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To Our Shareholders:

## **Disclosure Items in accordance with Laws and Regulations and the Articles of Incorporation**

The 75th Fiscal Year (from April 1, 2020 to March 31, 2021)

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June 4, 2021  
Elematec Corporation

The above items are deemed to have been provided to our shareholders upon being posting on the Company's website (<http://www.elematec.com/ir/>) in accordance with the provisions of laws and regulations and Article 17 of the Articles of Incorporation of the Company.

These were audited by the Audit & Supervisory Board Members and the Accounting Auditor when preparing the Audit Report.

## **System for Ensuring Proper Business Operation and Operating Status of Such System**

### **1. Details of Resolutions for Developing Systems, etc. to Ensure the Appropriateness of Business Operations**

The following is details of resolutions for systems to ensure that Directors perform their duties in compliance with laws, regulations and the Company's Articles of Incorporation, and other systems to ensure the appropriateness of the Company's business operations.

#### **a. System to ensure that the execution of duties by Directors and employees complies with laws and regulations and the Articles of Incorporation**

- 1) In order to ensure that Directors, Executive Officers, and employees (workers) comply with laws and regulations, social ethics, and corporate ethics, the "Code of Business Practice" is established in the Compliance Regulations.
- 2) In accordance with corporate ethics, we shall stand resolutely against antisocial forces that threaten the order and safety of civil society, and shall not have any relationship with them.
- 3) With regard to the establishment and operation of the compliance system, related policies, responses and important matters shall be discussed and decided in the "Management Committee" (consisted of Representative Directors, Executive Officers(Corporate) and Division Director, and is chaired by Chief Executive Officer and Chairman of the Board).
- 4) Compliance with the "Code of Business Practice" and compliance efforts are overseen by Human Resources & General Affairs Department as the secretariat of the Management Committee, which analyzes risks inherent in new businesses and new projects and reports them to the Management Committee in a timely manner. In addition, Human Resources & General Affairs Department reports to the Board of Directors as necessary. Furthermore, Human Resources & General Affairs Department conducts employee training and various internal meetings to raise awareness of the significance of compliance.
- 5) If a Director, Executive Officers and employee discovers a compliance problem, the Director, Executive Officers and employee shall report or whistle blow the problem through the normal reporting channels or the whistle-blowing system as a means of reporting, which is different from the normal ones, as stipulated in the Compliance Regulations.
- 6) For internal control over financial reporting, the Company shall develop and enhance systems necessary to ensure the appropriateness and reliability of financial reporting.

#### **b. Matters related to the storage and management of information related to the execution of duties by Directors**

- 1) Information regarding the execution of duties by Directors shall be stored and managed by the Human Resources & General Affairs Department in accordance with the Document Management Regulations.
- 2) Directors and Audit & Supervisory Board Members may inspect documents (including electromagnetic media records) at any time pertaining to the execution of duties by Directors, Executive Officers, and employees, which are required to be managed by the Document Management Regulations.
- 3) Revision or abolishment of the Document Management Regulations is internally approved for the draft prepared by the Human Resources & General Affairs Department and approved by the Board of Directors.

**c. Regulations and other systems concerning the management of risk of loss**

- 1) Business Support Department supervises the risk management in the Company and the Group based on the Risk Management Regulations, which specify the risk analysis, classification and response system. When new risks are identified, Business Support Department analyzes and classifies them, and proposes to revise or abolish Risk Management Regulations. Revision or abolishment of the Risk Management Regulations is internally approved for the draft made by the Business Support Department and approved by the Board of Directors.
- 2) In the event that the risks assumed in Risk Management Regulations have actualized or other serious risks have occurred, Chief Executive Officer and Chairman of the Board (or its representative) shall take overall control and organize an emergency headquarters, and a person designated by the Division Manager of the emergency headquarters who is directly responsible for calming the crisis shall work with the emergency headquarters to limit the spread of the crisis or damage. The process during this period is reported by the person in charge of implementation to the emergency headquarters. The emergency headquarters determines the policy for the countermeasures and reports the details of the implementation to the Board of Directors.
- 3) In cases where the impact of actualized or occurring risks on the Company's management is relatively minor and where only a limited number of departments or parties are involved, this shall be dealt with by the Management Committee and the normal division of duties and chain of command.

**d. System to ensure efficient execution of duties by Directors**

- 1) The Company shall establish decision-making rules for Directors, Executive Officers and employees in accordance with the Authority for Duties Regulations and the Approval Request Regulations, clarify the authority and responsibilities of each officer, and establish a proper and efficient system.
- 2) Monthly reports and reviews are conducted on the performance of each business division, profits and losses of the Company and its affiliates, management indicators deemed important by the Company, and general conditions of internal audits. The "Division Director Committee" (consisted of Representative Directors and all Executive Officers and Division Directors, and is chaired by Chief Executive Officer and Chairman of the Board) is held once a month to determine the following activity policies.
- 3) Prior to the submission of resolutions to the Board of Directors, for important projects such as investments, including the planning stage, relevant officers meetings are held to discuss and coordinate pending issues and to disseminate information.
- 4) "Sales Division Directors Committee" (consisted of Representative Directors, Executive Officers and Division Directors(Sales and Development), and is chaired by Chief Executive Officer and Chairman of the Board) is held once a month for the purpose of sharing sales and development information.
- 5) At the end of the fiscal year, the budget for the following fiscal year and beyond shall be formulated and approved by the Board of Directors. At the end of the interim fiscal year, the budget achievement forecast for the second half shall be formulated and reported to the Board of Directors.

**e. System to ensure the appropriateness of business operations in the Company and the Group, which is comprised of the parent company and the subsidiaries**

- 1) Executive Officers or Division Directors and Chief Executive Officer and Chairman of the Boards of Group companies in charge of each division of the Company or Group company shall establish, maintain and operate internal controls to ensure the appropriate execution of business at each division or Group company. For the establishment and maintenance of internal controls, based on the responses for efficient business execution described in 4) below and the results of the internal audit described in 5) below, Executive Officers(Corporate) and Division Directors of the Company gather information as necessary, and the specialized staff of each administrative division of the Company provide support.
- 2) The Chief Executive Officer and Chairman of the Boards of each Group company shall, in accordance with Affiliate Company Management Regulations and Budget Management Regulations of the Company, obtain the Company's approval for necessary matters, and report financial conditions, including financial results and administrative results, as well as operating results and other important information to the Executive Officers or Division Directors of the Company in charge of each Group company, and administrative divisions of the Company, which has jurisdiction over reported matters. Upon receiving such reports, the Executive Officers or Division Directors in charge of each company, or the administrative division of the Company in charge of matters reported shall report at the Division Directors Committee and Sales Division Directors Committee held once a month. This will maintain and enhance the reporting system to the Company regarding the execution of duties by directors and others at Group companies.
- 3) The Group shall maintain and enhance the regulations and other systems for managing the risk of loss at each Group company by positioning each Group company as same as each division of the Company, and comprehensively managing all companies in accordance with Risk Management Regulations of the Company.
- 4) System to ensure efficient execution of duties by directors and others of each Group company shall be maintained and enhanced through the formulation of business plans, etc. on a consolidated basis in accordance with Budget Management Regulations, etc. of the Company, provision of guidelines, etc. from each administrative division of the Company that contribute to the management of indirect business operations, etc. of each Group company, and reports and consultations to each administrative division of the Company from each Group company.
- 5) Each Group company shall establish and operate individual Compliance Regulations to ensure that the execution of duties by directors and employees complies with laws and regulations and the Articles of Incorporation. Internal Auditing Office of the Company conducts internal audits of the Company and the companies of the Group, and reports the results to Representative Directors of the Company, Executive Officers or Division Directors of the Company in charge of each division of the Company or Group company, Executive Officers(Corporate) and Division Directors of the Company, and explains the results to the General Managers of divisions subject to audits and the Chief Executive Officer and Chairman of the Boards of Group companies.
- 6) While ensuring the independence of management, the Group, as a member of the parent company (Toyota Tsusho Corporation) group, shares the spirit of the group basic principles and seeks to harmonize with a system to ensure the appropriateness of operations for the entire parent company group. In addition, contracts and terms and conditions with the parent company group shall be rationally determined with reference to the contract terms and market prices in transactions with other customers.

- f. In cases where Audit & Supervisory Board Members has requested employees to be assigned to assist with their duties, matters concerning the system on such employee, the independence of such employee from the Directors, and the effectiveness of instructions given to such employee**
- 1) Secretariat of the Audit & Supervisory Board, which is held concurrently by a member of Finance & Accounting Department, assists in the exchange of information with the Accounting Auditors and in other matters related to audit operations. At the request of Audit & Supervisory Board Members, other members of the Corporate Division also concurrently serve as the Secretariat of the Audit & Supervisory Board.
  - 2) Audit & Supervisory Board Members may order employees of each administrative division including Internal Auditing Office to carry out matters necessary for audit operations. The member who received such an order shall, in accordance with the direction of the Audit & Supervisory Board Member, investigate the matter independently from the internal chain of command and report the results directly to the Audit & Supervisory Board Member.
  - 3) Chief Executive Officer and Chairman of the Board shall explain to the Audit & Supervisory Board Member in advance and hear the opinions of the Audit & Supervisory Board Member regarding the issuance of personnel changes or disciplinary actions against members who are ordered by the members of the secretariat office of the Audit & Supervisory Board or Audit & Supervisory Board Member to carry out matters necessary for audit operations.
- g. A system for the officers and employees, etc. of the Company and its subsidiaries to report to Audit & Supervisory Board Members of the Company, and a system to ensure that those who have made such reports are not treated adversely for the reason of making such reports
- 1) Directors of the Company shall report to Audit & Supervisory Board Members of the Company the matters related to each Group company as follows:
    - a) In the event of a situation that may cause serious damage to the Group, facts, circumstances, response policy and its results
    - b) Matters on monthly profit and loss trends and other management status of Group companies
    - c) Matters on the status of internal audits
    - d) Important matters on risk management and compliance management
  - 2) When Audit & Supervisory Board Members of the Company request reports from Executive Officers and employees of the Company, or from the officers and employees of Group companies (hereinafter referred to as "Group officers and employees") for the matters of information that the Audit & Supervisory Board Members judged necessary to perform audit, the relevant Group officers and employees shall adjust all business schedules and give highest priority to the Audit & Supervisory Board Members of the Company.
  - 3) The Company shall not treat Group officers and employees who have reported to the Audit & Supervisory Board Members of the Company in an adverse manner for the reason of making such reports.

**h. System to ensure that matters related to policies concerning the processing of costs or obligations that arise in connection with the execution of the duties of Audit & Supervisory Board Members and other audits by Audit & Supervisory Board Members are conducted effectively**

- 1) The Company shall appropriate expenses incurred in connection with the execution of the duties of Audit & Supervisory Board Members in the general and administrative expense budget each year.
- 2) The Company shall, when requested by Audit & Supervisory Board Members to pay expenses required for ordinary audits or extraordinary expenses in connection with audits (including requests for advance payments of expenses under Article 388 of the Companies Act), hold deliberations in accordance with the decision-making authority of the department in charge, and promptly process payments unless it is determined that expenses and obligations related to such requests are not based on the execution of duties by Audit & Supervisory Board Members.
- 3) Other than meetings of the Board of Directors, Audit & Supervisory Board Members may attend other important meetings such as Division Directors Committee of the Company.
- 4) Audit & Supervisory Board Members may accompany an audit conducted by an Accounting Auditor and an audit conducted by the Internal Auditing Office, and attend meetings that report the results of the audit.

**2. Outline of the Implementation Status of Systems to Ensure the Appropriateness of Business Operations**

**a. Systems to ensure that Directors and employees perform their duties in compliance with laws, regulations and the Articles of Incorporation**

1) Compliance system

Within the Company, the Management Committee, which supervises compliance activities, establishes and operates the system, thereby fostering awareness of compliance throughout the entire Group.

In addition, the Management Committee supervises compliance activities, and the Human Resources & General Affairs Department as the secretariat conducts in-house education to raise awareness of overall compliance issues, reports details as appropriate, and gives reminders, notices, and notifications to all Group employees or relevant persons as necessary. Furthermore, the Company includes elimination of relationships with antisocial forces as part of the Code of Business Practice in the Compliance Regulations established by the Company, and disseminates it through in-house education conducted by the Human Resources & General Affairs Department.

The Company also specifies details of the whistle-blowing system in the Compliance Regulations, and establishes the system under which reports to internal and external contact points (if any) are reported to the Management Committee via the compliance secretariat or full-time Audit & Supervisory Board Members according to the matter without adverse treatment of the whistleblower for the reason of making such reports. Whether or not such reports are made is reported to the Management Committee once a month.

2) Internal control over financial reporting

The Company has established the Regulations for Internal Control over Financial Reporting, and holds meetings of the Internal Control Operation Committee every other month.

The Committee conducts discussions and reviews to ensure the appropriateness and reliability of financial reporting mainly for the entire Group based on operational challenges and the results of general control audits conducted by the Internal Auditing Office.

**b. Matters which information regarding the performance of duties by Directors shall be stored and managed**

The Company establishes and implements the Document Management Regulations approved by the Board of Directors, and the secretariats of various meetings hosted or attended by Directors store the documents or data of the minutes and summaries.

They may be inspected as necessary at the request of Directors and Audit & Supervisory Board Members.

**c. Regulations and other systems for the risk management of loss**

The Company establishes and implements the Risk Management Regulations, and holds a meeting of the Risk Analysis Committee every fiscal year to analyze risk events surrounding the Group and to verify the impacts on the management of each item. The details are reported at the Management Committee and to the Accounting Auditor.

In order to minimize losses or disadvantages incurred by the Company and each Group company, the Company has specified the standard for setting up an emergency headquarters according to risks and the manuals for emergency response systems. The Company has also established the Business Continuity Management (BCM) and the Business Continuity Plan (BCP), and reviews as appropriate the system, procedures, and others, including these.

With regard to COVID-19, the Company has set up the COVID-19 headquarters headed by the Chief Executive Officer and Chairman of the Board. The headquarters gathers information, and considers and implements countermeasures, reporting the details as

appropriate to the Board of Directors.

**d. Systems to ensure efficient performance of duties by Directors**

The Company conducts the following two items to ensure efficient execution of duties of Directors.

1) Authority for duties and approval requests

The Company establishes and applies the Authority for Duties Regulations and the approval list as its appendix, and the Approval Request Regulations.

The Internal Auditing Office confirms that the approvals for various operations are granted appropriately through operational audits and others.

With regard to approval requests, the Human Resources & General Affairs Department first examines them and circulates documents so that the functional authority and responsibilities of each officer are appropriate.

2) Holding various meetings

Monthly reports and reviews are conducted on the profit-loss situation of Group companies, management indicators, and general conditions of internal audits based on budgets and others by the Division Directors Committee. Sales and development information are shared by the Sales Division Directors Committee.

The draft budget for the following fiscal year and beyond is formulated after discussions at a budget meeting held at the beginning of the year and finalized by the approval of the Board of Directors.

In the middle of the year, the progress and forecast of the budget are reviewed at the budget review meeting for the second half and are reported to the Board of Directors.

In addition, all proposals submitted to the Board of Directors are approved as described in the preceding paragraph, and according to the importance of proposals in the approval process, relevant officers meetings are held to discuss and coordinate pending issues and to disseminate information.

**e. System to ensure the appropriateness of business operations within the Company and the Group, which comprises the parent company and subsidiaries**

In order to establish, develop, and implement the system to ensure the appropriateness of business operations within the Company and the Group companies, issues to be dealt with by each company are reported and reviewed by the Division Directors Committee and the Sales Division Directors Committee through the recognized management status of the monthly financial results of each company and the results of internal audits, etc.

The staff of each administrative division of the Company provide advice and support to resolve and improve these issues.

**f. In cases where Audit & Supervisory Board Members have requested employees to be assigned to assist with their duties, matters concerning the system regarding such employees, the independence of such employees from Directors, and the effectiveness of instructions given to such employees**

The Company appoints two secretariat members to assist with the duties of Audit & Supervisory Board Members, who provide support at the request of Audit & Supervisory Board Members.

Audit & Supervisory Board Members provide guidance or advice as necessary for audit operations conducted by the Internal Auditing Office.



- g. A system for the officers and employees, etc. of the Company and its subsidiaries to report to Audit & Supervisory Board Members of the Company, and a system to ensure that those who have made such reports are not treated adversely for the reason of making such reports**

Audit & Supervisory Board Members attend various meetings of the Company, and receive reports on the system to ensure the appropriateness of business operations, monthly financial results of each Group company, and other matters.

All employees of the Group shall provide information and reports necessary for audit operations at the request of Audit & Supervisory Board Members, and the Company shall not treat such employees who provide information or reports in an adverse manner.

- h. A system to ensure that matters related to policies concerning the processing of costs or obligations that arise in connection with the execution of the duties of Audit & Supervisory Board Members and other audits by Audit & Supervisory Board Members are conducted effectively**

Audit & Supervisory Board Members, as their duties, observe an operational audit conducted by the Internal Auditing Office, accompany an audit conducted by the Accounting Auditor, and attend meetings that report the results of the audit, etc. The Company promptly reimburses them for expenses incurred in the execution of their duties at their request.

## **Basic Policy for Control of Company**

### **1. Summary of the Basic Policy**

In the electronics industry, the Group utilizes its traditional trading company function, information gathering function, logistics function, and other functions to engage in product sales activities, while adding new value to both customers and suppliers.

We consider it is necessary for the Group, which has a social responsibility to give the utmost consideration to providing benefits to a wide range of stakeholders, not just shareholders, customers, suppliers, and employees, to conduct business activities by paying attention to maintaining harmony with local communities and environment. We consider that a person who controls the Group's financial and business policy decisions should be in a position to pay attention to contributing benefits of these stakeholders, and to maintaining and enhancing the Company's corporate value and the common interests of shareholders over the medium to long term.

On the other hand, the shares of the Company as a listed company are permitted to be freely traded by its shareholders and investors. Even if a large-scale acquisition of the Company's shares is conducted, the Company will not unconditionally reject it, and believes that shareholders should freely make the final decision.

However, a large-scale acquisition to obtain control, which would have immediate and significant impacts on the Company's management if were to succeed, has the potential to materially impact the Company's corporate value and the common interests of shareholders.

The Company believes that, among others, a large-scale acquisition that would be detrimental to the Company's corporate value and the common interests of shareholders would be inappropriate, and that a person who conducts such an acquisition would be inappropriate for controlling the Company's financial and business policy decisions.

### **2. Activities that Contribute to Achieving the Basic Policy**

The Group aims to contribute to the development of society by fulfilling its corporate social responsibilities and achieving sound business growth in the course of its daily business activities. In order to enable a large number of shareholders and investors to invest in the Company on a long term and ongoing basis, we will strive to maximize the Company's corporate value over the medium to long-term.

The specific details of the management strategy aimed at maximizing corporate value are as described in "1. Current Status of the Group (1) Business conditions during the fiscal year under review 4) Corporate Strategies and Issues to Be Addressed " in the Notice of the 75th Ordinary General Meeting of Shareholders.

**3. Specific Measures to Prevent a Person Considered Inappropriate in the Light of the Basic Policy from Controlling the Company's Financial and Business Policy Decisions**

As measures to prevent a person considered inappropriate in the light of the Basic Policy described in 1. above from controlling the Company's financial and business policy decisions, the Company introduced the takeover defense plan at the 61st Ordinary General Meeting of Shareholders held on June 22, 2007, and revised it upon receiving approval by a resolution of the 62nd Ordinary General Meeting of Shareholders held on June 20, 2008 (hereinafter the revised takeover defense plan is referred to as the "Plan").

However, the threat of a large-scale acquisition that would be detrimental to the Company's corporate value and the common interests of shareholders is considered to be relatively small. Furthermore, revisions to the Financial Instruments and Exchange Act and other laws and regulations have established and revised procedures regarding large-scale acquisitions. As a result, the objective of the Plan, which was to ensure that shareholders had the information and time needed to reach a proper decision, has been achieved to some degree.

After giving careful consideration in a review of the Plan expiring at the close of the Ordinary General Meeting of Shareholders held in June 2011 at a Board of Directors meeting held at May 10, 2011, comprehensively taking into account these situations, the Company resolved not to continue the Plan after the 65th Ordinary General Meeting of Shareholders held in June 17, 2011.

If a large-scale acquisition of the Company's shares is conducted, the Company will actively gather and appropriately disclose information with regard to whether or not such acquisition would be detrimental to the Company's corporate value or the common interests of shareholders, and will take actions that its Board of Directors decide are necessary and appropriate to the extent permitted by the Companies Act, other relevant laws and regulations, and the Articles of Incorporation. In addition, depending on upcoming social trends, if the Board of Directors determines that a takeover defense plan needs to be reintroduced, it will submit a proposal at a shareholders meeting in accordance with the provisions of the Articles of Incorporation.

**4. Decisions on Special Activities by the Company's Board of Directors and the Reasons Therefor**

Based on the Basic Policy described in 1. above, the Company has formulated the activities described in 2. above as key measures to enhance the Company's corporate value and secure the common interests of shareholders, and they are truly in accordance with the Basic Policy. These activities are aimed at enhancing the Company's corporate value and securing the common interests of shareholders and are not for the purpose of maintaining the positions of the Company's Officers.

## **Consolidated Financial Statements**

### **1. Notes to the Significant Matters as the Basis for the Preparation of the Consolidated Financial Statements**

#### **(1) Scope of Consolidation**

Status of consolidated subsidiaries

The number of consolidated subsidiaries 22

The names of major consolidated subsidiaries are as described in "1. Current Status of the Group (2) Status of Parent Company and Significant Subsidiaries (ii) Status of Significant Subsidiaries" in the Business Report.

#### **(2) Application of the Equity Method**

Status of non-consolidated subsidiaries and associates to which the equity method is applied

The number of affiliates to which the equity method is applied 0

#### **(3) Accounting Policies**

##### **(i) Evaluation standards and methods for significant assets**

###### **a. Securities**

Other securities:

Securities with market value

Stated at market value based on the quoted market price and other factors at the date of financial settlement

(Valuation difference is reported as a component of net assets, and the cost of securities sold is calculated by the moving-average method.)

Securities without market value

Stated at cost based on the moving-average method

###### **b. Derivatives**

Stated at market value method

###### **c. Inventories**

Merchandise, finished goods and raw materials:

Stated at cost based on the moving-average method (Amounts in the balance sheet are calculated after book value is written down based on a decrease in profitability.)

##### **(ii) Method of depreciation and amortization for significant depreciable assets**

###### **a. Property, plant and equipment**

Amortization is calculated by the straight-line method

###### **b. Intangible assets (excluding leased assets)**

Amortization is calculated by the straight-line method.

###### **c. Leased assets**

Depreciation of leased assets is calculated by the straight-line method, with lease periods of such assets being useful lives, and residual values being zero.

(iii) Accounting standards for significant allowances and provisions

a. Allowance for doubtful accounts:

To prepare for possible losses on accounts receivable, the Company sets aside an amount that is expected to be irrecoverable, after it considers the possibility of recoverability of (a) general accounts receivable, by actual default ratio, and (b) specific accounts receivable where recoverability is in doubt, on a case-by-case basis.

b. Provision for bonuses:

To prepare for the provision of bonuses for employees, the Company sets aside an estimated amount for the provision of bonuses for the current fiscal year in which such amounts shall be disbursed.

(iv) Significant hedge accounting methods

a. Method of hedge accounting: Deferred hedge accounting is applied.

b. Hedging instruments and hedged items

Hedging instruments: Forward exchange contracts and currency options.

Hedged items: Monetary claims and monetary liabilities denominated in foreign currencies, and forecasted transactions denominated in foreign currencies.

c. Hedging policy: The Company engages in hedge transactions for the purpose of avoiding exchange fluctuation risk arising from monetary claims and monetary liabilities denominated in foreign currencies, etc.

d. Method of evaluating hedging effectiveness: With regard to forward exchange contracts and currency options, a judgment on hedging effectiveness is omitted as an important condition regarding hedging instruments and items hedged are the same, and they are considered to be able to completely offset exchange fluctuations or they are based on future forecasted transactions with a very high likelihood of being exercised.

(v) Other significant matters as the basis for the preparation of the consolidated financial statements

a. Recognition criteria for net defined benefit assets and net defined benefit liabilities

To prepare for the retirement benefits of employees, an amount deducting the pension asset amount from retirement benefit obligations is recorded as net defined benefit liabilities based on the estimated amount at the end of the current fiscal year. In the event that the pension asset amount exceeds retirement benefit obligations, the excess amount is recorded as net defined benefit assets. In calculating retirement benefit obligations, the method of attributing expected retirement benefits up until the current fiscal year is based on the benefit formula.

Actuarial differences are amortized using the straight-line method from the fiscal year following their accrual over a certain number of years (10 years) within the average remaining service period of employees at the time of their accrual.

Prior service costs are amortized using the straight-line method over a certain number of years (10 years) within the average remaining service period of employees at the time of their accrual.

Unrecognized actuarial differences and unrecognized prior service costs are posted to the cumulative adjustment related to retirement benefits under accumulated other comprehensive income in the net assets section after adjusting for tax effects.

b. Accounting procedures for consumption and other taxes:

Consumption and other taxes are not included in listed amounts.

## **2. Notes to Changes in Accounting Policies**

Not applicable.

## **3. Notes on Changes in Presentation Methods**

(Changes due to the application of "Accounting Standard for Disclosures of Accounting Estimates")

"Accounting Standard for Disclosures of Accounting Estimates" (ASBJ Statement No. 31, March 31, 2020) has been applied to the consolidated financial statements from the fiscal year under review, and notes on accounting estimates have been included in the consolidated financial statements.

## **4. Notes Relating to Accounting Estimates**

Allowance for doubtful accounts

The Group provides an allowance for doubtful accounts in the amount deemed to be uncollectible in the event of default. With regard to the classification of claims, general claims are those for which there is no actual possibility of a bad debt, and doubtful claims are those for which there is an actual possibility of a bad debt. For general receivables for which there is no actual possibility of a bad debt, each company of the Group estimates the uncollectible amounts in a lump sum against the ending balance of receivables based on historical write-off rates. Allowance for doubtful accounts (current assets) of 21 million yen is recorded at the end of the current fiscal year.

As stated above, the main assumptions used in calculating the amount of allowance for doubtful accounts (current assets) are the classification of receivables and the historical loan loss ratio. Although this amount is the best estimate at present, assessments of the financial positions of business partners and examinations of collectability, including the status of dormant trade receivables, are subject to the management's judgment, and changes in these conditions may affect the amount of allowance for doubtful accounts (current assets) set in the consolidated financial statements for the following fiscal year and beyond.

## **5. Notes to the Consolidated Balance Sheet**

(1)Assets Pledged as Collateral

Investment securities 57 million yen

The above assets are pledged as collateral for notes and accounts payable-trade of 241 million yen.

(2)Accumulated Depreciation of Property, Plant and Equipment

3,559 million yen

(2)Accumulated Depreciation of Investment Property

131 million yen

## 6. Notes to Consolidated Statements of Changes in Equity

### (1) Total Numbers of Shares Outstanding

Type of shares	Number of shares at the beginning of the current fiscal year	Number of shares increased in the current fiscal year	Number of shares decreased in the current fiscal year	Number of shares at the end of the current fiscal year
Common shares	42,304 thousand Shares	- thousand Shares	- thousand Shares	42,304 thousand Shares

### (2) Numbers of Treasury Shares

Type of shares	Number of shares at the beginning of the current fiscal year	Number of shares increased in the current fiscal year	Number of shares decreased in the current fiscal year	Number of shares at the end of the current fiscal year
Common shares	1,358 thousand Shares	- thousand Shares	- thousand Shares	1,358 thousand Shares

### (3) Appropriation of Retained Earnings

#### 1) Amounts paid as dividends and other matters

- a. Matters relating to dividends resolved at a Board of Directors meeting held on May 21, 2020

Total amount of dividends	614 million yen
Amount of dividend per share	15 yen
Record date	March 31, 2020
Date to come into effect	June 29, 2020

- b. Matters relating to dividends resolved at a Board of Directors meeting held on October 30, 2020

Total amount of dividends	532 million yen
Amount of dividend per share	13 yen
Record date	September 30, 2020
Date to come into effect	December 3, 2020

- 2) Dividends of which record date is in the current fiscal year, but which come into effect in the next fiscal year

They will be resolved as follows at a Board of Directors meeting to be held on May 21, 2021.

Source of dividends	Retained earnings
Total amount of dividends	941 million yen
Amount of dividend per share	23 yen
Record date	March 31, 2021
Date to come into effect	June 23, 2021

## 7. Notes to Financial Instruments

### (1) Matters Concerning the Status of Financial Instruments

#### (i) Policy for handling financial instruments

The Group procures funds as necessary in the light of the collection of accounts receivable-trade, the payment of accounts payable-trade and capital investment plans, and invests its surplus funds in low-risk financial instruments, such as term deposits. The Group uses derivatives transactions to avoid the risks described below, and will not enter into any speculative transactions.

#### (ii) Details of financial instruments and related risks

Trade receivables such as notes and accounts receivable-trade, and distressed receivables are exposed to customer credit risk. Trade receivables denominated in foreign currencies are exposed to exchange fluctuation risk, which are hedged using forward exchange contracts and currency options in principle.

Investment securities are primarily shares of companies with which the Group has business relations and are exposed to market price fluctuation risk.

Trade payables such as notes and accounts payable-trade have payment due dates mostly within one year and are exposed to liquidity risk. Short-term loans payable mainly for the purpose of financing working capital are also exposed to liquidity risk.

Derivatives transactions conducted by the Group are forward exchange contracts and currency options with the purpose of hedging exchange fluctuation risk in respect of receivables and payables denominated in foreign currencies.

The method of hedge accounting, hedging instruments and hedged items, hedging policy, and method of evaluating hedging effectiveness are as described in "1. Notes to Significant Matters as the Basis for the Preparation of the Consolidated Financial Statements (3) Accounting Policies (iv) Significant hedge accounting methods" above.

#### (iii) Risk management system relating to financial instruments

##### a. Management of credit risk (customer's default risk)

The Company adheres to the Credit Management Regulations for its trade receivables by having the Finance & Accounting Department monitor the status of major customers regularly and managing due dates and balances by customer, while working to detect at an early stage any concerns about collectability due to a deterioration in their financial conditions and other reasons, and mitigate them. The Company's consolidated subsidiaries follow the same procedures in conformity with the Company's Credit Management Regulations.

With regard to derivatives transactions, credit risk is recognized to be immaterial because these transactions are only entered into with financial institutions that have high credit ratings.



b. Management of market risk (fluctuation risks in exchange rates and interest rates, etc.)

The Company uses forward exchange contracts and currency options to hedge trade receivables and payables denominated in foreign currencies basically for an amount equivalent to the difference between their balances identified by month and by currency.

With regard to investment securities, the Company regularly confirms the market prices and financial and other conditions of customers, and continuously reviews its holdings taking into consideration market conditions and relations with customers.

Derivatives transactions are executed and managed by the Finance & Accounting Department with the approval of the responsible person in accordance with the Regulations for Handling Forward Exchange Contracts and the Guidelines for Forward Exchange Contract Operations. In addition, transaction results are reported monthly to the Division Directors Committee (consisting of Representative Directors and all Executive Officers and Division Directors, and chaired by the Chief Executive Officer and Chairman of the Board). The Company's consolidated subsidiaries also execute and manage various financial instruments and risk hedging in accordance with the method stipulated by the Company, and the Company pays attention to the management status by having Finance & Accounting Department monitor as appropriate.

c. Management of liquidity risk in financing activities (risk of default of payment when due)

With regard to trade payables and short-term loans payable that are exposed to liquidity risk, each company within the Group manages liquidity risk such as by preparing monthly cash management plans.

(iv) Supplementary explanation of matters relating to the fair values of financial instruments

The contract amounts of derivatives transactions in "(2) Fair Values of Financial Instruments and Other Matters" do not themselves indicate the market risk associated with derivatives transactions.

(2) Fair Values of Financial Instruments and Other Matters

Carrying amount, fair value and unrealized gain/loss of the financial instruments as of March 31, 2021 are as follows. Items for which it is extremely difficult to determine fair value are not included in the following table (See Note 2).

(Unit: Million yen)

	Carrying amount	Fair value	Unrealized gain (loss)
(1) Cash and deposits	27,877	27,877	-
(2) Notes and accounts receivable - trade	54,678	54,678	-
(3) Investment securities	560	560	-
(4) Distressed receivables	2,927		
Allowance for doubtful accounts (*1)	(2,927)		
	-	-	-
Total Assets	83,116	83,116	-
(1) Notes and accounts payable - trade	41,637	41,637	-
(2) Short-term borrowings	138	138	-
(3) Income taxes payable	787	787	-
Total Liabilities	42,563	42,563	-
Derivatives transactions (*2)	(598)	(598)	-

(\*1) Allowance for doubtful accounts individually recorded for distressed receivables is deducted.

(\*2) Receivables and payables arising from derivatives transactions are presented in net amounts, and net payables in total are indicated in parentheses.

(Notes)1. Method used to calculate the fair value of financial instruments and matters concerning securities and derivatives transactions

Assets

(1) Cash and deposits and (2) Notes and accounts receivable - trade

Because their fair value is similar to their book value due to settlement within a short period, they are posted at their book value.

(3) Investment securities

The fair value of shares is based on their respective prices quoted on stock exchanges.

(4) Distressed receivables

Because the estimated uncollectable amount of distressed receivables is calculated based on the amount expected to be recovered from the security and guarantee and their fair value is similar to the amount upon deducting the present estimated uncollectable amount from the amount on the consolidated balance sheet on the closing day, the said value is shown as the fair value.

Liabilities

(1) Notes and accounts payable - trade, (2) Short-term borrowings and (3) Income taxes payable

Because their fair value is similar to their book value due to settlement within a short period, they are posted at their book value.

Derivatives transactions

The fair value of derivatives transactions is based on the prices presented by the relevant financial institutions

2. Financial instruments for which it is extremely difficult to determine fair value

(Unit: Million yen)

Category	Carrying amount
Unlisted shares	24
Investments in investment business limited partnerships	1

Because they do not have market prices and it is extremely difficult to determine fair value, they are not included in "(3) Investment securities."

## 8. Notes to the Rental properties

The Group owns office buildings for rent, etc. (including land) in Tokyo. Net rental income from rental properties in the FY 2021 is 67 million yen (rental income is recorded under non-operating income, while rental expenses are recorded under non-operating expenses).

The carrying amount, the amount of increase/decrease during the current fiscal year and the fair value of such rental properties are as follows.

Carrying amount			Fair value at the end of the current fiscal year
Amount at the beginning of the current fiscal year	Amount of increase/decrease during the current fiscal year	Amount at the end of the current fiscal year	
332	(9)	322	1,092

Notes: 1. The carrying amount is acquisition cost less accumulated depreciation.

2. The amount of decrease during the current fiscal year is attributable to depreciation.

3. The fair value at the end of the current consolidated fiscal year is the amount calculated by the Company using indices deemed to appropriately reflect market prices.

## 9. Notes to the Per-share Information

Net asset amount per share	1,328.89 yen
Profit per share	89.55 yen

## **Non-consolidated Financial Statements**

### **1. Notes to Significant Accounting Policies**

#### (1) Evaluation Standards and Methods for Assets

##### (i) Securities

###### a. Shares of subsidiaries and associates:

Stated at cost based on the moving-average method.

###### b. Other securities:

Securities with market value

Stated at market value based on the quoted market price and other factors at the date of financial settlement (Valuation difference is reported as a component of net assets, and the cost of securities sold is calculated by the moving-average method.)

Securities without market value

Stated at cost based on the moving-average method

##### (ii) Derivatives

Stated at market value method

##### (iii) Inventories

Merchandise:

Stated at cost based on the moving-average method (Amounts in the balance sheet are calculated after book value is written down based on a decrease in profitability.)

#### (2) Methods of Depreciation and Amortization for Non-current Assets

##### (i) Property, plant and equipment

Amortization is calculated by the straight-line method.

##### (ii) Intangible assets

Amortization is calculated by the straight-line method.

#### (3) Accounting Standards for Allowances and Provisions

##### (i) Allowance for doubtful accounts:

To prepare for possible losses on accounts receivable, the Company sets aside an amount that is expected to be irrecoverable, after it considers the possibility of recoverability of (a) general accounts receivable, by actual default ratio, and (b) specific accounts receivable where recoverability is in doubt, on a case-by-case basis.

##### (ii) Provision for bonuses:

To prepare for the provision of bonuses for employees, the Company sets aside an estimated amount for the provision of bonuses for the current fiscal year in which such amount shall be disbursed.

(iii) Provision for retirement benefits:

To prepare for the retirement benefits of employees, provision for retirement benefits is recorded based on the estimated amount of retirement benefit obligations and pension assets as of the end of the current fiscal year. In the event that pension assets exceed the amount upon deducting actuarial differences, etc. from retirement benefit obligations, the excess amount is recorded as prepaid pension expenses in investments and other assets. In calculating retirement benefit obligations, the method of attributing expected retirement benefits up until the current fiscal year is based on the benefit formula.

Actuarial differences are amortized using the straight-line method from the fiscal year following their accrual over a certain number of years (10 years) within the average remaining service period of employees at the time of their accrual.

Prior service costs are amortized using the straight-line method over a certain number of years (10 years) within the average remaining service period of employees at the time of their accrual.

(4) Significant Hedge Accounting Methods

(i) Method of hedge accounting: Deferred hedge accounting is applied.

(ii) Hedging instruments and hedged items

Hedging instruments: Forward exchange contracts and currency options.

Hedged items: Monetary claims and monetary liabilities denominated in foreign currencies, and forecasted transactions denominated in foreign currencies.

(iii) Hedging policy: The Company engages in hedge transactions for the purpose of avoiding exchange fluctuation risk arising from monetary claims and monetary liabilities denominated in foreign currencies, etc.

(iv) Method of evaluating hedging effectiveness: With regard to forward exchange contracts and currency options, a judgment on hedging effectiveness is omitted as an important condition regarding hedging instruments and items hedged are the same, and they are considered to be able to completely offset exchange fluctuations or they are based on future forecasted transactions with a very high likelihood of being exercised.

(5) Other Significant Matters as the Basis for the Preparation of the Non-Consolidated Financial Statements

Accounting procedures for consumption and other taxes:

Consumption and other taxes are not included in listed amounts.

**2. Notes to Changes in Accounting Policies**

Not applicable.

**3. Notes on Changes in Presentation Methods**

(Changes due to the application of "Accounting Standard for Disclosures of Accounting Estimates")

"Accounting Standard for Disclosures of Accounting Estimates" (ASBJ Statement No. 31, March 31, 2020) has been applied to the non-consolidated financial statements from the fiscal year under review, and notes on accounting estimates have been included in the non-consolidated financial statements.

#### 4. Notes Relating to Accounting Estimates

##### Allowance for doubtful accounts (Current assets)

The Group provides an allowance for doubtful accounts in the amount deemed to be uncollectible in the event of default. With regard to the classification of claims, general claims are those for which there is no actual possibility of a bad debt, and doubtful claims are those for which there is an actual possibility of a bad debt. Allowance for doubtful accounts (current assets) of ¥13 million is provided for general receivables for which doubtful accounts have not yet been actualized, based on estimates by each company of the Group of the uncollectible amounts in a lump sum against the year-end balance of receivables, based on historical write-off rates. The total amount of the allowance for doubtful accounts is the allowance for doubtful accounts based on the actual ratio of bad debts to general receivables.

As stated above, the main assumptions used in calculating the amount of allowance for doubtful accounts (current assets) are the classification of receivables and the historical loan loss ratio. Although this amount is the best estimate at present, assessments of the financial positions of business partners and examinations of collectability, including the status of dormant trade receivables, are subject to the management's judgment, and changes in these conditions may affect the amount of allowance for doubtful accounts (current assets) set in the non-consolidated financial statements for the following fiscal year and beyond.

#### 5. Notes to the Non-consolidated Balance Sheet

(1) Assets Pledged as Collateral

Investment securities	57 million yen
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The above assets are pledged as collateral for notes and accounts payable-trade of 241 million yen.

(2) Accumulated Depreciation of Property, Plant and Equipment

1,669 million yen

(3) Accumulated Depreciation of Investment Property

131 million yen

(4) Guarantee Obligations

The Company conducts acts similar to guarantees to notes and accounts payable-trade from the following affiliates as follows.

Elematec Hong Kong Limited (2 thousand USD)	0 million yen
Elematec (Shanghai) Trading Co., Ltd. (2 thousand USD)	0 million yen
<u>Total</u>	<u>0 million yen</u>

(5) Monetary Receivables from, and Monetary Payables to, Subsidiaries and Associates

(i) Short-term monetary receivables	15,384 million yen
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(ii) Short-term monetary payables	1,128 million yen
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## 6. Notes to Non-consolidated Statements of Income

Amounts of transaction with subsidiaries and associates

(i) Net sales	40,137 million yen
(ii) Amount purchased	10,272 million yen
(iii) Selling, general and administrative expenses	155 million yen
(iv) Non-operating transactions	3,335 million yen

## 7. Notes to Non-consolidated Statements of Changes in Equity

Type and number of treasury shares

Type of shares	Number of shares at the beginning of the current fiscal year	Number of shares increased in the current fiscal year	Number of shares decreased in the current fiscal year	Number of shares at the end of the current fiscal year
Common shares	1,358 thousand Shares	- thousand Shares	- thousand Shares	1,358 thousand Shares

## 8. Notes to Tax-Effect Accounting

Main reasons deferred tax assets and deferred tax liabilities exist

Deferred tax assets

Disallowed accrued enterprise taxes	39 million yen
Amount exceeding the limit for the provision for bonuses	80 million yen
Amount exceeding the limit for the provision of allowance for doubtful accounts	10 million yen
Loss on valuation of golf club membership, currently not deductible	34 million yen
Loss on valuation of shares of subsidiaries and associates, currently not deductible	80 million yen
Amount exceeding the advanced depreciation limit on investment properties	29 million yen
Disallowed long-term accounts payable - other	7 million yen
Other	87 million yen

Total of deferred tax assets 369 million yen

Deferred tax liabilities

Reserve for tax purpose reduction entry	(17) million yen
Valuation difference on available-for-sale securities	(97) million yen
Prepaid pension costs	(3) million yen
Other	(1) million yen

Total of deferred tax liabilities (120) million yen

Net deferred tax assets 249 million yen

## 9. Notes to Transactions with Related Parties

- (1) Parent Company and Major Corporate Shareholders, etc.

A description is omitted because the amount is immaterial.

- (2) Officers and Major Individual Shareholders, etc.

Not applicable.

- (3) Subsidiaries

(Unit: Million yen)

Attribute	Name of companies and others	Capital stock or investments in capital	Details of business or occupation	Percentage of voting rights and others (%)	Relationship with related parties		Detail of transactions (Notes)	Transaction amount (Note)	Item	Balance at end of the fiscal year
					Officers serving both companies	Business relations				
Subsidiary	Elematec (Tianjin) International Trading Co., Ltd.	1,735 thousand RMB	Sale of electronic materials and others	100	1	Mutual supply of some products	Dividends received (Note 2)	944	-	-
Subsidiary	Elematec (Qingdao) Trading Co., Ltd.	3,339 thousand RMB	Sale of electronic materials and others	100	1	Mutual supply of some products	Sale of products (Note 1)	1,623	Accounts receivable - trade	871
Subsidiary	Elematec (Shanghai) Trading Co., Ltd.	5,794 thousand RMB	Sale of electronic materials and others	100	1	Mutual supply of some products	Sale of products (Note 1)	6,835	Accounts receivable - trade	3,515
Subsidiary	Elematec Hong Kong Limited	12 thousand USD	Sale of electronic materials and others	100	1	Mutual supply of some products	Sale of products (Note 1)	6,385	Accounts receivable - trade	1,824
							Dividends received (Note 2)	1,021	-	-
Subsidiary	Elematec Philippines, Inc.	215 thousand USD	Sale of electronic materials and others	100	-	Mutual supply of some products	Sale of products (Note 1)	2,941	Accounts receivable - trade	1,419
Subsidiary	Elematec (Thailand) Co., Ltd.	106 million THB	Sale of electronic materials and others	100	-	Mutual supply of some products	Sale of products (Note 1)	6,725	Accounts receivable - trade	2,076

(Notes)

- Prices and other transaction terms are determined in consideration of factors such as market prices.
- Dividends received by the Company from consolidated subsidiaries are determined based on the dividend policy.

## 10. Notes to the Per-share Information

Net asset amount per share 1,096.40 yen

Profit per share 111.21 yen