

## Financial Information

### 1. Basis of preparing consolidated financial statements and non-consolidated financial statements

- (1) Nippon Carbon Co., Ltd. (the “Company”) prepares its consolidated financial statements in accordance with the Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (Ministry of Finance Order No. 28 of 1976).
- (2) The Company prepares its non-consolidated financial statements in accordance with the Regulation on Terminology, Forms, and Preparation Methods of Financial Statements (Ministry of Finance Order No. 59 of 1963; the “Regulation on Financial Statements”).  
Furthermore, the Company is a special company submitting financial statements, and prepares its non-consolidated financial statements pursuant to the provisions of Article 127 of the Regulation on Financial Statements.

### 2. Independent audit

The Company’s consolidated and non-consolidated financial statements for the fiscal year ended December 31, 2023 (from January 1, 2023, to December 31, 2023) were audited by Deloitte Touche Tohmatsu LLC, pursuant to the provisions of Article 193-2, paragraph (1) of the Financial Instruments and Exchange Act.

### 3. Extra measures to ensure fair presentation of consolidated financial statements and other information

The Company takes extra measures to ensure fair presentation of consolidated financial statements and other information. Specifically, the Company strives to understand and properly address changes in accounting systems and details of accounting standards by maintaining membership in the Financial Accounting Standards Foundation, attending seminars held by audit firms and other external organizations, subscribing to accounting magazines, and other means.

# 1. Consolidated Financial Statements and Other Information

## (1) Consolidated Financial Statements

### (i) Consolidated Balance Sheets

(Millions of yen)

	As of December 31, 2022	As of December 31, 2023
<b>Assets</b>		
Current assets		
Cash and deposits	18,322	14,527
Notes and accounts receivable - trade, and contract assets	*3, *4 11,922	*3, *4 13,581
Merchandise and finished goods	8,661	10,760
Work in process	4,408	4,555
Raw materials and supplies	3,447	3,545
Income taxes refund receivable	16	—
Other	781	459
Allowance for doubtful accounts	(14)	(12)
Total current assets	47,546	47,416
Non-current assets		
Property, plant and equipment		
Buildings and structures	17,494	17,608
Accumulated depreciation and impairment	(10,677)	(11,146)
Buildings and structures, net	6,817	6,462
Machinery and equipment	48,024	49,318
Accumulated depreciation and impairment	(39,629)	(41,059)
Machinery and equipment, net	8,394	8,259
Vehicles, tools, furniture and fixtures	3,558	3,803
Accumulated depreciation and impairment	(3,018)	(3,225)
Vehicles, tools, furniture and fixtures, net	540	578
Land	3,553	3,565
Construction in progress	197	732
Total property, plant and equipment	*2 19,502	*2 19,599
Intangible assets	240	215
Investments and other assets		
Investment securities	*1 4,566	*1 8,667
Deferred tax assets	434	514
Other	*1 1,893	*1 2,057
Allowance for doubtful accounts	(2)	(3)
Total investments and other assets	6,892	11,235
Total non-current assets	26,635	31,049
Total assets	74,181	78,466

(Millions of yen)

	As of December 31, 2022	As of December 31, 2023
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable - trade	* <sup>3</sup> 5,416	* <sup>3</sup> 4,926
Short-term borrowings	* <sup>2</sup> 8,892	* <sup>2</sup> 8,576
Accrued expenses	579	635
Income taxes payable	1,271	1,410
Advances received	801	454
Provision for bonuses	223	236
Provision for bonuses for directors (and other officers)	74	72
Provision for loss on orders received	0	—
Other	* <sup>3</sup> 1,915	* <sup>3</sup> 1,609
Total current liabilities	19,175	17,923
Non-current liabilities		
Long-term borrowings	200	278
Deferred tax liabilities	274	1,254
Retirement benefit liability	784	766
Provision for retirement benefits for directors (and other officers)	19	32
Provision for share awards for directors (and other officers)	85	104
Provision for environmental measures	0	0
Asset retirement obligations	62	62
Other	369	361
Total non-current liabilities	1,795	2,861
Total liabilities	20,971	20,784
<b>Net assets</b>		
Shareholders' equity		
Share capital	7,402	7,402
Capital surplus	7,858	7,858
Retained earnings	30,744	32,586
Treasury shares	(2,012)	(2,012)
Total shareholders' equity	43,992	45,835
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,493	3,421
Deferred gains or losses on hedges	—	(1)
Foreign currency translation adjustment	170	258
Remeasurements of defined benefit plans	(93)	(57)
Total accumulated other comprehensive income	1,570	3,620
Non-controlling interests	7,647	8,226
Total net assets	53,210	57,681
<b>Total liabilities and net assets</b>	<b>74,181</b>	<b>78,466</b>

## (ii) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

## Consolidated Statements of Income

(Millions of yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Net sales	*1 35,799	*1 37,867
Cost of sales	*2, *4 25,950	*2, *4 26,016
Gross profit	9,849	11,850
Selling, general and administrative expenses	*3, *4 5,058	*3, *4 5,276
Operating profit	4,791	6,573
Non-operating income		
Interest income	1	3
Dividend income	130	176
Foreign exchange gains	250	227
Share of profit of entities accounted for using equity method	79	146
Insurance claim income	223	*5 185
Other	155	140
Total non-operating income	840	879
Non-operating expenses		
Interest expenses	52	44
Loss on retirement of non-current assets	156	87
Depreciation of inactive non-current assets	146	146
Loss on disaster	78	—
Other	155	59
Total non-operating expenses	589	337
Ordinary profit	5,042	7,115
Extraordinary income		
Gain on sale of investment securities	183	22
Total extraordinary income	183	22
Extraordinary losses		
Loss of fire	—	*5 158
Total extraordinary losses	—	158
Profit before income taxes	5,225	6,979
Income taxes - current	1,812	2,197
Income taxes - deferred	(232)	34
Total income taxes	1,579	2,232
Profit	3,646	4,747
Profit attributable to non-controlling interests	451	696
Profit attributable to owners of parent	3,194	4,050

# Consolidated Statements of Comprehensive Income

(Millions of yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Profit	3,646	4,747
Other comprehensive income		
Valuation difference on available-for-sale securities	(377)	1,930
Deferred gains or losses on hedges	—	(1)
Foreign currency translation adjustment	74	141
Remeasurements of defined benefit plans, net of tax	(33)	36
Total other comprehensive income	* (336)	* 2,107
Comprehensive income	3,309	6,854
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,831	6,101
Comprehensive income attributable to non-controlling interests	478	753

## (iii) Consolidated Statements of Changes in Equity

Fiscal year ended December 31, 2022

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	7,402	7,857	29,805	(2,011)	43,054
Cumulative effects of changes in accounting policies			(46)		(46)
Restated balance	7,402	7,857	29,759	(2,011)	43,007
Changes during period					
Dividends of surplus			(2,208)		(2,208)
Profit attributable to owners of parent			3,194		3,194
Purchase of treasury shares				(1)	(1)
Disposal of treasury shares		0		0	0
Net changes in items other than shareholders' equity					—
Total changes during period	—	0	985	(0)	984
Balance at end of period	7,402	7,858	30,744	(2,012)	43,992

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	1,868	—	124	(59)	1,932	7,270	52,257
Cumulative effects of changes in accounting policies					—		(46)
Restated balance	1,868	—	124	(59)	1,932	7,270	52,211
Changes during period							
Dividends of surplus					—		(2,208)
Profit attributable to owners of parent					—		3,194
Purchase of treasury shares					—		(1)
Disposal of treasury shares					—		0
Net changes in items other than shareholders' equity	(374)	—	45	(33)	(362)	376	13
Total changes during period	(374)	—	45	(33)	(362)	376	998
Balance at end of period	1,493	—	170	(93)	1,570	7,647	53,210

Fiscal year ended December 31, 2023

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	7,402	7,858	30,744	(2,012)	43,992
Changes during period					
Dividends of surplus			(2,208)		(2,208)
Profit attributable to owners of parent			4,050		4,050
Purchase of treasury shares				(3)	(3)
Disposal of treasury shares		–		4	4
Net changes in items other than shareholders' equity					–
Total changes during period	–	–	1,841	0	1,842
Balance at end of period	7,402	7,858	32,586	(2,012)	45,835

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	1,493	–	170	(93)	1,570	7,647	53,210
Changes during period							
Dividends of surplus					–		(2,208)
Profit attributable to owners of parent					–		4,050
Purchase of treasury shares					–		(3)
Disposal of treasury shares					–		4
Net changes in items other than shareholders' equity	1,927	(1)	87	36	2,050	579	2,629
Total changes during period	1,927	(1)	87	36	2,050	579	4,471
Balance at end of period	3,421	(1)	258	(57)	3,620	8,226	57,681

## (iv) Consolidated Statements of Cash Flows

(Millions of yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Cash flows from operating activities		
Profit before income taxes	5,225	6,979
Depreciation	2,484	2,666
Increase (decrease) in retirement benefit liability	(40)	35
Increase (decrease) in provision for retirement benefits for directors (and other officers)	(36)	13
Interest and dividend income	(131)	(180)
Insurance claim income	(223)	(185)
Interest expenses	52	44
Share of loss (profit) of entities accounted for using equity method	(79)	(146)
Loss (gain) on sale of investment securities	(183)	(22)
Loss on disaster	78	—
Loss of fire	—	158
Loss on retirement of non-current assets	156	87
Decrease (increase) in trade receivables, and contract assets	(273)	(1,578)
Decrease (increase) in inventories	(1,083)	(2,243)
Increase (decrease) in trade payables	1,509	(499)
Increase (decrease) in accrued expenses	63	(103)
Increase (decrease) in accounts payable - other	(209)	92
Increase (decrease) in advances received	248	(346)
Decrease (increase) in accounts receivable - other	(205)	357
Other, net	(396)	(217)
Subtotal	6,955	4,910
Interest and dividends received	166	221
Interest paid	(52)	(45)
Income taxes refund	29	24
Income taxes paid	(1,604)	(2,119)
Proceeds from insurance income	304	197
Net cash provided by (used in) operating activities	5,798	3,189
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,775)	(3,056)
Purchase of intangible assets	(67)	(55)
Purchase of investment securities	(6)	(1,343)
Proceeds from sale of investment securities	247	28
Net cash provided by (used in) investing activities	(1,601)	(4,426)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(300)	800
Proceeds from long-term borrowings	100	300
Repayments of long-term borrowings	(1,275)	(1,337)
Net decrease (increase) in treasury shares	(0)	0
Dividends paid	(2,206)	(2,203)
Dividends paid to non-controlling interests	(94)	(174)
Net cash provided by (used in) financing activities	(3,777)	(2,614)
Effect of exchange rate change on cash and cash equivalents	37	57
Net increase (decrease) in cash and cash equivalents	456	(3,794)
Cash and cash equivalents at beginning of period	17,720	18,177
Cash and cash equivalents at end of period	* 18,177	* 14,382



## Notes to Consolidated Financial Statements

### Basis of Preparation of Consolidated Financial Statements

#### 1. Scope of consolidation

The Company has nine consolidated subsidiaries, namely Nippon Techno-Carbon Co., Ltd., Nippon Carbon Engineering Co., Ltd., NGS Advanced Fibers Co., Ltd., NTC Machining Co., Ltd., Central Carbon Co., Ltd., Nikka-en Co., Ltd., Nippon Carbon Europe GmbH, NIPPON CARBON OF AMERICA, LLC, and Nippon Carbon Shanghai Co., Ltd.

The Company's subsidiary STS Co., Ltd. is excluded from the scope of consolidation, because it is small in scale and the aggregate amounts of its total assets, net sales, profit or loss (the Company's share), and retained earnings (the Company's share) do not have a material impact on the Company's consolidated financial statements.

#### 2. Application of equity method

Number of associates accounted for using the equity method: one company

Nippon Kornmeyer Carbon Group GmbH is accounted for using the equity method.

The non-consolidated subsidiary as well as the Company's associate Toho Tanso Kogyo Co., Ltd. are not accounted for using the equity method, because their exclusion from the scope of equity method application has a minimal impact on the Company's consolidated financial statements and they are immaterial given their profit or loss (the Company's share) and retained earnings (the Company's share).

#### 3. Fiscal year of consolidated subsidiaries

All consolidated subsidiaries have the same fiscal year as the consolidated fiscal year.

#### 4. Accounting policies

##### (1) Valuation basis and methods for significant assets

###### (i) Securities

Available-for-sale securities

Securities other than equity securities, etc. without market value

Stated at fair value based on the market price on the consolidated balance sheet date.

(Valuation differences are booked directly in a separate component of net assets, and cost of securities sold is determined by the moving average method)

Equity securities, etc. without market value

Stated at cost determined by the moving average method.

###### (ii) Inventories

Generally stated at cost, determined by the periodic average method (carrying amounts calculated with consideration of write-downs due to decreased profitability).

###### (iii) Net receivables and payables arising from derivatives

Stated at fair value.

##### (2) Accounting methods for depreciation and amortization of significant depreciable assets

###### (i) Property, plant and equipment (excluding leased assets)

The Company and its domestic consolidated subsidiaries Nippon Carbon Engineering Co., Ltd., NGS Advanced Fibers Co., Ltd., and Nikka-en Co., Ltd. use the straight-line method. Domestic consolidated subsidiaries Nippon Techno-Carbon Co., Ltd. and NTC Machining Co., Ltd. use the straight-line method for buildings and structures and the declining balance method for other depreciable assets. Overseas consolidated subsidiaries Central Carbon Co., Ltd., Nippon Carbon Europe GmbH, NIPPON CARBON

OF AMERICA, LLC, and Nippon Carbon Shanghai Co., Ltd. use the straight-line method. Major useful lives are as follows:

Buildings and structures: 10 to 50 years

Machinery and equipment: 9 years

(ii) Intangible assets (excluding leased assets)

Software (for internal use)

For amortization of software, the straight-line method based on the estimated internal use period (five years) is applied.

(iii) Leased assets

Leased assets related to finance lease transactions that transfer ownership

The same depreciation method is used as that applied to non-current assets owned by the Company.

(3) Accounting policy for significant allowance and provisions

(i) Allowance for doubtful accounts

To allow for losses on bad debts arising from trade receivables, loans receivable, and other receivables, the Company provides an allowance for the estimated amount of doubtful receivables deemed uncollectible. This allowance is based on historical default rates for general receivables and on an individual analysis of collectability for doubtful receivables and other specific receivables.

(ii) Provision for bonuses

To allow for payment of bonuses to employees, the Company records a provision for the estimated payment amount to be borne in the fiscal year under review.

(iii) Provision for bonuses for directors (and other officers)

To allow for payment of bonuses to Directors and other officers, the Company records a provision for the estimated payment amount to be borne in the fiscal year under review.

(iv) Provision for loss on orders received

To allow for future losses on contractual orders received, Nippon Carbon Engineering Co., Ltd., a consolidated subsidiary of the Company, records a provision for estimated losses that would be incurred in future fiscal years.

(v) Provision for retirement benefits for directors (and other officers)

To allow for payment of retirement benefits to Directors and other officers, some of the consolidated subsidiaries record a provision for amounts required to be paid as of the end of each fiscal year based on regulations on officer retirement benefits.

(vi) Provision for share awards for directors (and other officers)

To allow for granting of the Company's shares to Directors and other officers based on regulations for granting of shares to officers, the Company records a provision for the estimated granting amount to be borne as of the end of the fiscal year under review.

(vii) Provision for environmental measures

To allow for future expenses on treatment of polychlorinated biphenyl (PCB) wastes expected to be incurred pursuant to the Act on Special Measures concerning Promotion of Proper Treatment of PCB Wastes, the Company and its consolidated subsidiary Nippon Techno-Carbon Co., Ltd. record provisions for estimated amounts required.

(4) Accounting methods for retirement benefits

(i) Method of attributing expected retirement benefits to periods

In the calculation of retirement benefit obligations, expected retirement benefits are attributed to the period up to the end of the current fiscal year on a benefit formula basis.

(ii) Method of amortizing actuarial gains and losses and past service cost

Past service cost is primarily amortized using the straight-line method over a certain period (13 years) that is shorter than the average remaining years of service of employees at the time of incurring the cost. Actuarial gains and losses are primarily amortized using the straight-line method over a certain period (10 years) that is shorter than the average remaining years of service of employees at the time of accruing the gain or loss in each fiscal year, from the fiscal year following the accrual of each gain or loss. Unrecognized actuarial gains and losses and unrecognized past service cost are recorded as remeasurements of defined benefit plans in accumulated other comprehensive income under net assets, after adjusting for tax effects.

(iii) Application of simplified accounting method used by consolidated subsidiaries

The Company's consolidated subsidiaries use the simplified accounting method in calculating retirement benefit liability and retirement benefit expenses.

(5) Accounting policy for recognition of significant revenues and expenses

Revenues of the Group primarily come from the sale of its products. The performance obligations are fully satisfied when goods or services are delivered. For transactions in Japan, paragraph 98 of the "Implementation Guidance on Accounting Standard for Revenue Recognition" is applied to recognize revenue at the time of shipment of products. As for export transactions, revenue is recognized at the time of transfer of risks to customers based on the trade terms provided in the Incoterms and others. With respect to revenues of subsidiaries, performance obligations for construction work contracts are satisfied over a certain period of time. For such contracts, the degree of completion of performance obligations is reasonably estimated to recognize revenue over a certain period of time. Where the degree of completion of performance obligations under relevant contracts cannot be reasonably estimated, the cost recovery method based on incurred costs expected to be recovered is used to recognize revenue. Promised consideration is collected generally within six months from the time of satisfaction of relevant performance obligations. Further, no material financing factors are included in consideration for transactions.

(6) Accounting policy for translation of significant foreign currency assets and liabilities into Japanese yen

Monetary receivables and payables in foreign currencies are translated into Japanese yen at the spot exchange rate prevailing as of the consolidated balance sheet date, and translation differences are accounted for as profit or loss. Assets, liabilities, income, and expenses of overseas subsidiaries are translated into Japanese yen at the spot exchange rate prevailing as of the consolidated balance sheet date, and translation differences are included in foreign currency translation adjustment and non-controlling interests under net assets.

(7) Significant hedge accounting methods

(i) Hedge accounting

In principle, the deferral hedge accounting is applied. The exceptional accounting treatment is applied to interest rate swap contracts that meet the requirements for exceptional accounting.

The assignment accounting treatment is applied to forward exchange contracts and currency swap contracts that meet the requirements for assignment accounting.

(ii) Hedged items and hedge instruments

a. Hedge instruments: forward exchange contracts and currency swap contracts

Hedged items: accounts receivable - trade and forecast transactions denominated in foreign currencies

b. Hedge instruments: interest rate swap contracts

Hedged items: interest on borrowings

(iii) Hedging policies

Pursuant to the Group's internal management regulations, interest rate swap contracts are used for the purpose of hedging the interest rate fluctuation risks on borrowings, and forward exchange contracts and currency swap contracts are used for the purpose of hedging the exchange rate fluctuation risks.

(iv) Assessing hedge effectiveness

If hedge instruments and hedged items have the same material conditions, they are deemed highly effective and thus assessment of hedge effectiveness is omitted. For other hedges, hedge effectiveness is assessed by comparing the accumulated fluctuations in market rates or cash flows of the hedged items and the hedge instruments based on the ratio of those fluctuations.

(8) Scope of cash and cash equivalents in consolidated statement of cash flows

Cash and cash equivalents in consolidated statements of cash flows consist of cash on hand, demand deposits, and short-term investments with a maturity of three months or less from the date of acquisition that are readily convertible into cash and have an insignificant risk of changes in value.

## Significant Accounting Estimates

### *Loss on valuation of inventories*

(1) Carrying amount in the consolidated financial statements for the current fiscal year

	(Millions of yen)
Merchandise and finished goods	10,760
Work in process	4,555
Cost of sales (loss (gain) on valuation of inventories)	(652)

Loss on valuation of inventories is stated at a net amount reflecting recorded amounts and reversals.

(2) Description of accounting estimates

If the net realizable value of inventories falls below the carrying amount, the carrying amount is reduced to the net realizable value, and the amount of reduction is recorded in cost of sales as a loss on valuation of inventories. In addition, inventories that are no longer in the ordinary process of sales cycle are deemed to be long-term dead stock when a certain period has passed since the end of the previous fiscal year. Valuation of such inventories is reduced to the disposal value, and a corresponding loss is recorded in cost of sales.

Because the Group's products have a relatively long lead time from manufacturing to shipping and some products cannot be readily repurposed after processing, results may be affected by future changes in the market environment and other uncertainties. Accordingly, these estimates may have an impact on consolidated financial statements for future fiscal years.

## Changes in Accounting Policies

### *Application of Implementation Guidance on Accounting Standard for Fair Value Measurement*

The Company has applied the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021; hereinafter referred to as the "Fair Value Measurement Implementation Guidance") from the beginning of the fiscal year ended December 31, 2023, and will prospectively apply the new accounting policies stipulated by the Fair Value Measurement Implementation Guidance in accordance with the transitional treatment provided for under Paragraph 27-2 of the Fair Value Measurement Implementation Guidance. This change in accounting policy has no impact on the consolidated financial statements.

## Additional Information

### *Board benefit trust (BBT) for Directors*

The Company has put in place a board benefit trust (BBT), which is a performance-linked share-based remuneration plan, to incentivize Directors to improve performance and increase corporate value over the medium to long term.

Accounting treatment related to this trust agreement is based on the "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts" (PITF No. 30, March 26, 2015).

(1) Overview of the transaction

This plan is a performance-linked share-based remuneration plan, under which the Company's shares are acquired by a trust using funds contributed by the Company, and the Company's shares and cash equivalent to the market value of the Company's shares are provided to Directors and other beneficiaries from the trust in accordance with the regulations for granting of shares to officers established by the Company. In principle, the Company's shares and associated remuneration will be provided to Directors and other beneficiaries on their retirement.

(2) Treasury shares remaining in trust

The shares of the Company remaining in trust are recorded as treasury shares under net assets based on the book value in trust (excluding the amount of incidental costs). As of December 31, 2023, the number of such treasury shares was 596 hundred shares, amounting to a book value of 209 million yen. The average number of such shares for the fiscal year ended December 31, 2023, was 597 hundred shares. These shares are included in treasury shares to be deducted for the calculation of per share information.

## Notes to Consolidated Balance Sheets

\*1 "Investment securities (shares)" and "Investments in capital of subsidiaries" under "Investments and other assets" invested in unconsolidated subsidiaries and associates are as follows:

(Millions of yen)		
	As of December 31, 2022	As of December 31, 2023
Investment securities (shares)	1,147	1,128
Investments in capital of subsidiaries	1	1

Investments in capital of subsidiaries are included and presented in "Other" under investments and other assets.

\*2 Assets pledged as collateral and obligations related to collateral  
[Pledge]

(Millions of yen)		
	As of December 31, 2022	As of December 31, 2023
Property, plant and equipment	7,679	7,785

[Obligations]

(Millions of yen)		
	As of December 31, 2022	As of December 31, 2023
Short-term borrowings	2,710	2,710

\*3 Notes matured at the end of the fiscal year

Notes are settled as of the note exchange date. The following notes matured at the end of the fiscal year were included in the closing balance, because December 31, 2023, was a non-business day for financial institutions.

(Millions of yen)		
	As of December 31, 2022	As of December 31, 2023
Notes receivable - trade	133	160
Notes payable - trade	140	101
Notes payable - facilities	15	83

Notes payable - facilities are included and presented in "Other" under current liabilities.

\*4 Claims arising from contracts with customers

Claims and contract assets arising from contracts with customers are as follows:

(Millions of yen)		
	As of December 31, 2022	As of December 31, 2023
Notes receivable - trade	2,465	2,264
Accounts receivable - trade	9,349	11,195
Contract assets	108	120

## Notes to Consolidated Statements of Income

\*1 Revenue from contracts with customers

For net sales, revenue from contracts with customers is not shown separately from other revenues. The amount of revenue from contracts with customers is provided in “Notes to Consolidated Financial Statements, Revenue Recognition, 1. Information on the breakdown of revenue from contracts with customers.”

\*2 Ending balance of inventories is an amount with consideration of write-downs due to decreased profitability, and the following loss on valuation of inventories is included in cost of sales.

(Millions of yen)

Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
730	(652)

(Note) Loss on valuation of inventories is stated at a net amount reflecting recorded amounts and reversals, with a negative amount indicating a reversal.

\*3 Of these, major expenses and amounts are as follows:

(Millions of yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Salaries, bonuses and allowances	952	976
Sales commission	249	311
Freight-out and packing cost	1,514	1,341
Provision for retirement benefits for directors (and other officers)	20	13
Retirement benefit expenses	52	58
Provision for share awards for directors (and other officers)	15	25
Provision for bonuses	78	66
Provision for bonuses for directors (and other officers)	58	61
Research and development expenses	276	324

\*4 Research and development expenses included in general and administrative expenses and manufacturing costs for period are as follows:

(Millions of yen)

Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
369	403

\*5 Loss of fire

This is the cost of restoring production facilities lost in a fire at the Company’s Shiga Plant in June 2023. In addition, the Company has received the finalized amount of fire insurance proceeds and recorded it under insurance claim income under non-operating income.

## Notes to Consolidated Statements of Comprehensive Income

\* Reclassification adjustments and income tax effects relating to other comprehensive income

(Millions of yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Valuation difference on available-for-sale securities		
Gains or losses arising during the year	(360)	2,782
Reclassification adjustments to profit or loss	(183)	–
Amount before income tax effect	(544)	2,782
Income tax effect	166	(851)
Valuation difference on available-for-sale securities	(377)	1,930
Deferred gains or losses on hedges		
Gains or losses arising during the year	–	(1)
Amount before income tax effect	–	(1)
Income tax effect	–	0
Deferred gains or losses on hedges	–	(1)
Foreign currency translation adjustment		
Gains or losses arising during the year	74	141
Remeasurements of defined benefit plans, net of tax		
Gains or losses arising during the year	(63)	32
Reclassification adjustments to profit or loss	15	19
Amount before income tax effect	(48)	52
Income tax effect	14	(16)
Remeasurements of defined benefit plans, net of tax	(33)	36
Total other comprehensive income	(336)	2,107

## Notes to Consolidated Statements of Changes in Equity

Fiscal year ended December 31, 2022

### 1. Issued shares

Class of shares	Number of shares at beginning of the fiscal year	Increase	Decrease	Number of shares at end of the fiscal year
Common shares (hundreds of shares)	118,325	–	–	118,325

### 2. Treasury shares

Class of shares	Number of shares at beginning of the fiscal year	Increase	Decrease	Number of shares at end of the fiscal year
Common shares (hundreds of shares)	7,887	3	0	7,890

(Note) The above figures include shares in the Company held by the board benefit trust (BBT), which amounted to 609 hundred shares at the beginning of the fiscal year and 609 hundred shares at the end of the fiscal year.

### Overview of reasons for changes

The breakdown of increases and decreases is as follows:

Increase due to purchase of shares less than one unit: 3 hundred shares  
Decrease due to sale of shares less than one unit: (0) hundred shares

### 3. Dividends

#### (1) Dividends paid

Resolution	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
March 29, 2022 Annual General Meeting of Shareholders	Common shares	1,110	100.00	December 31, 2021	March 30, 2022
August 10, 2022 Board of Directors	Common shares	1,110	100.00	June 30, 2022	September 7, 2022

- (Notes) 1. The total amount of dividends pursuant to the resolution at the Annual General Meeting of Shareholders held on March 29, 2022 includes dividends of 6 million yen for shares in the Company held by the board benefit trust (BBT).
2. The total amount of dividends pursuant to the resolution at the Board of Directors meeting held on August 10, 2022 includes dividends of 6 million yen for shares in the Company held by the board benefit trust (BBT).

#### (2) Dividends whose effective date falls in the fiscal year following the fiscal year of the record date

Resolution	Class of shares	Total dividends (Millions of yen)	Source of dividends	Dividends per share (Yen)	Record date	Effective date
March 29, 2023 Annual General Meeting of Shareholders	Common shares	1,110	Retained earnings	100.00	December 31, 2022	March 30, 2023

- (Note) The total amount of dividends to be resolved at the Annual General Meeting of Shareholders held on March 29, 2023 includes dividends of 6 million yen for shares in the Company held by the board benefit trust (BBT).

### Fiscal year ended December 31, 2023

#### 1. Issued shares

Class of shares	Number of shares at beginning of the fiscal year	Increase	Decrease	Number of shares at end of the fiscal year
Common shares (hundreds of shares)	118,325	—	—	118,325

#### 2. Treasury shares

Class of shares	Number of shares at beginning of the fiscal year	Increase	Decrease	Number of shares at end of the fiscal year
Common shares (hundreds of shares)	7,890	8	13	7,886

- (Note) The above figures include shares in the Company held by the board benefit trust (BBT), which amounted to 609 hundred shares at the beginning of the fiscal year and 596 hundred shares at the end of the fiscal year.

#### *Overview of reasons for changes*

The breakdown of increases and decreases is as follows:

Increase due to purchase of shares less than one unit: 8 hundred shares

Decrease due to delivery of shares to the board benefit trust (BBT): (13) hundred shares



### 3. Dividends

#### (1) Dividends paid

Resolution	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
March 29, 2023 Annual General Meeting of Shareholders	Common shares	1,110	100.00	December 31, 2022	March 30, 2023
August 10, 2023 Board of Directors	Common shares	1,110	100.00	June 30, 2023	September 6, 2023

- (Notes) 1. The total amount of dividends pursuant to the resolution at the Annual General Meeting of Shareholders held on March 29, 2023 includes dividends of 6 million yen for shares in the Company held by the board benefit trust (BBT).
2. The total amount of dividends pursuant to the resolution at the Board of Directors meeting held on August 10, 2023 includes dividends of 5 million yen for shares in the Company held by the board benefit trust (BBT).

#### (2) Dividends whose effective date falls in the fiscal year following the fiscal year of the record date

Resolution	Class of shares	Total dividends (Millions of yen)	Source of dividends	Dividends per share (Yen)	Record date	Effective date
March 28, 2024 Annual General Meeting of Shareholders	Common shares	1,110	Retained earnings	100.00	December 31, 2023	March 29, 2024

- (Note) The total amount of dividends to be resolved at the Annual General Meeting of Shareholders held on March 28, 2024 includes dividends of 5 million yen for shares in the Company held by the board benefit trust (BBT).

### Notes to Consolidated Statements of Cash Flows

- \* Reconciliation of closing balance of cash and cash equivalents and the related accounts on the consolidated balance sheets

	(Millions of yen)	
	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Cash and deposits	18,322	14,527
Time deposits with maturity of over three months	(145)	(145)
Cash and cash equivalents	18,177	14,382

### Financial Instruments

#### 1. Status of financial instruments

##### (1) Policy on financial instruments

The Group manages its funds only using deposits and other instruments with limited risk and procures its funds through borrowings from financial institutions such as banks. Derivatives are used to mitigate the risks described below, and the Group does not conduct speculative transactions.

##### (2) Details of financial instruments and associated risks

Notes and accounts receivable - trade, which are trade receivables, are exposed to customer credit risks. Trade receivables denominated in foreign currencies, which arise mainly from the export business, are exposed to exchange rate fluctuation risks. Investment securities are mainly stocks and are exposed to market price fluctuation risks.

Notes and accounts payable - trade, which are trade payables, have due dates within one year. Some of them, arising from the import of raw materials and other goods, are denominated in foreign currencies and are exposed to exchange rate fluctuation risks. However, they do not exceed the balance of accounts receivable - trade denominated in the same foreign currency at any time. Borrowings are used as operating funds (short-term) and as funds for capital investment (long-term). Borrowings with floating interest rates are exposed to interest rate fluctuation risks.

Derivatives used by the Group are forward exchange contracts and currency swap contracts, which are used for the purpose of hedging the exchange rate fluctuation risks on trade receivables denominated in foreign currencies, as well as interest rate swap contracts, which are used for the purpose of hedging the interest rate fluctuation risks on borrowings. Hedge accounting methods, including hedge instruments, hedged items, hedging policies, and means of assessing hedge effectiveness, are described in “4. Accounting policies, (7) Significant hedge accounting methods” of the Basis of Preparation of Consolidated Financial Statements above.

(3) Risk management system for financial instruments

(i) Management of credit risks (default risks, etc.)

The Company’s sales departments and accounting and finance departments manage due dates and balances of trade receivables for each counterparty, and they strive to quickly identify and mitigate concerns over collections due to deteriorating financial conditions and other reasons, in accordance with the Company regulations on managing receivables. Consolidated subsidiaries of the Company also manage trade receivables in the same manner, applying the Company regulations on managing receivables.

When using derivatives, the Group conducts transactions only with financial institutions that have high ratings to mitigate credit risks. Credit risks on derivatives are therefore minimal.

(ii) Management of market risks (risks associated with foreign exchange rates, interest rates, etc.)

For trade receivables denominated in foreign currencies, the Company enters into forward exchange contracts and currency swap contracts as needed based on the real demand principle. Regarding investment securities, the Company periodically reviews market prices and financial conditions of the issuers (counterparty companies).

Furthermore, the Company and some of its consolidated subsidiaries use interest rate swap contracts to reduce the interest rate fluctuation risks on borrowings.

The Group has established regulations on managing derivatives, limiting the use of derivatives for risk hedging purposes.

(iii) Management of liquidity risks associated with funding

The Company manages liquidity risks such as by having accounting and finance departments prepare and update cash flow plans based on reports from each department and maintaining a certain level of on-hand liquidity.

(4) Supplementary explanation related to fair values, etc. of financial instruments

Because calculations of financial instruments involve variable inputs, the results of calculations may vary depending on what premises and assumptions are used. Furthermore, the contract amount, etc. of derivatives stated in the notes on “Derivatives” do not represent the market risks related to derivatives.

2. Fair values of financial instruments

Carrying amounts in the consolidated balance sheets, fair values and the differences between them are as follows.

As of December 31, 2022

(Millions of yen)

	Carrying amount (A)	Fair value (B)	Difference (B) - (A)
(1) Investment securities (*2)			
Available-for-sale securities	3,394	3,394	—
Total assets	3,394	3,394	—
(1) Long-term borrowings (current portion of long-term borrowings included)	1,482	1,482	0
Total liabilities	1,482	1,482	0

(\*1) Notes on cash are omitted, and notes to deposits, notes and accounts receivable - trade, and contract assets, income taxes refund receivable, notes and accounts payable - trade, notes payable - facilities, advances received, short-term borrowings, and income taxes payable are omitted since they are scheduled to be settled in a short period of time, causing the fair value to approximate the book value.

(\*2) Equity securities, etc. without market value are not included in “(1) Investment securities.” Carrying amount of such financial instruments on the consolidated balance sheets is as follows:

(Millions of yen)

Category	As of December 31, 2022
Unlisted shares	
Shares of subsidiaries and associates	1,147
Available-for-sale securities	24

As of December 31, 2023

(Millions of yen)

	Carrying amount (A)	Fair value (B)	Difference (B) - (A)
(1) Investment securities (*2)			
Available-for-sale securities	7,519	7,519	—
Total assets	7,519	7,519	—
(1) Long-term borrowings (current portion of long-term borrowings included)	444	445	0
Total liabilities	444	445	0

(\*1) Notes on cash are omitted, and notes to deposits, notes and accounts receivable - trade, and contract assets, income taxes refund receivable, notes and accounts payable - trade, notes payable - facilities, advances received, short-term borrowings, and income taxes payable are omitted since they are scheduled to be settled in a short period of time, causing the fair value to approximate the book value.

(\*2) Equity securities, etc. without market value are not included in “(1) Investment securities.” Carrying amount of such financial instruments on the consolidated balance sheets is as follows:

(Millions of yen)

Category	As of December 31, 2023
Unlisted shares	
Shares of subsidiaries and associates	1,128
Available-for-sale securities	19

(Note 1) Expected redemption amounts of monetary claims and securities with maturity after the consolidated balance sheet date

As of December 31, 2022

(Millions of yen)

	Within one year	Over one year and within five years	Over five years and within ten years	Over ten years
Cash and deposits	18,322	—	—	—
Notes receivable - trade	2,465	—	—	—
Accounts receivable - trade	9,349	—	—	—
Total	30,137	—	—	—

As of December 31, 2023

(Millions of yen)

	Within one year	Over one year and within five years	Over five years and within ten years	Over ten years
Cash and deposits	14,527	—	—	—
Notes receivable - trade	2,264	—	—	—
Accounts receivable - trade	11,195	—	—	—
Total	27,988	—	—	—

(Note 2) Repayment schedule of short-term borrowings and long-term borrowings after the consolidated balance sheet date

As of December 31, 2022

(Millions of yen)

Category	Within one year	Over one year and within two years	Over two years and within three years	Over three years and within four years	Over four years and within five years	Over five years
Short-term borrowings	7,610	—	—	—	—	—
Long-term borrowings	1,282	80	70	35	15	—

As of December 31, 2023

(Millions of yen)

Category	Within one year	Over one year and within two years	Over two years and within three years	Over three years and within four years	Over four years and within five years	Over five years
Short-term borrowings	8,410	—	—	—	—	—
Long-term borrowings	166	156	71	35	15	—

### 3. Breakdown, etc. by level of fair values of financial instruments

The fair values of financial instruments are classified into the following three levels depending on the observability and significance of the input used in the fair value measurement.

Level 1: Fair value measured by the market price of an asset or liability in active markets among the observable inputs

Level 2: Fair value measured by the observable inputs other than the Level 1 inputs

Level 3: Fair value measured by unobservable inputs

If multiple inputs are used with a significant impact on fair value measurement, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input.

(1) Financial instruments recorded at fair value on the consolidated balance sheets

As of December 31, 2022

(Millions of yen)

Category	Fair value			
	Level 1	Level 2	Level 3	Total
Investment securities				
Available-for-sale securities				
Shares	3,394	—	—	3,394
Total assets	3,394	—	—	3,394

As of December 31, 2023

(Millions of yen)

Category	Fair value			
	Level 1	Level 2	Level 3	Total
Investment securities				
Available-for-sale securities				
Shares	7,519	—	—	7,519
Total assets	7,519	—	—	7,519

(2) Financial instruments other than those that are recorded at fair value on the consolidated balance sheets

As of December 31, 2022

(Millions of yen)

Category	Fair value			
	Level 1	Level 2	Level 3	Total
Long-term borrowings	—	1,482	—	1,482
Total liabilities	—	1,482	—	1,482

As of December 31, 2023

(Millions of yen)

Category	Fair value			
	Level 1	Level 2	Level 3	Total
Long-term borrowings	—	445	—	445
Total liabilities	—	445	—	445

(3) Description of the valuation techniques and inputs used in the fair value measurement

Investment securities

The fair value of listed shares is measured using quoted prices. Listed shares are traded in active markets and their fair value is categorized within Level 1.

Long-term borrowings

The fair value of long-term borrowings is determined by using discounted cash flow based on the total amount of the principal and interest and an interest rate that takes into consideration the remaining tenor of the relevant debt and credit risk, and it is classified into Level 2 fair value.

## Securities

### 1. Available-for-sale securities with market value

As of December 31, 2022

Category	Type	Carrying amount (A) (Millions of yen)	Acquisition cost (B) (Millions of yen)	Difference (A) - (B) (Millions of yen)
Items whose carrying amount exceeds acquisition cost	Shares	3,329	1,153	2,175
Subtotal		3,329	1,153	2,175
Items whose carrying amount does not exceed acquisition cost	Shares	65	81	(16)
Subtotal		65	81	(16)
Total		3,394	1,235	2,159

As of December 31, 2023

Category	Type	Carrying amount (A) (Millions of yen)	Acquisition cost (B) (Millions of yen)	Difference (A) - (B) (Millions of yen)
Items whose carrying amount exceeds acquisition cost	Shares	7,469	2,514	4,955
Subtotal		7,469	2,514	4,955
Items whose carrying amount does not exceed acquisition cost	Shares	49	63	(13)
Subtotal		49	63	(13)
Total		7,519	2,578	4,941

### 2. Available-for-sale securities sold during the fiscal year

Fiscal year ended December 31, 2022

(Millions of yen)

Category	Sale proceeds	Total gain on sale	Total loss on sale
(1) Shares	247	183	—
(2) Other	—	—	—
Total	247	183	—

Fiscal year ended December 31, 2023

(Millions of yen)

Category	Sale proceeds	Total gain on sale	Total loss on sale
(1) Shares	28	22	—
(2) Other	—	—	—
Total	28	22	—

## Derivatives

### 1. Derivatives to which hedge accounting is not applied

Not applicable

### 2. Derivatives to which hedge accounting is applied

#### (1) Foreign currency-related contracts

As of December 31, 2022

Not applicable

As of December 31, 2023

(Millions of yen)

Hedge accounting	Type of derivatives, etc.	Hedged item	Contract amount, etc.	Of contract amount, etc., those over one year	Fair value
Principle method	Forward exchange contracts				
	Short				
	USD	Forecast transactions denominated in foreign currencies	84	—	0
	Euro	Forecast transactions denominated in foreign currencies	600	—	(4)
Total			684	—	(4)

#### (2) Interest rate-related contracts

As of December 31, 2022

(Millions of yen)

Hedge accounting	Type of derivatives, etc.	Hedged item	Contract amount, etc.	Of contract amount, etc., those over one year	Fair value
Exceptional accounting of interest rate swaps	Interest rate swap contracts				
	Fixed rate payment, floating rate receipt	Long-term borrowings	37	—	(Note)

(Note) The fair value of interest rate swaps that are accounted for using exceptional accounting is included in that of corresponding long-term borrowings, since those interest rate swaps are treated as an adjustment to the long-term borrowings as hedged items.

As of December 31, 2023

Not applicable

## Retirement Benefits

Fiscal year ended December 31, 2022

### 1. Overview of retirement benefit plans adopted

The Company and its consolidated subsidiaries have adopted funded defined benefit plans to provide retirement benefits to employees.

Under retirement benefit corporate pension plans, lump-sum payments or pension payments are made based on salaries and years of service.

Furthermore, the Company's consolidated subsidiaries calculate retirement benefit liability and retirement benefit expenses using a simplified method in which the amount that would be required to be paid if all their eligible employees voluntarily terminated their employment as of the end of the fiscal year is treated as retirement benefit obligation. Extra retirement payments may be provided upon retirement of certain employees, where those payments are not considered to be retirement benefit obligations as calculated under actuarial methods in accordance with accounting policies on retirement benefits.

### 2. Defined benefit plans

#### (1) Reconciliation between retirement benefit obligations at beginning of period and end of period (excluding plans to which simplified method is applied stated in (3))

	(Millions of yen)
Balance of retirement benefit obligations at beginning of period	1,726
Service cost	110
Interest cost	6
Actuarial gains and losses accrued	7
Retirement benefits paid	(174)
Balance of retirement benefit obligations at end of period	1,676

#### (2) Reconciliation between plan assets at beginning of period and end of period (excluding plans to which simplified method is applied stated in (3))

	(Millions of yen)
Balance of plan assets at beginning of period	1,325
Expected return on plan assets	26
Actuarial gains and losses accrued	(56)
Contribution from employer	60
Retirement benefits paid	(112)
Balance of plan assets at end of period	1,243

#### (3) Reconciliation between retirement benefit liabilities for plans to which simplified method is applied at beginning of period and end of period

	(Millions of yen)
Retirement benefit liability at beginning of period	374
Retirement benefit expenses	51
Retirement benefits paid	(55)
Contribution to plans	(20)
Retirement benefit liability at end of period	350



- (4) Reconciliation between ending balance of retirement benefit obligations and plan assets, and retirement benefit liability/asset recorded in the consolidated balance sheets

	(Millions of yen)
Retirement benefit obligations of funded plans	1,676
Plan assets	(1,243)
	433
Retirement benefit obligations of unfunded plans	350
Net amount of liabilities and assets recorded in the consolidated balance sheets	784
Retirement benefit liability	784
Net amount of liabilities and assets recorded in the consolidated balance sheets	784

(Note) Include plans to which the simplified method was applied.

- (5) Amounts of retirement benefit expenses and their components

	(Millions of yen)
Service cost	110
Interest cost	6
Expected return on plan assets	(26)
Amortization of actuarial gains and losses	15
Amortization of past service cost	0
Retirement benefit expenses applying simplified method	51
Retirement benefit expenses under defined benefit plans	157

- (6) Remeasurements of defined benefit plans included in other comprehensive income

The components of remeasurements of defined benefit plans (before deduction of tax effects) are as follows:

	(Millions of yen)
Past service cost	17
Actuarial gains and losses	(65)
Total	(48)

- (7) Remeasurements of defined benefit plans included in accumulated other comprehensive income

The components of remeasurements of defined benefit plans (before deduction of tax effects) are as follows:

	(Millions of yen)
Unrecognized past service cost	7
Unrecognized actuarial gains and losses	(142)
Total	(134)

(8) Plan assets

(i) Major components of plan assets

The ratio of each major category to total plan assets is as follows:

	(%)
General accounts (life insurance companies)	61
Other	39
Total	100

(ii) Method for setting the long-term expected rate of return on plan assets

To determine the long-term expected rate of return on plan assets, the Company takes into account current and expected allocation of plan assets, and current and expected long-term return rate on various types of assets constituting plan assets.

(9) Actuarial assumptions

Major actuarial assumptions at the end of the fiscal year ended December 31, 2022

Discount rate:	0.4%
Long-term expected rate of return:	2.0%

Fiscal year ended December 31, 2023

1. Overview of retirement benefit plans adopted

The Company and its consolidated subsidiaries have adopted funded defined benefit plans to provide retirement benefits to employees.

Under retirement benefit corporate pension plans, lump-sum payments or pension payments are made based on salaries and years of service.

Furthermore, the Company's consolidated subsidiaries calculate retirement benefit liability and retirement benefit expenses using a simplified method in which the amount that would be required to be paid if all their eligible employees voluntarily terminated their employment as of the end of the fiscal year is treated as retirement benefit obligation. Extra retirement payments may be provided upon retirement of certain employees, where those payments are not considered to be retirement benefit obligations as calculated under actuarial methods in accordance with accounting policies on retirement benefits.

2. Defined benefit plans

(1) Reconciliation between retirement benefit obligations at beginning of period and end of period (excluding plans to which simplified method is applied stated in (3))

	(Millions of yen)
Balance of retirement benefit obligations at beginning of period	1,676
Service cost	107
Interest cost	6
Actuarial gains and losses accrued	(3)
Retirement benefits paid	(176)
Balance of retirement benefit obligations at end of period	1,611

- (2) Reconciliation between plan assets at beginning of period and end of period (excluding plans to which simplified method is applied stated in (3))

	(Millions of yen)
Balance of plan assets at beginning of period	1,243
Expected return on plan assets	24
Actuarial gains and losses accrued	29
Contribution from employer	57
Retirement benefits paid	(115)
Balance of plan assets at end of period	1,239

- (3) Reconciliation between retirement benefit liabilities for plans to which simplified method is applied at beginning of period and end of period

	(Millions of yen)
Retirement benefit liability at beginning of period	350
Retirement benefit expenses	84
Retirement benefits paid	(34)
Contribution to plans	(4)
Retirement benefit liability at end of period	395

- (4) Reconciliation between ending balance of retirement benefit obligations and plan assets, and retirement benefit liability/asset recorded in the consolidated balance sheets

	(Millions of yen)
Retirement benefit obligations of funded plans	1,610
Plan assets	(1,239)
	371
Retirement benefit obligations of unfunded plans	395
Net amount of liabilities and assets recorded in the consolidated balance sheets	766
Retirement benefit liability	766
Net amount of liabilities and assets recorded in the consolidated balance sheets	766

(Note) Include plans to which the simplified method was applied.

- (5) Amounts of retirement benefit expenses and their components

	(Millions of yen)
Service cost	107
Interest cost	6
Expected return on plan assets	(24)
Amortization of actuarial gains and losses	20
Amortization of past service cost	(0)
Retirement benefit expenses applying simplified method	79
Retirement benefit expenses under defined benefit plans	187

(6) Remeasurements of defined benefit plans included in other comprehensive income

The components of remeasurements of defined benefit plans (before deduction of tax effects) are as follows:

	(Millions of yen)
Past service cost	(0)
Actuarial gains and losses	52
Total	52

(7) Remeasurements of defined benefit plans included in accumulated other comprehensive income

The components of remeasurements of defined benefit plans (before deduction of tax effects) are as follows:

	(Millions of yen)
Unrecognized past service cost	7
Unrecognized actuarial gains and losses	(89)
Total	(82)

(8) Plan assets

(i) Major components of plan assets

The ratio of each major category to total plan assets is as follows:

	(%)
General accounts (life insurance companies)	60
Other	40
Total	100

(ii) Method for setting the long-term expected rate of return on plan assets

To determine the long-term expected rate of return on plan assets, the Company takes into account current and expected allocation of plan assets, and current and expected long-term return rate on various types of assets constituting plan assets.

(9) Actuarial assumptions

Major actuarial assumptions at the end of the fiscal year ended December 31, 2023

Discount rate:	0.4%
Long-term expected rate of return:	2.0%

## Deferred Tax Accounting

### 1. Major components of deferred tax assets and liabilities

	(Millions of yen)	
	As of December 31, 2022	As of December 31, 2023
Deferred tax assets		
Excess of allowance for doubtful accounts	0	1
Retirement benefit liability	248	236
Loss on valuation of inventories	491	375
Enterprise taxes payable	78	87
Excess of provision for bonuses	79	86
Impairment losses	422	378
Tax effects relating to unrealized profit	166	236
Accrued expenses	4	42
Other	766	824
Subtotal	2,254	2,265
Valuation allowance	(1,196)	(1,254)
Total	1,058	1,011
Deferred tax liabilities		
Valuation difference on available-for-sale securities	(661)	(1,513)
Tax effects relating to undistributed profit of overseas consolidated subsidiaries	(135)	(142)
Other	(102)	(96)
Total	(898)	(1,751)
Net deferred tax assets (liabilities)	160	(740)

(Note) Net deferred tax assets as of December 31, 2022 and December 31, 2023 are included in the following items on consolidated balance sheets.

	(Millions of yen)	
	As of December 31, 2022	As of December 31, 2023
Non-current assets - deferred tax assets	434	514
Non-current liabilities - deferred tax liabilities	(274)	(1,254)

### 2. Reconciliation of significant differences between the statutory effective tax rate and the actual effective rate of income taxes after application of deferred tax accounting

	As of December 31, 2022	As of December 31, 2023
	The note is omitted, because the difference between the statutory effective tax rate and the actual effective rate of income taxes after application of deferred tax accounting is less than 5% of the statutory effective tax rate.	The note is omitted, because the difference between the statutory effective tax rate and the actual effective rate of income taxes after application of deferred tax accounting is less than 5% of the statutory effective tax rate.

## Revenue Recognition

### 1. Information on the breakdown of revenue from contracts with customers

It is as per the description in “Notes to Consolidated Financial Statements, Segment Information, Etc., 3. Disclosure of sales, profit (loss), assets, and other items for each reportable segment and information on disaggregation of revenue.”

### 2. Underlying information to understand revenue from contracts with customers

It is as per the description in “Notes to Consolidated Financial Statements, Basis of Preparation of Consolidated Financial Statements, 4. Accounting policies, (5) Accounting policy for recognition of significant revenues and expenses.”

### 3. Information on the relationship between the satisfaction of performance obligations pursuant to contracts with customers and the cash flows arising from relevant contracts, as well as the amount and timing of revenues expected to be recognized in the following fiscal years from contracts with customers that exist at the end of the fiscal year ended December 31, 2023

Fiscal year ended December 31, 2022

#### (1) Balance, etc. of contract assets and contract liabilities

	(Millions of yen)
	As of the end of the previous fiscal year (December 31, 2022)
Claims arising from contracts with customers (Balance at beginning of period)	11,500
Claims arising from contracts with customers (Balance at end of period)	11,814
Contract assets (Balance at beginning of period)	94
Contract assets (Balance at end of period)	108

Contract assets are claims that are recognized as performance obligations under construction work contracts are satisfied with progresses in construction work.

#### (2) Transaction price allocated to remaining performance obligations

Since the initially planned term of contracts with customers at the Group is one year or less, information on transaction price allocated to remaining performance obligations is omitted.

Fiscal year ended December 31, 2023

#### (1) Balance, etc. of contract assets and contract liabilities

	(Millions of yen)
	As of the end of the current fiscal year (December 31, 2023)
Claims arising from contracts with customers (Balance at beginning of period)	11,814
Claims arising from contracts with customers (Balance at end of period)	13,460
Contract assets (Balance at beginning of period)	108
Contract assets (Balance at end of period)	120

Contract assets are claims that are recognized as performance obligations under construction work contracts are satisfied with progresses in construction work.

(2) Transaction price allocated to remaining performance obligations

Since the initially planned term of contracts with customers at the Group is one year or less, information on transaction price allocated to remaining performance obligations is omitted.

**Segment Information, Etc.**

[Segment information]

1. Overview of reportable segments

The reportable segments of the Company are components of the Company for which discrete financial information is available and regularly reviewed by the Board of Directors to make decisions about the allocation of managerial resources and to assess their performance.

The Company has reportable segments based on product and service categories, namely carbon product business, silicon carbide product business, and other businesses. In some cases, different carbon products are manufactured using the same production facilities, and multiple carbon products may be sold together.

Accordingly, carbon products are treated as a single segment based on their close relation in making investment decisions. The main details of each reportable segment are as follows:

Reportable segment	Major details
Carbon product business	Artificial graphite electrodes, impervious graphite products, high-purity isotropic graphite products, graphite products for mechanical components, general-purpose carbon fibers and graphite fibers, PTFE-mixed graphite fiber packing materials, flexible graphite sealing materials, and anode materials for lithium-ion batteries
Silicon carbide product business	Silicon carbide continuous fibers
Other businesses	Manufacturing of industrial machinery, repairs of machinery, and parking space rentals

2. Explanation of measurements of sales, profit (loss), assets, and other items for each reportable segment

The accounting method for the operating segments that are reportable is the same as described in “Basis of Preparation of Consolidated Financial Statements.” The profit of reportable segments is based on operating profit. Intersegment revenue or transfers are based on actual market price.

3. Disclosure of sales, profit (loss), assets, and other items for each reportable segment and information on disaggregation of revenue

Fiscal year ended December 31, 2022

(Millions of yen)

	Reportable segment				Adjustment (Note 1)	Carrying amount (Note 2)
	Carbon product business	Silicon carbide product business	Other	Total		
Net sales						
Fine carbon-related products	21,715	—	—	21,715	—	21,715
Electrode-related products	11,131	—	—	11,131	—	11,131
Silicon carbide-related products	—	2,045	—	2,045	—	2,045
Other	—	—	906	906	—	906
Revenue from contracts with customers	32,847	2,045	906	35,799	—	35,799
Other revenue	—	—	—	—	—	—
Net sales to external customers	32,847	2,045	906	35,799	—	35,799
Inter-segment net sales or transfers	0	6	668	675	(675)	—
Total	32,847	2,052	1,574	36,474	(675)	35,799
Segment profit	4,422	140	210	4,773	18	4,791
Segment assets	45,776	5,549	1,111	52,437	21,743	74,181
Other items						
Depreciation	1,838	642	44	2,526	(41)	2,484
Increase in property, plant and equipment and intangible assets	2,472	29	0	2,502	(38)	2,463

(Notes) 1. Adjustments are as follows.

- (1) The adjustment to segment assets of 21,743 million yen primarily consists of assets related to surplus funds (cash and securities) and long-term investment funds (investment securities).
  - (2) The adjustment to depreciation of (41) million yen and the adjustment to increase in property, plant and equipment and intangible assets of (38) million yen under other items are for eliminating unrealized profit.
2. Segment profit equals operating profit in the consolidated statements of income.



Fiscal year ended December 31, 2023

(Millions of yen)

	Reportable segment				Adjustment (Note 1)	Carrying amount (Note 2)
	Carbon product business	Silicon carbide product business	Other	Total		
Net sales						
Fine carbon-related products	24,007	—	—	24,007	—	24,007
Electrode-related products	10,610	—	—	10,610	—	10,610
Silicon carbide-related products	—	2,329	—	2,329	—	2,329
Other	—	—	920	920	—	920
Revenue from contracts with customers	34,617	2,329	920	37,867	—	37,867
Other revenue	—	—	—	—	—	—
Net sales to external customers	34,617	2,329	920	37,867	—	37,867
Inter-segment net sales or transfers	1	16	557	575	(575)	—
Total	34,619	2,345	1,478	38,442	(575)	37,867
Segment profit	5,799	508	248	6,556	17	6,573
Segment assets	50,225	5,021	1,151	56,397	22,068	78,466
Other items						
Depreciation	2,043	622	43	2,710	(43)	2,666
Increase in property, plant and equipment and intangible assets	2,777	25	4	2,807	(53)	2,754

(Notes) 1. Adjustments are as follows.

- (1) The adjustment to segment assets of 22,068 million yen primarily consists of assets related to surplus funds (cash and securities) and long-term investment funds (investment securities).
  - (2) The adjustment to depreciation of (43) million yen and the adjustment to increase in property, plant and equipment and intangible assets of (53) million yen under other items are for eliminating unrealized profit.
2. Segment profit equals operating profit in the consolidated statements of income.

[Related information]

Fiscal year ended December 31, 2022

1. Information about products and services

The information is omitted because the same information is disclosed in “[Segment information].”

2. Information about geographical areas

(1) Net sales

(Millions of yen)

Japan	USA	Other	Total
19,745	3,129	12,924	35,799

(Note) Net sales are classified by country or region based on customers' location.

(2) Property, plant and equipment

The information is omitted, because the amount of property, plant and equipment located in Japan accounted for more than 90% of total property, plant and equipment in the consolidated balance sheets.

3. Information about main customers

This information is omitted because there were no customers from which more than 10% of the amount of gross sales in the consolidated statements of income was received.

Fiscal year ended December 31, 2023

1. Information about products and services

The information is omitted because the same information is disclosed in “[Segment information].”

2. Information about geographical areas

(1) Net sales

(Millions of yen)

Japan	USA	Other	Total
19,502	5,038	13,325	37,867

(Note) Net sales are classified by country or region based on customers' location.

(2) Property, plant and equipment

The information is omitted, because the amount of property, plant and equipment located in Japan accounted for more than 90% of total property, plant and equipment in the consolidated balance sheets.

3. Information about main customers

This information is omitted because there were no customers from which more than 10% of the amount of gross sales in the consolidated statements of income was received.

[Information about impairment loss of non-current assets by reportable segment]

Fiscal year ended December 31, 2022

Not applicable

Fiscal year ended December 31, 2023

Not applicable

[Information about amortization and unamortized balance of goodwill by reportable segment]

Fiscal year ended December 31, 2022

Not applicable

Fiscal year ended December 31, 2023

Not applicable

[Information about gain on bargain purchase by reportable segment]

Fiscal year ended December 31, 2022

Not applicable

Fiscal year ended December 31, 2023

Not applicable

[Related party information]

Fiscal year ended December 31, 2022

Not applicable

Fiscal year ended December 31, 2023

Not applicable

## Per Share Information

(Yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Net assets per share	4,125.77	4,478.09
Basic earnings per share	289.24	366.75

- (Notes)
1. The amount of diluted earnings per share is not provided because there are no potential shares.
  2. Shares in the Company held by the board benefit trust (BBT) are deducted from the total number of outstanding shares at the end of the period when calculating net assets per share. Shares in the Company held by the board benefit trust (BBT), averaging 609 hundred shares for the fiscal year ended December 31, 2022 and 597 hundred shares for the fiscal year ended December 31, 2023, are deducted when calculating the average number of outstanding common shares during the period used as the basis for calculating basic earnings per share.
  3. Calculation basis of net assets per share is as follows.

Item	As of December 31, 2022	As of December 31, 2023
Total net assets (Millions of yen)	53,210	57,681
Difference between total net assets and net assets at end of period related to common shares used for calculating net assets per share (Millions of yen)	7,647	8,226
[Of which, non-controlling interests (Millions of yen)]	[7,647]	[8,226]
Net assets attributable to common shares (Millions of yen)	45,562	49,455
Number of common shares used in the calculation of net assets per share (hundreds of shares)	110,434	110,438

4. Calculation basis of basic earnings per share is as follows.

Item	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Profit attributable to owners of parent (Millions of yen)	3,194	4,050
Profit attributable to owners of parent attributable to common shares (Millions of yen)	3,194	4,050
Profit (loss) not attributable to common shareholders (Millions of yen)	—	—
Average number of outstanding common shares during the period (hundreds of shares)	110,436	110,442

## Subsequent Events

Not applicable

(v) Annexed Consolidated Detailed Schedules

[Consolidated detailed schedule of corporate bonds]

Not applicable

[Consolidated detailed schedule of borrowings]

Category	Balance at beginning of period (Millions of yen)	Balance at end of period (Millions of yen)	Average interest rate (%)	Payment due
Short-term borrowings	7,610	8,410	0.47	—
Current portion of long-term borrowings	1,282	166	0.55	—
Current portion of lease liabilities	—	—	—	—
Long-term borrowings (excluding current portion)	200	278	0.58	2025 to 2028
Lease liabilities (excluding current portion)	—	—	—	—
Other interest-bearing debt	—	—	—	—
Total	9,092	8,854	—	—

(Notes) 1. Average interest rate is the weighted average interest rate on the balance of borrowings at the end of the period.

2. Total amounts of scheduled repayments of long-term borrowings (excluding current portion) by year for five years after the consolidated balance sheet date

(Millions of yen)

Category	Over one year and within two years	Over two years and within three years	Over three years and within four years	Over four years and within five years
Long-term borrowings	156	71	35	15

[Detailed schedule of asset retirement obligations]

The information is omitted, because the amounts of asset retirement obligations at the beginning and the end of the fiscal year ended December 31, 2023 were not more than 1% of the total of liabilities and net assets at the beginning and the end of the fiscal year ended December 31, 2023, respectively.

(2) Other Information

Quarterly information for the fiscal year ended December 31, 2023

Cumulative period	Three months ended March 31, 2023	Six months ended June 30, 2023	Nine months ended September 30, 2023	Fiscal year ended December 31, 2023
Net sales (Millions of yen)	7,695	18,096	26,840	37,867
Profit before income taxes (Millions of yen)	1,284	3,312	4,444	6,979
Profit attributable to owners of parent (Millions of yen)	752	1,957	2,631	4,050
Basic earnings per share (Yen)	68.16	177.28	238.26	366.75

Accounting period	First quarter	Second quarter	Third quarter	Fourth quarter
Basic earnings per share (Yen)	68.16	109.13	60.98	128.49

## 2. Non-consolidated Financial Statements and Other Information

### (1) Non-consolidated Financial Statements

#### (i) Non-consolidated Balance Sheets

(Millions of yen)

	As of December 31, 2022	As of December 31, 2023
<b>Assets</b>		
Current assets		
Cash and deposits	13,380	9,724
Notes receivable - trade	*1, *3 854	*1, *3 820
Accounts receivable - trade	*1 7,115	*1 8,479
Merchandise and finished goods	5,959	7,697
Work in process	817	749
Raw materials and supplies	1,616	1,336
Prepaid expenses	122	121
Short-term loans receivable	310	292
Other	*1 662	*1 242
Total current assets	30,840	29,462
Non-current assets		
Property, plant and equipment		
Buildings	*2 2,174	*2 2,084
Structures	*2 509	*2 465
Machinery and equipment	*2 5,262	*2 5,472
Vehicles	*2 12	*2 7
Tools, furniture and fixtures	*2 266	*2 245
Land	*2 3,166	*2 3,166
Construction in progress	95	173
Total property, plant and equipment	11,488	11,616
Intangible assets		
Software	131	105
Other	7	7
Total intangible assets	138	112
Investments and other assets		
Investment securities	3,386	7,497
Shares of subsidiaries and associates	3,116	3,116
Long-term loans receivable	*1 2,000	*1 2,000
Long-term prepaid expenses	54	3
Other	1,797	2,023
Allowance for doubtful accounts	(2)	(3)
Total investments and other assets	10,353	14,637
Total non-current assets	21,979	26,366
Total assets	52,820	55,829

(Millions of yen)

	As of December 31, 2022	As of December 31, 2023
<b>Liabilities</b>		
Current liabilities		
Notes payable - trade	577	395
Accounts payable - trade	* <sup>1</sup> 4,090	* <sup>1</sup> 4,148
Short-term borrowings	* <sup>2</sup> 3,542	* <sup>2</sup> 3,576
Accounts payable - other	* <sup>1</sup> 1,270	* <sup>1</sup> 429
Accrued expenses	* <sup>1</sup> 265	* <sup>1</sup> 336
Income taxes payable	822	565
Notes payable - facilities	154	404
Advances received	552	344
Provision for bonuses	135	121
Provision for bonuses for directors (and other officers)	58	61
Other	* <sup>1</sup> 77	* <sup>1</sup> 89
Total current liabilities	11,547	10,473
Non-current liabilities		
Long-term borrowings	200	278
Deferred tax liabilities	345	1,372
Provision for retirement benefits	298	289
Provision for share awards for directors (and other officers)	85	104
Provision for environmental measures	0	0
Long-term guarantee deposits	261	261
Asset retirement obligations	60	60
Other	65	65
Total non-current liabilities	1,316	2,430
Total liabilities	12,864	12,904
<b>Net assets</b>		
Shareholders' equity		
Share capital	7,402	7,402
Capital surplus		
Legal capital surplus	1,851	1,851
Other capital surplus	6,007	6,007
Total capital surplus	7,858	7,858
Retained earnings		
Other retained earnings		
Retained earnings brought forward	25,218	26,263
Total retained earnings	25,218	26,263
Treasury shares	(2,012)	(2,012)
Total shareholders' equity	38,466	39,512
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	1,488	3,413
Deferred gains or losses on hedges	—	(1)
Total valuation and translation adjustments	1,488	3,411
Total net assets	39,955	42,924
Total liabilities and net assets	52,820	55,829

## (ii) Non-consolidated Statements of Income

(Millions of yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Net sales	*1 21,979	*1 23,592
Cost of sales	*1 15,599	*1 16,247
Gross profit	6,379	7,345
Selling, general and administrative expenses	*2 3,489	*2 3,514
Operating profit	2,890	3,831
Non-operating income		
Interest income	20	39
Dividend income	*1 302	*1 500
Insurance claim income	216	*4 185
Foreign exchange gains	226	225
Miscellaneous income	74	82
Total non-operating income	840	1,032
Non-operating expenses		
Interest expenses	18	17
Loss on retirement of non-current assets	*3 137	*3 88
Loss on disaster	94	—
Commission fees	45	—
Miscellaneous expenses	92	48
Total non-operating expenses	388	155
Ordinary profit	3,342	4,708
Extraordinary income		
Gain on sale of investment securities	183	22
Total extraordinary income	183	22
Extraordinary losses		
Loss of fire	—	*4 158
Total extraordinary losses	—	158
Profit before income taxes	3,526	4,572
Income taxes - current	1,183	1,141
Income taxes - deferred	(171)	177
Total income taxes	1,011	1,318
Profit	2,514	3,253



## (iii) Non-consolidated Statements of Changes in Equity

Fiscal year ended December 31, 2022

(Millions of yen)

	Shareholders' equity					
	Share capital	Capital surplus			Retained earnings	
		Legal capital surplus	Other capital surplus	Total capital surplus	Other retained earnings Retained earnings brought forward	Total retained earnings
Balance at beginning of period	7,402	1,851	6,006	7,857	25,012	25,012
Cumulative effects of changes in accounting policies				—	(100)	(100)
Restated balance	7,402	1,851	6,006	7,857	24,912	24,912
Changes during period						
Dividends of surplus				—	(2,208)	(2,208)
Profit				—	2,514	2,514
Purchase of treasury shares				—		—
Disposal of treasury shares			0	0		—
Net changes in items other than shareholders' equity				—		—
Total changes during period	—	—	0	0	305	305
Balance at end of period	7,402	1,851	6,007	7,858	25,218	25,218

	Shareholders' equity		Valuation and translation adjustments		Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at beginning of period	(2,011)	38,261	1,860	1,860	40,121
Cumulative effects of changes in accounting policies		(100)		—	(100)
Restated balance	(2,011)	38,161	1,860	1,860	40,021
Changes during period					
Dividends of surplus		(2,208)		—	(2,208)
Profit		2,514		—	2,514
Purchase of treasury shares	(1)	(1)		—	(1)
Disposal of treasury shares	0	0		—	0
Net changes in items other than shareholders' equity		—	(371)	(371)	(371)
Total changes during period	(0)	305	(371)	(371)	(66)
Balance at end of period	(2,012)	38,466	1,488	1,488	39,955

## Fiscal year ended December 31, 2023

(Millions of yen)

	Shareholders' equity					
	Share capital	Capital surplus			Retained earnings	
		Legal capital surplus	Other capital surplus	Total capital surplus	Other retained earnings Retained earnings brought forward	Total retained earnings
Balance at beginning of period	7,402	1,851	6,007	7,858	25,218	25,218
Changes during period						
Dividends of surplus				—	(2,208)	(2,208)
Profit				—	3,253	3,253
Purchase of treasury shares				—		—
Disposal of treasury shares				—		—
Net changes in items other than shareholders' equity				—		—
Total changes during period	—	—	—	—	1,045	1,045
Balance at end of period	7,402	1,851	6,007	7,858	26,263	26,263

	Shareholders' equity		Valuation and translation adjustments			Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments	
Balance at beginning of period	(2,012)	38,466	1,488	—	1,488	39,955
Changes during period						
Dividends of surplus		(2,208)			—	(2,208)
Profit		3,253			—	3,253
Purchase of treasury shares	(3)	(3)			—	(3)
Disposal of treasury shares	4	4			—	4
Net changes in items other than shareholders' equity		—	1,924	(1)	1,923	1,923
Total changes during period	0	1,045	1,924	(1)	1,923	2,968
Balance at end of period	(2,012)	39,512	3,413	(1)	3,411	42,924

## Notes to Non-consolidated Financial Statements

### Significant Accounting Policies

1. Valuation basis and methods for assets
  - (1) Valuation basis and methods for securities
    - (i) Shares in subsidiaries and affiliates  
Stated at cost determined by the moving average method.
    - (ii) Available-for-sale securities  
Securities other than equity securities, etc. without market value  
Stated at fair value.  
(Valuation differences are booked directly in a separate component of net assets, and cost of securities sold is determined by the moving average method.)  
  
Equity securities, etc. without market value  
Stated at cost determined by the moving average method.
  - (2) Valuation basis and methods for net receivables and payables arising from derivatives  
Stated at fair value.
  - (3) Valuation basis and methods for inventories  
Merchandise and finished goods, work in process, and raw materials and supplies are stated at cost, determined by the periodic average method (carrying amounts calculated with consideration of write-downs due to decreased profitability).
2. Accounting method for depreciation and amortization of non-current assets
  - (1) Property, plant and equipment  
The straight-line method is applied.  
Major useful lives are as follows:  
  
Buildings and structures: 10 to 50 years  
  
Machinery and equipment: 9 years
  - (2) Intangible assets  
Software (for internal use)  
For amortization of software, the straight-line method based on the estimated internal use period (five years) is applied.
3. Accounting policy for allowance and provisions
  - (1) Allowance for doubtful accounts  
To allow for losses on bad debts arising from trade receivables, loans receivable, and other receivables, the Company provides an allowance for the estimated amount of doubtful receivables deemed uncollectible. This allowance is based on historical default rates for general receivables and on an individual analysis of collectability for doubtful receivables and other specific receivables.
  - (2) Provision for bonuses  
To allow for payment of bonuses to employees, the Company records a provision for the estimated payment amount to be borne in the fiscal year under review.
  - (3) Provision for bonuses for directors (and other officers)  
To allow for payment of bonuses to Directors and other officers, the Company records a provision for the estimated payment amount to be borne in the fiscal year under review.

(4) Provision for retirement benefits

To allow for employee retirement benefits, the Company records a provision based on expected amounts of retirement benefit obligations and plan assets as of the end of the fiscal year under review.

(i) Method of attributing expected retirement benefits to periods

In the calculation of retirement benefit obligations, expected retirement benefits are attributed to the period up to the end of the current fiscal year on a benefit formula basis.

(ii) Method of amortizing actuarial gains and losses and past service cost

Past service cost is amortized using the straight-line method over a certain period (13 years) that is shorter than the average remaining years of service of employees at the time of incurring the cost. Actuarial gains and losses are amortized using the straight-line method over a certain period (10 years) that is shorter than the average remaining years of service of employees at the time of accruing the gain or loss in each fiscal year, from the fiscal year following the accrual of each gain or loss.

(5) Provision for share awards for directors (and other officers)

To allow for granting of the Company's shares to Directors and other officers based on regulations for granting of shares to officers, the Company records a provision for the estimated granting amount to be borne as of the end of the fiscal year under review.

(6) Provision for environmental measures

To allow for future expenses on treatment of polychlorinated biphenyl (PCB) wastes expected to be incurred pursuant to the Act on Special Measures concerning Promotion of Proper Treatment of PCB Wastes, the Company records a provision for estimated amounts required.

4. Accounting policy for recognition of revenues and expenses

Revenues of the Company primarily come from the sale of its products. The performance obligations are fully satisfied when goods or services are delivered. For transactions in Japan, paragraph 98 of the "Implementation Guidance on Accounting Standard for Revenue Recognition" is applied to recognize revenue at the time of shipment of products. As for export transactions, revenue is recognized at the time of transfer of risks to customers based on the trade terms provided in the Incoterms and others.

5. Other important matters forming the basis for preparation of non-consolidated financial statements

(1) Accounting policy for translation of foreign currency assets and liabilities into Japanese yen

Monetary receivables and payables in foreign currencies are translated into Japanese yen at the spot exchange rate prevailing as of the non-consolidated balance sheet date, and translation differences are accounted for as profit or loss.

(2) Accounting methods for hedging

(i) Hedge accounting

In principle, the deferral hedge accounting is applied. The exceptional accounting treatment is applied to interest rate swap contracts that meet the requirements for exceptional accounting.

The assignment accounting treatment is applied to forward exchange contracts and currency swap contracts that meet the requirements for assignment accounting.

(ii) Hedged items and hedge instruments

a. Hedge instruments: forward exchange contracts and currency swap contracts

Hedged items: accounts receivable - trade and forecast transactions denominated in foreign currencies

b. Hedge instruments: interest rate swap contracts

Hedged items: interest on borrowings

(iii) Hedging policies

Pursuant to the Company's internal management regulations, interest rate swap contracts are used for the purpose of hedging the interest rate fluctuation risks on borrowings, and forward exchange contracts and currency swap contracts are used for the purpose of hedging the exchange rate fluctuation risks.

(iv) Assessing hedge effectiveness

If hedge instruments and hedged items have the same material conditions, they are deemed highly effective and thus assessment of hedge effectiveness is omitted. For other hedges, hedge effectiveness is assessed by comparing the accumulated fluctuations in market rates or cash flows of the hedged items and the hedge instruments based on the ratio of those fluctuations.

(3) Accounting for retirement benefits

The method of accounting for unrecognized actuarial gains or losses and unrecognized past service cost pertaining to retirement benefits is different from the method of accounting for these items in consolidated financial statements.

(4) Additional information

Board benefit trust (BBT) for Directors

The Company has put in place a board benefit trust (BBT), which is a performance-linked share-based remuneration plan, to incentivize Directors to improve performance and increase corporate value over the medium to long term.

Accounting treatment related to this trust agreement is based on the “Practical Solution on Transactions of Delivering the Company’s Own Stock to Employees etc. through Trusts” (PITF No. 30, March 26, 2015).

1) Overview of the transaction

This plan is a performance-linked share-based remuneration plan, under which the Company’s shares are acquired by a trust using funds contributed by the Company, and the Company’s shares and cash equivalent to the market value of the Company’s shares are provided to Directors and other beneficiaries from the trust in accordance with the regulations for granting of shares to officers established by the Company. In principle, the Company’s shares and associated remuneration will be provided to Directors and other beneficiaries on their retirement.

2) Treasury shares remaining in trust

The shares of the Company remaining in trust are recorded as treasury shares under net assets based on the book value in trust (excluding the amount of incidental costs). As of December 31, 2023, the number of such treasury shares was 596 hundred shares, amounting to a book value of 209 million yen. The average number of such shares for the fiscal year ended December 31, 2023, was 597 hundred shares. These shares are included in treasury shares to be deducted for the calculation of per share information.

## Significant Accounting Estimates

### *Loss on valuation of inventories*

(1) Carrying amount in the non-consolidated financial statements for the current fiscal year

Merchandise and finished goods: ¥7,697 million

Cost of sales (loss (gain) on valuation of inventories): ¥(622) million

Loss on valuation of inventories is stated at a net amount reflecting recorded amounts and reversals.

(2) Information regarding significant accounting estimates for identified items

This information is omitted because it is the same as the information stated in “Notes to Consolidated Financial Statements, Significant Accounting Estimates, Loss on valuation of inventories, (2) Description of accounting estimates” in the consolidated financial statements.

## Changes in Accounting Policies

### *Application of Implementation Guidance on Accounting Standard for Fair Value Measurement*

The Company has applied the “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, June 17, 2021; hereinafter referred to as the “Fair Value Measurement Implementation Guidance”) from the beginning of the fiscal year ended December 31, 2023, and will prospectively apply the new accounting policies stipulated by the Fair Value Measurement Implementation Guidance in accordance with the transitional treatment provided for under Paragraph 27-2 of the Fair Value Measurement Implementation Guidance. This change in accounting policy has no impact on the non-consolidated financial statements.

## Notes to Non-consolidated Balance Sheets

### \*1 Monetary receivables from and monetary payables to subsidiaries and associates

	(Millions of yen)	
	As of December 31, 2022	As of December 31, 2023
Short-term monetary receivables	3,767	4,342
Long-term monetary receivables	2,000	2,000
Short-term monetary payables	989	1,263

### \*2 Assets pledged as collateral

The following properties are registered as factory foundations, which comprise the factory’s buildings, structures, machinery and equipment, vehicles, tools, furniture and fixtures, and land. These factory foundations have been pledged as collateral for obligations as follows.

#### [Pledge]

	(Millions of yen)	
	As of December 31, 2022	As of December 31, 2023
Toyama Plant	4,827	4,613
Shiga Plant	2,851	3,171
Total	7,679	7,785

#### [Obligations]

	(Millions of yen)	
	As of December 31, 2022	As of December 31, 2023
Short-term borrowings	2,710	2,710
Total	2,710	2,710

### \*3 Notes matured at the end of the fiscal year

Notes are settled as of the note exchange date.

The following notes matured at the end of the fiscal year were included in the closing balance, because December 31, 2023 was a non-business day for financial institutions.

	(Millions of yen)	
	As of December 31, 2022	As of December 31, 2023
Notes receivable - trade	85	76

## Notes to Non-consolidated Statements of Income

### \*1 Items related to subsidiaries and associates

	(Millions of yen)	
	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Amount of transactions from business transactions		
Net sales	6,421	7,948
Purchase of goods	1,870	2,071
Amount of transactions through transactions other than business transactions	677	705

### \*2 Major components of selling, general and administrative expenses and their approximate ratio are as follows:

	(Millions of yen)	
	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Depreciation	27	31
Packing cost	327	355
Freight costs	749	526
Sales commission	238	267
Salaries	390	385
Retirement benefit expenses	35	34
Provision for share awards for directors (and other officers)	15	25
Provision for bonuses	78	63
Provision for bonuses for directors (and other officers)	58	61
Research and development expenses	276	324

#### Approximate ratio

Selling expenses:	43%	38%
General and administrative expenses:	57%	62%

### \*3 The breakdown of loss on retirement of non-current assets is as follows:

	(Millions of yen)	
	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Facilities related to electrodes and fine carbon	133	88
Other	4	—
Total	137	88

### \*4 Loss of fire

This is the cost of restoring production facilities lost in a fire at the Shiga Plant in June 2023. In addition, the Company has received the finalized amount of fire insurance proceeds and recorded it under insurance claim income under non-operating income.

## Securities

As of December 31, 2022

Carrying amounts of shares, etc. without market value

(Millions of yen)

Category	As of December 31, 2022
(1) Shares of subsidiaries	1,639
(2) Share of associates	1,477
Total	3,116

As of December 31, 2023

Carrying amounts of shares, etc. without market value

(Millions of yen)

Category	As of December 31, 2023
(1) Shares of subsidiaries	1,639
(2) Share of associates	1,477
Total	3,116



## Deferred Tax Accounting

### 1. Major components of deferred tax assets and liabilities

	(Millions of yen)	
	As of December 31, 2022	As of December 31, 2023
Deferred tax assets		
Excess of allowance for doubtful accounts	0	1
Provision for retirement benefits	91	88
Loss on valuation of inventories	239	47
Enterprise taxes payable	49	38
Provision for bonuses	41	37
Gain on sale of businesses	306	306
Impairment losses	422	378
Other	215	260
Subtotal	1,367	1,158
Valuation allowance	(954)	(929)
Total	412	229
Deferred tax liabilities		
Valuation difference on available-for-sale securities	(657)	(1,506)
Other	(100)	(95)
Total	(758)	(1,601)
Net deferred tax liabilities	(345)	(1,372)

(Note) Net deferred tax assets as of December 31, 2022 and December 31, 2023 are included in the following items on non-consolidated balance sheets.

	(Millions of yen)	
	As of December 31, 2022	As of December 31, 2023
Non-current liabilities - deferred tax liabilities	(345)	(1,372)

### 2. Reconciliation of differences between the statutory effective tax rate and the actual effective rate of income taxes after application of deferred tax accounting

	As of December 31, 2022 (%)	As of December 31, 2023 (%)
Statutory effective tax rate	30.6	30.6
(Adjustments)		
Income not taxable permanently, such as dividend income	(1.8)	(2.4)
Expenses not deductible permanently, such as entertainment expenses	1.0	1.0
Expenses not deductible permanently, such as bonuses for directors (and other officers)	0.4	0.4
Increase (decrease) of valuation allowance	(0.4)	(0.6)
Tax credits	(1.6)	(1.9)
Other	0.4	1.7
Effective rate of income taxes after application of deferred tax accounting	28.7	28.8

## Revenue Recognition

The note for underlying information to understand revenue from contracts with customers is omitted, because the same information is provided in “Notes to Consolidated Financial Statements, Revenue Recognition.”

## Subsequent Events

Not applicable

### (iv) Annexed Non-consolidated Detailed Schedules

[Annexed detailed schedule of property, plant and equipment, etc.]

(Millions of yen)

Type of assets	Balance at beginning of period	Increase	Decrease	Balance at end of period	Accumulated depreciation and amortization at end of period	Depreciation and amortization	Net balance at end of period
Property, plant and equipment							
Buildings	8,647	64	44	8,667	6,582	150	2,084
Structures	1,524	9	6	1,527	1,062	53	465
Machinery and equipment	29,788	1,116	323	30,581	25,109	886	5,472
Vehicles	118	2	—	120	112	7	7
Tools, furniture and fixtures	1,279	44	18	1,304	1,059	64	245
Land	3,166	—	—	3,166	—	—	3,166
Construction in progress	95	1,469	1,390	173	—	—	173
Total	44,619	2,705	1,783	45,541	33,925	1,162	11,616
Intangible assets							
Software	—	—	—	152	—	46	105
Other	—	—	—	7	—	—	7
Total	—	—	—	159	—	46	112
Long-term prepaid expenses	254	4	25	233	229	54	3

(Notes) 1. Major increases of property, plant and equipment included the following.

(Millions of yen)

Toyama Plant	Upgrades to electrode production facilities	400
Shiga Plant	Enhancement of and upgrades to carbon fiber production facilities	689

- Balance at beginning of period, increase, and decrease of intangible assets are omitted because intangible assets accounted for no more than 1% of total assets.
- Accumulated depreciation and amortization at end of period includes accumulated impairment losses.
- Balance at beginning of period and balance at end of period are stated at acquisition cost.

[Annexed detailed schedule of allowance and provisions]

(Millions of yen)

Account title	Balance at beginning of period	Increase	Decrease	Balance at end of period
Allowance for doubtful accounts	2	3	2	3
Provision for bonuses	135	121	135	121
Provision for bonuses for directors (and other officers)	58	61	58	61
Provision for share awards for directors (and other officers)	85	25	6	104
Provision for environmental measures	0	—	—	0

(Notes) 1. Reasons for recording allowance and provisions and methods of calculating their amounts are stated in “Significant Accounting Policies.”

2. The decrease in allowance for doubtful accounts was due to an annual reversal.

3. The decrease in provision for share awards for directors (and other officers) was due to the reversal of points scheduled to be granted that were accumulated in prior years.

(2) Components of Major Assets and Liabilities

This information is omitted because the Company prepares consolidated financial statements.

(3) Other

Not applicable