
Kurotani Corporation and Subsidiary

*Consolidated Financial Statements
for the Year Ended August 31, 2021,
and Independent Auditor's Report*

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Kurotani Corporation:

Opinion

We have audited the consolidated financial statements of Kurotani Corporation and its subsidiary (the "Group"), which comprise the consolidated balance sheet as of August 31, 2021, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of August 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. The matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.

	Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
1	<p>The accuracy of inventory evaluation</p> <p>The Group recorded Inventories of JPY 6,981 million on the consolidated balance sheet as of August 31, 2021. The consolidated statement of income for the year ended August 31, 2021 included an inventory write-down of JPY (45) million as disclosed in Note 4 to the consolidated financial statements.</p> <p>As described in Note 2 "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—c. Inventories," inventories are stated at the lower of costs or net selling value. In this regards, the Group evaluates its inventories using the average unit sale prices or average unit replacement costs for the most recent month as net selling value, which is floating in the nonferrous metals markets.</p> <p>The Group's inventories are exposed to the risk of their price fluctuations in volatile markets such as the nonferrous metals markets. In particular, the markets have recently become highly volatile due to an influx of speculative investments into the commodities market. As such, the risk of the fluctuation in the Group's inventory value has the potential to highly impact the Group's business results.</p> <p>As the Group's business results could be largely impacted by the write-down of inventories in correspondence with price fluctuations in the market and the amount of inventories is material to the consolidated financial statements, we have determined that inventory evaluation requires careful consideration and identified it as a key audit matter.</p>	<p>Our audit procedures related to the accuracy of inventory evaluation as of August 31, 2021 included the following, among others:</p> <ol style="list-style-type: none"> 1. We obtained an understanding of the methodologies and calculation processes regarding the cost calculations and computational procedures for write-downs of inventories. We then evaluated the design and operating effectiveness of the controls securing both the existence and accuracy of inventories and inventory write-down. 2. For the assessment of calculating the costs of inventories, we performed an inventory observation to examine the accuracy of the weight measurements. We recalculated the cost calculations to test the accuracy. 3. We performed an analysis to investigate whether there were any net selling values greatly diverged from the trends in the markets by comparing the fluctuation in the nonferrous metals market on a scatter plot created with the data of those prices or costs in close proximity to the month of the fiscal year-end. 4. For the assessment of calculating net selling value, we performed detailed testing and recalculations on a sample basis. 5. We tested the accuracy of write-downs of inventories by recalculating the differences between costs and net selling value.

Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Audit & Supervisory Board members and the Audit & Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Deloitte Touche Tohmatsu LLC

November 24, 2021

Kurotani Corporation and Subsidiary

Consolidated Balance Sheet August 31, 2021

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)	LIABILITIES AND EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021		2021	2020	2021
CURRENT ASSETS:				CURRENT LIABILITIES:			
Cash and cash equivalents (Notes 13 and 14)	¥ 1,401	¥ 1,433	\$ 12,739	Short-term bank loans (Notes 7 and 14)	¥ 7,779	¥ 4,293	\$ 70,720
Short-term investments (Note 14)	405	657	3,679	Current portion of long-term debt (Notes 7 and 14)	1,315	1,175	11,954
Receivables (Note 14):				Payables (Note 14):			
Trade notes	192	229	1,745	Trade notes	68	57	622
Electronically recorded monetary claims—operating	1,247	823	11,338	Electronically recorded obligations—operating	257	316	2,334
Trade accounts	8,379	4,185	76,171	Trade accounts	1,829	683	16,626
Other	695	739	6,318	Other	314	382	2,850
Inventories (Note 4)	6,981	4,783	63,465	Income taxes payable	765	126	6,958
Prepaid expenses and other current assets	1,319	871	11,991	Accrued expenses	72	44	653
				Other current liabilities	52	68	468
Total current assets	20,619	13,720	187,446	Total current liabilities	12,451	7,144	113,185
PROPERTY, PLANT AND EQUIPMENT—Net (Note 5):				LONG-TERM LIABILITIES:			
Land	1,521	1,521	13,828	Long-term debt (Notes 7 and 14)	2,388	1,936	21,709
Buildings and structures	344	382	3,128	Liability for retirement benefits (Note 8)	121	110	1,099
Machinery and equipment	314	361	2,855				
Furniture and fixtures	96	74	869	Total long-term liabilities	2,509	2,046	22,808
Construction in progress	8	13	73				
Total property, plant and equipment—net	2,283	2,351	20,753	COMMITMENTS AND CONTINGENT LIABILITIES (Note 15)			
INVESTMENTS AND OTHER ASSETS:				EQUITY (Note 9):			
Investment securities (Notes 6 and 14)	359	375	3,262	Common stock—authorized, 28,000,000 shares; issued, 14,337,200 shares in 2021 and 2020	1,000	1,000	9,091
Investments in associated company	218	192	1,980	Capital surplus:			
Software	30	10	275	Additional paid-in capital	293	293	2,664
Deferred tax assets (Note 11)	118	74	1,069	Other capital surplus	398	392	3,614
Other assets	14	14	129	Retained earnings:			
Total investments and other assets	739	665	6,715	Legal reserve	9	9	82
				Unappropriated	6,979	5,838	63,442
				Treasury stock—at cost, 139,866 shares in 2021 and 165,990 shares in 2020	(66)	(78)	(598)
				Accumulated other comprehensive income (loss):			
				Unrealized (loss) gain on available-for-sale securities	(5)	22	(45)
				Foreign currency translation adjustments	73	70	671
				Total equity	8,681	7,546	78,921
TOTAL	¥23,641	¥16,736	\$ 214,914	TOTAL	¥23,641	¥16,736	\$ 214,914

See notes to consolidated financial statements.

Kurotani Corporation and Subsidiary

Consolidated Statement of Income Year Ended August 31, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2021</u>	<u>2020</u>	<u>2021</u>
NET SALES	¥62,058	¥42,753	\$ 564,166
COST OF SALES	<u>57,481</u>	<u>40,831</u>	<u>522,559</u>
Gross profit	4,577	1,922	41,607
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 10)	<u>1,380</u>	<u>1,275</u>	<u>12,540</u>
Operating income	<u>3,197</u>	<u>647</u>	<u>29,067</u>
OTHER INCOME (EXPENSES):			
Interest and dividend income	9	11	81
Insurance income		2	3
Foreign exchange gain (loss)	8	(18)	73
Loss on derivative transactions	(1,063)	(11)	(9,659)
Interest expense	(74)	(65)	(674)
Equity in earnings (losses) of associated company	29	(5)	264
Other—net	<u>(10)</u>	<u>1</u>	<u>(100)</u>
Other expenses—net	<u>(1,101)</u>	<u>(85)</u>	<u>(10,012)</u>
INCOME BEFORE INCOME TAXES	<u>2,096</u>	<u>562</u>	<u>19,055</u>
INCOME TAXES (Note 11):			
Current	786	106	7,144
Deferred	<u>(44)</u>	<u>78</u>	<u>(396)</u>
Total income taxes	<u>742</u>	<u>184</u>	<u>6,748</u>
NET INCOME	<u>1,354</u>	<u>378</u>	<u>12,307</u>
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	<u>¥ 1,354</u>	<u>¥ 378</u>	<u>\$ 12,307</u>
	<u>Yen</u>		<u>U.S. Dollars</u>
PER SHARE OF COMMON STOCK (Note 2.n):			
Basic net income	¥95.42	¥26.71	\$0.87
Cash dividends applicable to the year	15.00	15.00	0.14

See notes to consolidated financial statements.

Kurotani Corporation and Subsidiary

Consolidated Statement of Comprehensive Income Year Ended August 31, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2021</u>	<u>2020</u>	<u>2021</u>
NET INCOME	<u>¥1,354</u>	<u>¥378</u>	<u>\$ 12,307</u>
OTHER COMPREHENSIVE INCOME (LOSS) (Note 12):			
Unrealized (loss) gain on available-for-sale securities	(27)	31	(249)
Foreign currency translation adjustments	6		57
Share of other comprehensive loss in associates	<u>(3)</u>	<u>(1)</u>	<u>(26)</u>
Total other comprehensive (loss) income	<u>(24)</u>	<u>30</u>	<u>(218)</u>
COMPREHENSIVE INCOME	<u>¥1,330</u>	<u>¥408</u>	<u>\$ 12,089</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥1,330	¥408	\$ 12,089
Noncontrolling interests			

See notes to consolidated financial statements.

Kurotani Corporation and Subsidiary
**Consolidated Statement of Changes in Equity
Year Ended August 31, 2021**

Millions of Yen										
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus		Retained Earnings		Treasury Stock	Accumulated Other Comprehensive Income (Loss)		Total Equity
			Additional Paid-in Capital	Other Capital Surplus	Legal Reserve	Unappropriated		Unrealized Gain (Loss) on Available-for-Sale Securities	Foreign Currency Translation Adjustments	
BALANCE, AUGUST 31, 2019	14,149,410	¥1,000	¥293	¥393	¥9	¥5,672	¥(89)	¥(9)	¥71	¥7,340
Net income attributable to owners of the parent						378				378
Cash dividends, ¥15.00 per share						(212)				(212)
Disposal of treasury stock	21,800			(1)			11			10
Net change in the year								31	(1)	30
BALANCE, AUGUST 31, 2020	14,171,210	1,000	293	392	9	5,838	(78)	22	70	7,546
Net income attributable to owners of the parent						1,354				1,354
Cash dividends, ¥15.00 per share						(213)				(213)
Purchase of treasury stock	(576)									
Disposal of treasury stock	26,700			6			12			18
Net change in the year								(27)	3	(24)
BALANCE, AUGUST 31, 2021	<u>14,197,334</u>	<u>¥1,000</u>	<u>¥293</u>	<u>¥398</u>	<u>¥9</u>	<u>¥6,979</u>	<u>¥(66)</u>	<u>¥(5)</u>	<u>¥73</u>	<u>¥8,681</u>

Thousands of U.S. Dollars (Note 1)										
		Common Stock	Capital Surplus		Retained Earnings		Treasury Stock	Accumulated Other Comprehensive Income (Loss)		Total Equity
			Additional Paid-in Capital	Other Capital Surplus	Legal Reserve	Unappropriated		Unrealized Gain (Loss) on Available-for-Sale Securities	Foreign Currency Translation Adjustments	
BALANCE, AUGUST 31, 2020		\$9,091	\$2,664	\$3,567	\$82	\$53,069	\$(712)	\$204	\$640	\$68,605
Net income attributable to owners of the parent						12,307				12,307
Cash dividends, \$0.14 per share						(1,934)				(1,934)
Purchase of treasury stock							(1)			(1)
Disposal of treasury stock				47			115			162
Net change in the year								(249)	31	(218)
BALANCE, AUGUST 31, 2021		<u>\$9,091</u>	<u>\$2,664</u>	<u>\$3,614</u>	<u>\$82</u>	<u>\$63,442</u>	<u>\$(598)</u>	<u>\$(45)</u>	<u>\$671</u>	<u>\$78,921</u>

See notes to consolidated financial statements.

Kurotani Corporation and Subsidiary

Consolidated Statement of Cash Flows Year Ended August 31, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
OPERATING ACTIVITIES:			
Income before income taxes	¥2,096	¥ 562	\$ 19,055
Adjustments for:			
Income taxes—paid	(152)	(11)	(1,385)
Depreciation and amortization	184	227	1,668
Changes in assets and liabilities:			
(Increase) decrease in receivables	(4,516)	549	(41,057)
(Increase) decrease in inventories	(2,199)	735	(19,987)
Increase (decrease) in payable	1,017	(374)	9,244
Other—net	(332)	(188)	(3,019)
Total adjustments	(5,998)	938	(54,536)
Net cash (used in) provided by operating activities	(3,902)	1,500	(35,481)
INVESTING ACTIVITIES:			
Payments into time deposits	(1,064)	(1,064)	(9,672)
Proceeds from withdrawal of time deposits	1,316	1,064	11,966
Purchases of property, plant and equipment	(185)	(138)	(1,680)
Purchases of software and other intangible assets	(25)	(4)	(224)
Purchases of investment securities	(11)	(9)	(104)
Proceeds from advance of associated company		54	
Other—net		(1)	(1)
Net cash provided by (used in) investing activities	31	(98)	285
FINANCING ACTIVITIES:			
Increase (decrease) in short-term bank loans—net	3,450	(1,157)	31,364
Proceeds from long-term debt	2,000	1,400	18,182
Repayments of long-term debt	(1,408)	(1,350)	(12,799)
Dividends paid	(213)	(212)	(1,936)
Purchase of treasury stock			(1)
Net cash provided by (used in) financing activities	3,829	(1,319)	34,810
FOREIGN CURRENCY TRANSLATION ADJUSTMENT ON CASH AND CASH EQUIVALENTS	10	(9)	95
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(32)	74	(291)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,433	1,359	13,030
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 13)	¥1,401	¥1,433	\$ 12,739

See notes to consolidated financial statements.

Kurotani Corporation and Subsidiary

Notes to Consolidated Financial Statements Year Ended August 31, 2021

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Kurotani Corporation (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥110 to \$1, the approximate rate of exchange at August 31, 2021. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Consolidation**—The consolidated financial statements as of August 31, 2021, include the accounts of the Company and its subsidiary (together the "Group").

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

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

The fiscal year-end of the subsidiary is December 31. Accordingly, it is consolidated using pro forma financial information as of June 30, and adjustments were made to accounting for significant transactions that occurred from July 1 to August 31.

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

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

- c. Inventories**—Inventories are stated at the lower of cost, determined by the average method for merchandise, finished products, work in process, raw materials and supplies, or net selling value (see Note 4).

- d. Marketable and Investment Securities**—Marketable and investment securities are classified and accounted for, depending on management's intent, as follows:

Available-for-sale securities, which are not classified as either trading securities that are held for the purpose of earning capital gains in the near term or held-to-maturity debt securities that are expected to be held to maturity with the positive intent and ability to hold to maturity, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method.

For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to the income statement.

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

- f. Property, Plant and Equipment**—Property, plant and equipment are stated at cost.

Depreciation of property, plant and equipment is computed by the declining-balance method, while the straight-line method is applied to buildings acquired on or after April 1, 1998, and facilities attached to buildings and structures acquired on or after April 1, 2016. The range of useful lives is principally from 10 to 35 years for buildings and structures, from 4 to 7 years for machinery and equipment and from 5 to 8 years for furniture and fixtures.

- g. Software**—Software is carried at cost less accumulated amortization, which is calculated by the straight-line method over five years.

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

- i. Retirement and Pension Plans**—The Company's employees' retirement benefits consist of two plans, a defined contribution pension plan and an unfunded retirement benefit plan as a defined benefit plan, which cover substantially all of the Company's employees.

The liability for the defined benefit plan is recorded at the amount that would be required if all employees retired at the balance sheet date.

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

- k. Foreign Currency Transactions**—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.

- l. Foreign Currency Financial Statements***—The balance sheet accounts of the subsidiary are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income (loss) in a separate component of equity. Revenue and expense accounts of the subsidiary are translated into yen at the average exchange rate.
- m. Derivatives and Hedging Activities***—The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and nonferrous metal prices. Foreign exchange forward contracts and options are utilized by the Group to reduce foreign currency exchange risk. Also, commodity forward contracts are utilized by the Group to reduce nonferrous metal price risk. The Group does not enter into derivatives for trading or speculative purposes.

All derivative financial instruments are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statement of income.

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

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

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

o. New Accounting Pronouncements

- (1) On March 30, 2018, the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition," and ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition." The core principle of the standard and guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should recognize revenue in accordance with that core principle by applying the following steps:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The accounting standard and guidance are effective for annual periods beginning on or after April 1, 2021. Earlier application is permitted for annual periods beginning on or after April 1, 2018.

The Company expects to apply the accounting standard and guidance for annual periods beginning on or after September 1, 2021, and is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

- (2) On July 4, 2019, the ASBJ issued ASBJ Statement No. 30, "Accounting Standard for Fair Value Measurement" and ASBJ Guidance No. 31, "Implementation Guidance on Accounting Standard for Fair Value Measurement," and revised related ASBJ Statements and ASBJ Guidance (the "New Accounting Standards"). The New Accounting Standards were developed in order to enhance the comparability with provisions in the international accounting standards and included guidance on fair value measurement. The New Accounting Standards apply to the fair value of the following items:

—Financial instruments in the "Accounting Standard for Financial Instruments"

—Inventories held for trading in the "Accounting Standard for Measurement of Inventories"

Under the New Accounting Standards, notes about the breakdown level of fair value of financial instruments are disclosed. The New Accounting Standards are effective for the annual periods beginning on or after April 1, 2021. Earlier application is permitted for the end of the annual periods ending on or after March 31, 2020, or annual periods beginning on or after April 1, 2020. The Company expects to apply the accounting standard and guidance for annual periods beginning on or after September 1, 2021, and is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

- p. Change of Presentation**—The Company adopted ASBJ Statement No. 31 "Accounting Standard for Disclosure of Accounting Estimates" to the consolidated financial statements for the current consolidated fiscal year, and therefore significant accounting estimates are disclosed in the note to the consolidated financial statements. However, comparative information for the previous fiscal year has not been disclosed in accordance with the transitional provisions set forth in Article 11 of this ASBJ Statement.
- q. Additional Information**—The COVID-19 pandemic has a significant effect on the conditions of the global economy. Based on this background, financial and other markets have been led to instability that may continue for a certain period of time. The Group considers that the COVID-19 does not have a significant effect on accounting estimates such as impairment loss for long-lived assets and recoverability of deferred tax assets on the basis of the assumed circumstances where the global economy is revitalized and effective new policies are implemented in each country. However, the assumption involves a high degree uncertainty, and depending on the epidemic status of COVID-19, there may be a material impact on the consolidated financial statements for the year ending August 31, 2022, and thereafter.

3. SIGNIFICANT ACCOUNTING ESTIMATES

There are no significant accounting estimates that may have a material impact on the consolidated financial statements for the year ending August 31, 2022, and thereafter.

4. INVENTORIES

Inventories as of August 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Merchandise	¥ 2	¥ 2	\$ 19
Finished products	1,835	718	16,682
Work in process	244	113	2,219
Raw materials and supplies	4,900	3,950	44,545
Total	¥6,981	¥4,783	\$63,465

Write-downs, net of reversal of write-downs recognized during the prior fiscal year, of ¥(45) million (\$ (410) thousand) and ¥(176) million are included in the cost of sales for the fiscal years ended August 31, 2021 and 2020, respectively.

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of August 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2021</u>	<u>2020</u>	<u>2021</u>
Land	¥1,521	¥1,521	\$ 13,828
Buildings and structures	2,339	2,338	21,268
Machinery and equipment	3,090	3,023	28,088
Furniture and fixtures	404	372	3,674
Construction in progress	<u>8</u>	<u>12</u>	<u>73</u>
Acquisition cost	7,362	7,266	66,931
Accumulated depreciation	<u>(5,079)</u>	<u>(4,915)</u>	<u>(46,178)</u>
Net book value	<u>¥2,283</u>	<u>¥2,351</u>	<u>\$ 20,753</u>

6. INVESTMENT SECURITIES

Investment securities as of August 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2021</u>	<u>2020</u>	<u>2021</u>
Noncurrent:			
Marketable equity securities	¥344	¥360	\$ 3,126
Nonmarketable equity securities	<u>15</u>	<u>15</u>	<u>136</u>
Total	<u>¥359</u>	<u>¥375</u>	<u>\$ 3,262</u>

The cost and aggregate fair value of investment securities that have a quoted market price in an active market as of August 31, 2021 and 2020, were as follows:

	Millions of Yen			
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
<u>August 31, 2021</u>				
Equity securities	¥349	¥115	¥ (120)	¥344
Total	<u>¥349</u>	<u>¥115</u>	<u>¥ (120)</u>	<u>¥344</u>
<u>August 31, 2020</u>				
Equity securities	¥337	¥105	¥ (82)	¥360
Total	<u>¥337</u>	<u>¥105</u>	<u>¥ (82)</u>	<u>¥360</u>
	Thousands of U.S. Dollars			
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
<u>August 31, 2021</u>				
Equity securities	\$3,171	\$1,041	\$ (1,086)	\$3,126
Total	<u>\$3,171</u>	<u>\$1,041</u>	<u>\$ (1,086)</u>	<u>\$3,126</u>

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

Short-term bank loans as of August 31, 2021 and 2020, consisted of the following:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2021</u>	<u>2020</u>	<u>2021</u>
Unsecured bank loans with a weighted-average interest rate of 0.92% (2021) and 0.79% (2020)	¥7,779	¥4,293	\$ 70,720

Long-term debt as of August 31, 2021 and 2020, consisted of the following:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2021</u>	<u>2020</u>	<u>2021</u>
Unsecured bank loans due serially to 2026 with a weighted-average interest rate of 0.44% (2021) and 0.45% (2020)	¥3,703	¥3,111	\$ 33,663
Total	3,703	3,111	33,663
Less current portion	<u>(1,315)</u>	<u>(1,175)</u>	<u>(11,954)</u>
Long-term debt, less current portion	<u>¥2,388</u>	<u>¥1,936</u>	<u>\$ 21,709</u>

Annual maturities of long-term debt as of August 31, 2021, were as follows:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Within one year	¥1,315	\$ 11,954
In the 2nd year	1,000	9,095
In the 3rd year	669	6,081
In the 4th year	522	4,743
In the 5th year	<u>197</u>	<u>1,790</u>
Total	<u>¥3,703</u>	<u>\$ 33,663</u>

8. RETIREMENT BENEFITS

a. Overview of the Company's Retirement Benefit Plan

The employees' retirement benefits consist of two plans, a defined contribution pension plan and an unfunded retirement benefit plan as a defined benefit plan, which cover substantially all of the Company's employees.

The liability for the defined benefit plan is recorded at the amount that would be required if all employees retired at the balance sheet date (the simplified method).

b. Defined Benefit Plan

Movement in liability for retirement benefit of the defined benefit plan applying the simplified method for the years ended August 31, 2021 and 2020, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2021</u>	<u>2020</u>	<u>2021</u>
Balance at beginning of year	¥110	¥103	\$1,001
Retirement benefit cost	16	10	143
Benefits paid	<u>(5)</u>	<u>(3)</u>	<u>(45)</u>
Balance at end of year	<u>¥121</u>	<u>¥110</u>	<u>\$1,099</u>

Reconciliation of retirement benefit obligations to liability for retirement benefits as of August 31, 2021 and 2020, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2021</u>	<u>2020</u>	<u>2021</u>
Unfunded retirement benefit obligations	<u>¥121</u>	<u>¥110</u>	<u>\$1,099</u>
Total net liability for retirement benefits at end of year	<u>¥121</u>	<u>¥110</u>	<u>\$1,099</u>

Retirement benefit cost of the defined benefit plan applying the simplified method for the years ended August 31, 2021 and 2020, was ¥16 million (\$143 thousand) and ¥10 million, respectively.

c. Defined Contribution Pension Plan

The amount of contributions to the defined contribution plan for the years ended August 31, 2021 and 2020, was ¥10 million (\$92 thousand) and ¥10 million, respectively.

9. EQUITY

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

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally, for companies that meet certain criteria, including (1) having the Board of Directors, (2) having independent auditors, (3) having an Audit and Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the Company has prescribed so in its articles of incorporation. However, the Company does not meet all the above criteria.

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

b. Increases/Decreases and Transfer of Common Stock, Reserve, and Surplus

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

c. Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula.

Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

10. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Significant components of selling, general and administrative expenses for the years ended August 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2021</u>	<u>2020</u>	<u>2021</u>
Board members' compensation	¥200	¥184	\$1,819
Salaries	171	169	1,559
Provision of reserve for bonuses	18	11	161
Net periodic benefit costs	6	4	52
Sales charges	<u>531</u>	<u>492</u>	<u>4,824</u>
Total	<u>¥926</u>	<u>¥860</u>	<u>\$8,415</u>

11. INCOME TAXES

The Company is subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 30.5% for the years ended August 31, 2021 and 2020.

The tax effects of significant temporary differences, which resulted in deferred tax assets and liabilities as of August 31, 2021 and 2020, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Deferred tax assets:			
Inventories	¥ 49	¥ 46	\$ 448
Accrued expenses	20	12	181
Accrued enterprise tax	32	9	287
Depreciation and amortization	14	13	127
Liability for retirement benefits	37	34	335
Investment securities	20	20	179
Unrealized loss on available-for-sale securities	11		98
Other	22	13	201
Subtotal	205	147	1,856
Less valuation allowance for temporary differences	(87)	(73)	(787)
Total	118	74	1,069
Net deferred tax assets	¥118	¥ 74	\$1,069

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the year ended August 31, 2021, with the corresponding figures for 2020, is as follows:

	2021	2020
Normal effective statutory tax rate	30.5%	30.5%
Accumulated earnings tax	4.8	1.0
Expenses not deductible for income tax purposes	0.3	1.1
Per capita levy of corporate tax	0.2	0.8
Valuation allowance for deferred tax assets	0.1	0.4
Equity in loss of the associated company	(0.4)	0.2
Other—net	(0.1)	(1.4)
Actual effective tax rate	35.4%	32.6%

12. OTHER COMPREHENSIVE INCOME (LOSS)

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

	Millions of Yen		Thousands of U.S. Dollars
	<u>2021</u>	<u>2020</u>	<u>2021</u>
Unrealized (loss) gain on available-for-sale securities:			
(Loss) gain arising during the year	¥(27)	¥31	\$ (253)
Reclassification adjustments to profit or loss	<u>(27)</u>	<u>31</u>	<u>(253)</u>
Amount before income tax effect			4
Income tax effect	<u>—</u>	<u>—</u>	<u>—</u>
Total	<u>¥(27)</u>	<u>¥31</u>	<u>\$ (249)</u>
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ 6		\$ 57
Reclassification adjustments to profit or loss	<u>6</u>	<u>—</u>	<u>57</u>
Amount before income tax effect			—
Income tax effect	<u>—</u>	<u>—</u>	<u>—</u>
Total	<u>¥ 6</u>	<u>—</u>	<u>\$ 57</u>
Share of other comprehensive income in associates—			
Losses arising during the year	¥ (3)	¥ (1)	\$ (26)
Total	<u>¥ (3)</u>	<u>¥ (1)</u>	<u>\$ (26)</u>
Total other comprehensive (loss) income	<u>¥(24)</u>	<u>¥30</u>	<u>\$ (218)</u>

13. SUPPLEMENTAL CASH FLOWS INFORMATION

A reconciliation of cash and cash equivalents between the consolidated balance sheet and the consolidated statement of cash flows as of August 31, 2021 and 2020, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2021</u>	<u>2020</u>	<u>2021</u>
Cash and cash equivalents in the consolidated balance sheet	¥1,401	¥1,433	\$ 12,739
Cash and cash equivalents in the consolidated statement of cash flows	<u>¥1,401</u>	<u>¥1,433</u>	<u>\$ 12,739</u>

14. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) *Group Policy for Financial Instruments*

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

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

Receivables, such as trade notes, electronically-recorded monetary claims—operating and trade accounts, are exposed to customer credit risk. Also, receivables in foreign currencies are exposed to the risk of fluctuations in foreign currency exchange rates. Investment securities, mainly equity instruments of customers and suppliers of the Group, are exposed to the risk of market price fluctuations.

Payment terms of payables, such as trade notes, electronically recorded obligations—operating and trade accounts, are less than one year. Short-term bank loans are used for operating funds. Long-term debt is used for capital expenditures.

Maturities of bank loans are less than five years after the consolidated balance sheet date.

Derivatives mainly include forward foreign currency contracts, options, and commodity forward contracts, which are used to manage exposure to risks of changes in foreign currency exchange rates of receivables and of fluctuations of nonferrous metal prices. Please see Note 15 for more detail about derivatives.

(3) *Risk Management for Financial Instruments*

Credit risk management

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Group manages its credit risk from receivables on the basis of internal guidelines, which include monitoring of payment terms and balances of major customers by each business administration department to identify default risk of customers at an early stage. With respect to derivative transactions, as a means of mitigating the risk of financial loss from defaults, the Group has adopted a policy of only dealing with creditworthy counterparties.

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

Foreign currency bank deposits, bank loans, and trade receivables and payables are exposed to risk resulting from fluctuations in foreign currency exchange rates. Such foreign exchange risk is hedged principally by forward foreign currency contracts and options.

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

With respect to derivative transactions, the Group has internal guidelines that prescribe the authority and the limit for each transaction by the corporate planning department. The director who is in charge of the corporate planning department is required to report the status and results of derivative transactions to the chief executive officer on a monthly and annual basis. Reconciliation of transactions and balances with counterparties is made by the corporate treasury department.

Liquidity risk management

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

(4) Fair Values of Financial Instruments

Fair values of financial instruments are based on quoted prices in active markets. If quoted prices are not available, other rational valuation techniques are used instead. Also, please see Note 15 for details of the fair value of derivatives. The determination of the quoted price requires certain assumptions for related variable factors and the quoted price may fluctuate with different assumptions.

(a) Fair value of financial instruments

<u>August 31, 2021</u>	Millions of Yen		
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Unrealized Gain/Loss</u>
Cash and cash equivalents	¥ 1,401	¥ 1,401	
Short-term investments	405	405	
Receivables	10,513	10,513	
Investment securities	<u>344</u>	<u>344</u>	<u>—</u>
Total	<u>¥12,663</u>	<u>¥12,663</u>	<u>—</u>
Short-term bank loans	¥ 7,779	¥ 7,779	
Payables	2,468	2,468	
Income taxes payable	765	765	
Long-term debt	<u>3,703</u>	<u>3,701</u>	<u>¥(2)</u>
Total	<u>¥14,715</u>	<u>¥14,713</u>	<u>¥(2)</u>
<u>August 31, 2020</u>			
Cash and cash equivalents	¥ 1,433	¥ 1,433	
Short-term investments	657	657	
Receivables	5,976	5,976	
Investment securities	<u>360</u>	<u>360</u>	<u>—</u>
Total	<u>¥ 8,426</u>	<u>¥ 8,426</u>	<u>—</u>
Short-term bank loans	¥ 4,293	¥ 4,293	
Payables	1,438	1,438	
Income taxes payable	126	126	
Long-term debt	<u>3,111</u>	<u>3,111</u>	<u>—</u>
Total	<u>¥ 8,968</u>	<u>¥ 8,968</u>	<u>—</u>

August 31, 2021	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	\$ 12,739	\$ 12,739	
Short-term investments	3,679	3,679	
Receivables	95,572	95,572	
Investment securities	3,126	3,126	
Total	<u>\$ 115,116</u>	<u>\$ 115,116</u>	
Short-term bank loans	\$ 70,720	\$ 70,720	
Payables	22,432	22,432	
Income taxes payable	6,958	6,958	
Long-term debt	33,663	33,650	<u>\$ (13)</u>
Total	<u>\$ 133,773</u>	<u>\$ 133,760</u>	<u>\$ (13)</u>

Cash and cash equivalents

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

Investment securities

The fair values of investment securities are measured at the quoted market price of the stock exchange for equity instruments. Information on the fair value of investment securities by classification is included in Note 6.

Short-term investments, receivables, payables, income taxes payable, and short-term bank loans

The carrying values of short-term investments, receivables, payables, income taxes payable, and short-term bank loans approximate fair value because of their short-term maturities. Therefore, the fair values are measured at carrying value.

Long-term debt

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

Derivatives

Information on the fair value of derivatives is included in Note 15.

- (b) Financial instruments whose fair value cannot be reliably determined as of August 31, 2021 and 2020, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Investments in equity instruments that do not have a quoted market price in an active market	¥ 15	¥ 15	\$ 136
Investments in associated company	218	192	1,980

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

Millions of Yen				
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
<u>August 31, 2021</u>				
Cash and cash equivalents	¥ 1,398			
Short-term investments	405			
Receivables	10,513			
Total	<u>¥12,316</u>			
<u>August 31, 2020</u>				
Cash and cash equivalents	¥ 1,429			
Short-term investments	657			
Receivables	5,976			
Total	<u>¥ 8,062</u>			
Thousands of U.S. Dollars				
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
<u>August 31, 2021</u>				
Cash and cash equivalents	\$ 12,712			
Short-term investments	3,679			
Receivables	95,572			
Total	<u>\$ 111,963</u>			

Please see Note 7 for annual maturities of long-term debt.

15. DERIVATIVES

The Group enters into foreign currency forward contracts and options to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. The Group also enters into commodity forward contracts to hedge future price fluctuations of nonferrous metal inventories.

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

Because the counterparties to these derivatives are limited to major international financial institutions, trading companies, and London Metal Exchange ("LME") brokers, the Group does not anticipate any losses arising from credit risk.

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

Derivative Transactions to Which Hedge Accounting Is Not Applied

	Millions of Yen			
	<u>Contract Amount</u>	<u>Contract Amount Due after One Year</u>	<u>Fair Value</u>	<u>Unrealized Gain/Loss</u>
<u>August 31, 2021</u>				
Commodity forward contracts:				
Selling	¥2,099		¥ 6	¥ 6
Buying	<u>104</u>	<u> </u>	<u>1</u>	<u>1</u>
Total	<u>¥2,203</u>	<u> </u>	<u>¥ 7</u>	<u>¥ 7</u>

<u>August 31, 2020</u>				
Commodity forward contracts:				
Selling	¥1,387		¥ (107)	¥ (107)
Buying	<u>234</u>	<u> </u>	<u>47</u>	<u>47</u>
Total	<u>¥1,621</u>	<u> </u>	<u>¥ (60)</u>	<u>¥ (60)</u>

	Thousands of U.S. Dollars			
	<u>Contract Amount</u>	<u>Contract Amount Due after One Year</u>	<u>Fair Value</u>	<u>Unrealized Gain/Loss</u>
<u>August 31, 2021</u>				
Commodity forward contracts:				
Selling	\$ 19,079		\$54	\$54
Buying	<u>943</u>	<u> </u>	<u>8</u>	<u>8</u>
Total	<u>\$ 20,022</u>	<u> </u>	<u>\$62</u>	<u>\$62</u>

The fair value of derivative transactions is measured at the quoted price obtained from trading companies and LME brokers.

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

16. RELATED PARTY DISCLOSURES

Transaction of the Company with the associated company for the years ended August 31, 2021 and 2020, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2021</u>	<u>2020</u>	<u>2021</u>
Purchases	¥2,578	¥1,721	\$ 23,433

The balances of advance payment for the purchases from the associated company as of August 31, 2021 and 2020, were as follows:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2021</u>	<u>2020</u>	<u>2021</u>
Advance payment	¥ 144	¥ 168	\$ 1,306

17. SUBSEQUENT EVENT

The following appropriation of retained earnings as of August 31, 2021, will be approved at the shareholders' meeting to be held on November 25, 2021:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Year-end cash dividends, ¥7.5 (\$0.07) per share	¥ 106	\$ 968

18. SEGMENT INFORMATION

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

(1) *Description of Reportable Segments*

The Group has two segments, the "nonferrous metals segment" and "arts and crafts segment." The nonferrous metals segment is engaged in the manufacture and sale of ingots and processing and sales of scrap. The arts and crafts segment is engaged in the manufacture and sale of arts and crafts.

(2) *Method of Measurement for the Amounts of Sales, Profit (Loss), Assets and Other Items for Each Reportable Segment*

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

Operating income is applied in "Segment profit (loss)." "Intersegment sales or transfers" are calculated based on market price.

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

	Millions of Yen				
	2021				
	Reportable Segment			Reconcil- iations	Consol- idated
	Nonferrous Metals	Arts and Crafts	Total		
Sales:					
Sales to external customers	¥61,724	¥ 334	¥62,058		¥62,058
Intersegment sales or transfers		1	1	¥ (1)	
Total	<u>¥61,724</u>	<u>¥ 335</u>	<u>¥62,059</u>	<u>¥ (1)</u>	<u>¥62,058</u>
Segment profit (loss)	¥ 3,220	¥ (23)	¥ 3,197		¥ 3,197
Segment assets	19,655	1,042	20,697	¥2,944	23,641
Other:					
Depreciation	170	14	184		184
Investment in associated company	218		218		218
Increase in property, plant and equipment and intangible assets	125	15	140		140
	Millions of Yen				
	2020				
	Reportable Segment			Reconcil- iations	Consol- idated
	Nonferrous Metals	Arts and Crafts	Total		
Sales:					
Sales to external customers	¥42,444	¥309	¥42,753		¥42,753
Intersegment sales or transfers					
Total	<u>¥42,444</u>	<u>¥309</u>	<u>¥42,753</u>		<u>¥42,753</u>
Segment profit (loss)	¥ 654	¥ (7)	¥ 647		¥ 647
Segment assets	12,734	971	13,705	¥3,031	16,736
Other:					
Depreciation	211	16	227		227
Investment in associated company	192		192		192
Increase in property, plant and equipment and intangible assets	320	1	321		321

Thousands of U.S. Dollars					
2021					
	Reportable Segment			Reconcil- iations	Consol- idated
	Nonferrous Metals	Arts and Crafts	Total		
Sales:					
Sales to external customers	\$ 561,125	\$ 3,041	\$ 564,166		\$ 564,166
Intersegment sales or transfers		5	5	\$ (5)	
Total	<u>\$ 561,125</u>	<u>\$ 3,046</u>	<u>\$ 564,171</u>	<u>\$ (5)</u>	<u>\$ 564,166</u>
Segment profit (loss)	\$ 29,272	\$ (205)	\$ 29,067		\$ 29,067
Segment assets	178,679	9,476	188,155	\$ 26,759	214,914
Other:					
Depreciation	1,541	127	1,668		1,668
Investment in associated company	1,980		1,980		1,980
Increase in property, plant and equipment and intangible assets	1,132	141	1,273		1,273

Reconciliations to segment assets as of August 31, 2021 and 2020 (¥2,944 million (\$26,759 thousand) and ¥3,031 million, respectively) represent corporate assets. Corporate assets mainly consist of cash and cash equivalents, land and the assets associated with the administration headquarters of the Group.

(4) Information about Products and Services

Millions of Yen					
2021					
	Ingots	Scrap	Arts and Crafts	Other	Total
Sales to external customers	¥ 17,227	¥ 44,367	¥ 334	¥ 130	¥ 62,058

Millions of Yen					
2020					
	Ingots	Scrap	Arts and Crafts	Other	Total
Sales to external customers	¥ 14,339	¥ 27,996	¥ 309	¥ 109	¥ 42,753

Thousands of U.S. Dollars					
2021					
	Ingots	Scrap	Arts and Crafts	Other	Total
Sales to external customers	\$ 156,605	\$ 403,333	\$ 3,041	\$ 1,187	\$ 564,166

(5) Information about Geographical Areas

(a) Sales

Millions of Yen					
2021					
<u>Japan</u>	<u>Korea</u>	<u>Asia (except Japan and Korea)</u>	<u>Europe</u>	<u>Other</u>	<u>Total</u>
¥52,436	¥4,059	¥4,437	¥974	¥152	¥62,058

Millions of Yen					
2020					
<u>Japan</u>	<u>Korea</u>	<u>Asia (except Japan and Korea)</u>	<u>Europe</u>	<u>Other</u>	<u>Total</u>
¥33,889	¥3,315	¥4,843	¥618	¥88	¥42,753

Thousands of U.S. Dollars					
2021					
<u>Japan</u>	<u>Korea</u>	<u>Asia (except Japan and Korea)</u>	<u>Europe</u>	<u>Other</u>	<u>Total</u>
\$ 476,688	\$ 36,899	\$ 40,336	\$ 8,861	\$ 1,382	\$ 564,166

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

(b) Property, plant and equipment

More than 90% of property, plant and equipment is located in Japan. The remainder is not significant, and therefore does not require disclosure.

(6) Information about Major Customers

<u>Name of Customer</u>	2021	
	<u>Millions of Yen</u> <u>Sales</u>	<u>Related Segment Name</u>
Sumitomo Metal Mining Co., Ltd.	¥14,165	Nonferrous metals segment

<u>Name of Customer</u>	2020	
	<u>Millions of Yen</u> <u>Sales</u>	<u>Related Segment Name</u>
Sumitomo Metal Mining Co., Ltd.	¥8,405	Nonferrous metals segment
JX Nippon Mining & Metals Corporation	4,276	Nonferrous metals segment

<u>Name of Customer</u>	2021	
	<u>Thousands of U.S. Dollars</u> <u>Sales</u>	<u>Related Segment Name</u>
Sumitomo Metal Mining Co., Ltd.	\$ 128,768	Nonferrous metals segment

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