,504	¥38,130

March 31, 2021	Cost	Unrealized Gains	Unrealized Losses	Fair Value
	Thousands of U.S. Dollars			
Securities classified as:				
Available for sale:				
Equity securities	$ 98,637	$ 414,055	$ 5,374	$ 507,318
Debt securities	11,818		9	11,809
Others				
Total	$ 110,455	$ 414,055	$ 5,383	$ 519,127

The proceeds from sales of available-for-sale securities for the year ended March 31, 2021, were ¥184 million ($1,673 thousand). The gross realized gains on these sales for the year ended March 31, 2021, were ¥30 million ($273 thousand).

The impairment loss on available-for-sale equity securities for the years ended March 31, 2021, was ¥273 million ($2,481 thousand).

5. INVENTORIES

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

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Finished products	¥ 11,323	¥ 10,839	$ 102,937
Work in process	5,259	4,481	47,809
Raw materials and supplies	14,665	13,830	133,318
Total	¥ 31,247	¥ 29,150	$ 284,064

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

Short-term bank loans at March 31, 2021 and 2020, consisted of notes to banks. The weighted-average annual interest rate applicable to the short-term bank loans was 0.07% at March 31, 2021 and 2020.

Long-term debt at March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Loans from banks, due 2030, with interest rates of 0.15% at March 31, 2021 and 2020	¥ 1,233	¥ 1,197	$ 11,209

Annual maturities of long-term debt, as of March 31, 2021, for the next five years and thereafter were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2022	¥ 130	$ 1,182
2023	130	1,182
2024	130	1,182
2025	130	1,182
2026	130	1,182
2027 and thereafter	583	5,299
Total	¥1,233	$11,209

7. RETIREMENT AND PENSION PLANS

The Company and certain of its subsidiaries have severance payment plans for employees, directors, and the Audit and Supervisory Committee members.

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 given in the form of a lump-sum severance payment from the Company or from certain subsidiaries and annuity payments from the Company, certain subsidiaries, or a trustee. Employees of the Company or certain subsidiaries are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age.

(1) The changes in defined benefit obligation for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Balance at beginning of year	¥4,000	¥3,712	$36,364
Current service cost	242	241	2,200
Interest cost	12	19	109
Actuarial (gains) losses	(53)	192	(482)
Benefits paid	(80)	(110)	(727)
Prior service cost	(4)	(4)	(36)
Others	128	(50)	1,163
Balance at end of year	¥4,245	¥4,000	$38,591

(2) The changes in plan assets for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Balance at beginning of year	¥ 974	¥985	$8,855
Expected return on plan assets	14	22	127
Actuarial gains (losses)	47	(46)	427
Contributions from the employer	25	34	227
Benefits paid	(23)	(15)	(209)
Others	38	(6)	346
Balance at end of year	¥1,075	¥974	$9,773

(3) A reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets as of March 31, 2021 and 2020, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Funded defined benefit obligation	¥2,068	¥1,902	$18,800
Plan assets	(1,075)	(974)	(9,773)
Total	993	928	9,027
Unfunded defined benefit obligation	2,177	2,098	19,791
Net liability for defined benefit obligation	¥3,170	¥3,026	$28,818

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Liability for retirement benefits	¥3,170	¥3,026	$28,818
Net liability for defined benefit obligation	¥3,170	¥3,026	$28,818

(4) The components of net periodic benefit costs for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Service cost	¥242	¥241	$2,200
Interest cost	12	19	109
Expected return on plan assets	(14)	(22)	(127)
Recognized actuarial gains	(43)	(33)	(391)
Amortization of prior service cost	(4)	(4)	(36)
Others	30	43	272
Net periodic benefit costs	¥223	¥244	$2,027

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

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Actuarial (gains) losses	¥(19)	¥288	$(172)
Prior service cost	(8)	(12)	(73)
Total	¥(27)	¥276	$(245)

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

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Unrecognized actuarial gains	¥ (157)	¥ (138)	$ (1,427)
Unrecognized prior service cost	(8)	(12)	(73)
Total	¥ (165)	¥ (150)	$ (1,500)

(7) Plan assets

a. Components of plan assets

Plan assets as of March 31, 2021 and 2020, consisted of the following:

	2021	2020
Debt investments	51%	52%
Equity investments	16	12
Cash and cash equivalents	5	5
Others	28	31
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.

(8) Assumptions used for the years ended March 31, 2021 and 2020, are set forth as follows:

	2021	2020
Discount rate	0.3%–1.0%	0.2%–0.9%
Expected rate of return on plan assets	2.8%	4.3%

The expected raise rate is based on the index of the raise calculated by age as of March 31, 2018.

(9) Defined contribution plan

The required contribution amounts of the Group for the years ended March 31, 2021 and 2020, were ¥269 million ($2,445 thousand) and ¥248 million, respectively.

The liability for retirement benefits at March 31, 2021 and 2020, for directors and the Audit and Supervisory Committee members was ¥102 million ($927 thousand).

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. With respect to the third condition above, the board of directors of companies with an audit and supervisory committee (as implemented under the Companies Act effective May 1, 2015) may also declare dividends at any time because such companies, by their nature, meet the criteria under the Companies Act. The Company is organized as a company with an audit and supervisory committee, effective June 23, 2016. The Company meets all 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 certain limitations 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 the 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 that, in the aggregate, resulted in normal effective statutory tax rates of approximately 30.4% and 30.5% for the years ended March 31, 2021 and 2020, respectively.

The tax effects of significant temporary differences and tax loss carryforwards that resulted in deferred tax assets and liabilities at March 31, 2021 and 2020, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Deferred tax assets:			
Inventories	¥ 825	¥ 788	$ 7,500
Liability for retirement benefits	850	840	7,727
Tax loss carryforwards	1,059	718	9,627
Accrued expenses	887	831	8,064
Other	1,236	1,431	11,237
Less valuation allowance	(1,736)	(1,574)	(15,782)
Total	3,121	3,034	28,373
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	(13,547)	(7,856)	(123,155)
Other	(71)	(125)	(645)
Total	(13,618)	(7,981)	(123,800)
Net deferred tax liabilities	¥(10,497)	¥(4,947)	$ (95,427)

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, with the corresponding figures for 2020, is as follows:

	2021	2020
Normal effective statutory tax rate	30.4%	30.5%
Tax credit for research expenses	(2.6)	(4.3)
Increase (decrease) in valuation	2.0	(1.1)
Amortization of goodwill	1.5	2.2
Other—net	(3.1)	0.2
Actual effective tax rate	28.2%	27.5%

10. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended March 31, 2021 and 2020, principally consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Salaries for employees	¥6,217	¥6,001	$56,518
Provision for bonuses	441	400	4,009
Retirement benefit expenses	248	241	2,255
Provision for product warranty liabilities	520	509	4,727
R&D expenses	5,334	5,727	48,491
Provision for loss on recycling of monitors	(5)	(34)	(45)
Provision of allowance for doubtful accounts	(4)	4	(36)

11. R&D COSTS

R&D costs charged to income were ¥5,643 million ($51,300 thousand) and ¥5,993 million for the years ended March 31, 2021 and 2020, respectively.

12. LEASES

The minimum rental commitments under noncancelable operating leases at March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Due within one year	¥ 60	¥ 55	$545
Due after one year	46	60	418
Total	¥106	¥115	$963

13. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) *Group Policy for Financial Instruments*

The Group uses financial instruments based on its capital expenditure plan. Cash surpluses, if any, are invested in low-risk financial assets. 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 risk of fluctuation in foreign currency exchange rates, the position, net of payables in foreign currencies, is hedged by using forward foreign currency contracts. Short-term investment and investment securities, mainly equity instruments of customers and suppliers of the Group, debt securities and funds in trust are exposed to credit risk and the risk of fluctuation in market price and interest rate.

All payment terms of payables, such as trade accounts, are within one year. Although payables in foreign currencies are exposed to the 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.

Short-term bank loans are used to hedge the exchange risk for nontrade receivables denominated in foreign currency. The payment term is within three months after the consolidated balance sheet date. The long-term bank loan is used to finance for construction of new buildings at EIZO GmbH which is a consolidated subsidiary. All the loans are traded in foreign currency and have variable interest rates. Thus, they are exposed to the market risk of fluctuation in exchange rates and interest rates.

Derivatives mainly include forward foreign currency contracts that are used to manage exposure to risk of changes in foreign currency exchange rates of receivables and payables. Please see Note 14 for more details about derivatives.

(**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 on the basis of internal guidelines, which include monitoring of payment terms and balances of major customers by each business administration department to identify the default risk of customers at an early stage. With respect to debt securities, the Group manages its exposure to credit risk by limiting its funding to high credit rating bonds in accordance with in its internal guidelines. Please see Note 14 for information about derivatives.

The maximum credit risk exposure of financial assets is limited to their carrying amounts as of March 31, 2021.

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

Foreign currency trade receivables, payables, short-term bank loans, and long-term debt are exposed to fluctuations in foreign currency exchange rates. Such foreign exchange rate risk is hedged occasionally by forward foreign currency contracts.

Marketable and investment securities are managed by monitoring the market values and financial position of issuers on a regular basis.

The basic policies regarding derivative transactions have been approved by the director in charge of accounting based on internal guidelines that prescribe the authority and the limit for each transaction by the corporate treasury department. Reconciliation of the transactions and balances with customers is made and the transaction data is reported to the director in charge of accounting on a monthly basis.

Liquidity risk management

Liquidity risk comprises the risk that the Group cannot meet its contractual obligations in full on 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**) ***Concentration of Credit Risk***

As of March 31, 2021, 17.9% of total receivables are from specific major customers of the Group.

(5) ***Fair Values of Financial Instruments***

Fair values of financial instruments are based on quoted prices in active markets. If quoted prices are not available, other rational valuation techniques are used instead.

(*a*) *Fair value of financial instruments*

	Millions of Yen		
March 31, 2021	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥18,883	¥18,883	
Notes and accounts receivable	19,668		
Allowance for doubtful receivables	(72)		
Notes and accounts receivable (net)	19,596	19,596	
Short-term investments and investment securities	57,105	57,105	
Total	¥95,584	¥95,584	
Accounts payable	¥ 8,159	¥ 8,159	
Short-term bank loans	1,947	1,947	
Long-term bank loan	1,233	1,233	
Total	¥11,339	¥11,339	
Derivatives	¥ (44)	¥ (44)	
March 31, 2020			
Cash and cash equivalents	¥17,942	¥17,942	
Notes and accounts receivable	19,023		
Allowance for doubtful receivables	(83)		
Notes and accounts receivable (net)	18,940	18,940	
Short-term investments and investment securities	38,130	38,130	
Total	¥75,012	¥75,012	
Accounts payable	¥10,005	¥10,005	
Short-term bank loans	1,793	1,793	
Long-term bank loan	1,196	1,196	
Total	¥12,994	¥12,994	
Derivatives	¥ (10)	¥ (10)	

March 31, 2021	Thousands of U.S. Dollars Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	$ 171,664	$ 171,664	
Notes and accounts receivable	178,800		
Allowance for doubtful receivables	(655)		
Notes and accounts receivable (net)	178,145	178,145	
Short-term investments and investment securities	519,136	519,136	
Total	$ 868,945	$ 868,945	
Accounts payable	$ 74,173	$ 74,173	
Short-term bank loans	17,700	17,700	
Long-term bank loan	11,209	11,209	
Total	$ 103,082	$ 103,082	
Derivatives	$ (400)	$ (400)	

Cash and Cash Equivalents

The carrying values of cash and cash equivalents approximate fair value because of their short maturities.

Notes and Accounts Receivable

The carrying values of notes and accounts receivable approximate fair value because of their short-term settlement periods. The allowance for doubtful receivables is deducted from notes and accounts receivable.

Short-Term Investments and Investment Securities

The fair values of short-term investments and investment securities are measured at the quoted market price of the stock exchange for equity instruments and at the quoted price obtained from financial institutions for certain debt instruments. Fair value information for the short-term investments and investment securities by classification is included in Note 4.

Accounts Payable and Short-Term Bank Loans

The carrying values of accounts payable and short-term bank loans approximate fair value because of their short-term settlement periods.

Long-Term Bank Loan

As those with variable interest rates reflect market interest rates within a short period of time and the EIZO Corporation's credit capability is not different markedly from the execution, the fair value is approximately the same as the book value and thus is stated at that carrying value.

Derivatives

Fair value information for derivatives is included in Note 14.

(*b*) *Carrying amount of financial instruments whose fair value cannot be reliably determined*

	Millions of Yen 2021	Millions of Yen 2020	Thousands of U.S. Dollars 2021
Investments in equity instruments that do not have a quoted market price in an active market	¥44	¥150	$400
Debt securities that do not have a quoted market price in an active market			

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

	Millions of Yen			
March 31, 2021	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	¥18,881			
Receivables	19,668			
Investment securities—Debt securities	1,000	¥ 300		
Total	¥39,549	¥ 300		
March 31, 2020				
Cash and cash equivalents	¥17,939			
Receivables	19,023			
Investment securities:				
Debt securities	200	¥1,300		
Others	500			
Total	¥37,662	¥1,300		

	Thousands of U.S. Dollars			
March 31, 2021	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	$171,645			
Receivables	178,800			
Investment securities—Debt securities	9,091	$2,727		
Total	$359,536	$2,727		

14. DERIVATIVES

The Group enters into derivative contracts, including foreign currency forward contracts, to hedge foreign exchange rate risk associated with certain assets and liabilities denominated in foreign currencies.

All derivative transactions are entered into to hedge foreign currency exposures incorporated within the Group's business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities.

Because the counterparties to these derivatives are limited to major international financial institutions, the Group does not anticipate any losses arising from credit risk.

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

Derivative Transactions to Which Hedge Accounting Is Not Applied

Derivative transactions to which hedge accounting is not applied at March 31, 2021 and 2020, were as follows:

	Millions of Yen			
March 31, 2021	Contract Amount	Contract Amount Due after 1 Year	Fair Value	Unrealized Gain/Loss
Foreign currency forward contracts— Selling Euro	¥2,099		¥(44)	¥(44)
March 31, 2020				
Foreign currency forward contracts— Selling Euro	¥2,486		¥(10)	¥(10)

	Thousands of U.S. Dollars			
March 31, 2021	Contract Amount	Contract Amount Due after 1 Year	Fair Value	Unrealized Gain/Loss
Foreign currency forward contracts— Selling Euro	$19,082		$(400)	$(400)

The fair value of derivative transactions is measured at the quoted price obtained from financial institutions.

15. OTHER COMPREHENSIVE INCOME (LOSS)

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

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Unrealized gain (loss) on available-for-sale securities:			
Gains (losses) arising during the year	¥18,971	¥ (813)	$172,464
Reclassification adjustments to profit or loss	244	6	2,218
Amount before income tax effect	19,215	(807)	174,682
Income tax effect	(5,692)	222	(51,746)
Total	¥13,523	¥ (585)	$122,936
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ 1,111	¥ (558)	$ 10,101
Amount before income tax effect	1,111	(558)	10,101
Total	¥ 1,111	¥ (558)	$ 10,101
Defined retirement benefit plans:			
Adjustments arising during the year	¥ 64	¥ (275)	$ 582
Reclassification adjustments to profit or loss	(37)	(2)	(336)
Amount before income tax effect	27	(277)	246
Income tax effect	2	47	18
Total	¥ 29	¥ (230)	$ 264
Total other comprehensive income (loss)	¥14,663	¥(1,373)	$133,301

16. SUBSEQUENT EVENT

The following appropriation of retained earnings at March 31, 2021, was approved at the board of directors' meeting held on May 20, 2021:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥60 ($0.5) per share	¥1,279	$11,627

17. 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 is primarily engaged in the manufacture, development, and sale of visual products and related products. The Group consists of this single industry, and therefore, it is not required to disclose separate financial information by segment.

(**2**) ***Information about Products and Services***

	Millions of Yen						
	2021						
	Business & Plus	Healthcare	Creative Work	Vertical & Specific	Amusement	Other	Total
Sales to external customers	¥16,865	¥26,925	¥5,486	¥8,665	¥14,446	¥4,179	¥76,566

	Millions of Yen						
	2020						
	Business & Plus	Healthcare	Creative Work	Vertical & Specific	Amusement	Other	Total
Sales to external customers	¥16,409	¥29,390	¥5,346	¥10,403	¥9,608	¥5,325	¥76,481

	Thousands of U.S. Dollars						
	2021						
	Business & Plus	Healthcare	Creative Work	Vertical & Specific	Amusement	Other	Total
Sales to external customers	$153,318	$244,773	$49,873	$78,773	$131,327	$37,991	$696,055

(**3**) ***Information about Geographical Areas***

(*a*) *Sales*

Millions of Yen				
2021				
Japan	Europe	North America	Other	Total
¥39,504	¥27,724	¥5,157	¥4,181	¥76,566

Millions of Yen				
2020				
Japan	Europe	North America	Other	Total
¥37,127	¥27,112	¥7,912	¥4,330	¥76,481

Thousands of U.S. Dollars				
2021				
Japan	Europe	North America	Other	Total
$ 359,127	$ 252,036	$ 46,882	$ 38,010	$ 696,055

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

(*b*) *Property, plant, and equipment*

Millions of Yen				
2021				
Japan	Europe	North America	Other	Total
¥12,065	¥6,712	¥36	¥45	¥18,858

Millions of Yen				
2020				
Japan	Europe	North America	Other	Total
¥11,224	¥4,999	¥49	¥71	¥16,343

Thousands of U.S. Dollars				
2021				
Japan	Europe	North America	Other	Total
$ 109,682	$ 61,018	$ 327	$ 409	$ 171,436

(**4**) ***Information about Major Customers***

	Millions of Yen
	2021
Name of Customers	Sales
JT Japan Technicals	¥17,200

	Millions of Yen
	2020
Name of Customers	Sales
JT Japan Technicals	¥13,454

	Thousands of U.S. Dollars
	2021
Name of Customers	Sales
JT Japan Technicals	$ 156,364

* * * * * *